

14 December 2004

Miss Edith Chan
Clerk to Panel on Financial Affairs
Legislative Council Secretariat
3/F Citibank Tower
3 Garden Road
Central
Hong Kong

Dear Miss Chan

Securities and Futures Commission – Chairman and Chief Executive

I am writing in response to your letter of 24 November 2004 inviting the Hong Kong Exchanges and Clearing (HKEx) to comment on the question of whether the posts of Chairman and Chief Executive of the Securities and Futures Commission (SFC) should be split.

By way of background information, in respect of listed issuers, the Exchange's recently-promulgated Code on Corporate Governance Practices includes the provision that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual (Code Provision A.2.1). This provision itself is not a rule and is not mandatory, but it is a requirement of the Listing Rules that any issuer which does not comply with any Code provision must give considered reasons for such deviation in its annual report and interim reports. The philosophy is "comply or explain". The Code will come into effect on 1 January 2005.

For your further information, since the formation of HKEx in 2000, the posts of its Chairman and Chief Executive have been separate. HKEx is itself a listed issuer, and so in any case is subject to the Code as above. HKEx is the product of a merger of three institutions, the Stock Exchange of Hong Kong, the Hong Kong Futures Exchange, and Hong Kong Securities Clearing Company. In each of these three institutions, prior to their merger, the posts of Chairman and Chief Executive were also separate.

As the SFC is the statutory regulator of the securities and futures markets in Hong Kong empowered, in particular, to monitor HKEx's operations of the stock exchange, futures exchange, and the related clearing houses, oversee its performance in the listing regulatory function, and regulate HKEx as a listed company, it might be inappropriate for HKEx to comment on the question of the SFC's chairmanship. Nor should the above information, which is for your reference, be taken as implying that the Exchange has any position on such question.

I hope that the above is helpful.

Yours sincerely
For and on behalf of
Hong Kong Exchanges and Clearing Limited

Paul M Y Chow
Chief Executive