

Review of Operations

KWONG Ki Chi
Director and Chief Executive



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(Financial figures are expressed in Hong Kong dollars)

Financial Review

Hong Kong's economy in 2002 was adversely affected by weakness in the leading economies around the world. This in turn resulted in depressed market sentiment and activity, and hence lower revenue for the Group as reflected in the financial results reported by the Chairman.

Operational Review

During the year, HKEx launched a number of products and initiatives to continue to raise the quality of our markets and services.

Listing, Regulation, and Risk Management Activities

Listing and Regulation

In 2002, we vetted a total of 275 listing applications – 118 for listing on the Main Board and 157 for listing on the Growth Enterprise Market (GEM). These included 70 applications submitted in 2001 but the vetting of which was carried over into 2002. Of these 275 listing applications, 117 had been approved and subsequently 60 issuers had listed on the Main Board and 57 issuers had listed on GEM as at 31 December 2002. Of the rest, nine applications had been granted approval in principle but the approvals had since lapsed as the companies had not been listed by the respective expiry dates of the approval; one application was rejected; three had been withdrawn; 24 applications had not progressed further and had lapsed; and 121 were being processed.

During the year under review we vetted some 8,200 listed company announcements and approximately 1,600 circulars. About 5,800 cases were examined in the light of share price movements and as a result approximately 1,600 clarifications were published by listed issuers.

During the same period, we handled approximately 320 complaints about issuers. Most complaints required no further action after our enquiries; about 20 per cent resulted in further disclosure by issuers, further investigation, or referral to the Securities and Futures Commission (SFC).

We completed examination of 161 cases of breaches of the Listing Rules of the Main Board and GEM in 2002 involving listed issuers and/or their directors. This led to six public censures, one public criticism, and seven private reprimands by the Disciplinary Committee. A further 147 cases relating to minor breaches were dealt with by the issue of warning letters.

We published several consultation papers in 2002 on issues related to the Listing Rules of the Main Board and GEM. They included the January 2002 Consultation Paper on Proposed Amendments to the Listing Rules Relating to Corporate Governance Issues; the July 2002 Consultation Paper on Proposed Amendments to the Listing Rules Relating to Initial Listing and Continuing Listing Eligibility and Cancellation of Listing

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Procedures; and the November 2002 Consultation Paper on Continuing Listing Criteria and Related Issues, which supplemented the July paper. We also published a consultation paper in March 2002 on proposed changes to practices on the dissemination of listed issuers' announcements.

We published the Consultation Conclusions on Proposed Amendments to the Listing Rules Relating to Corporate Governance Issues in January 2003. We are working on the implementation of those conclusions in the course of 2003. The conclusions on the other consultations will be announced in due course.

A panel appointed by the Government conducted an independent inquiry into the circumstances relating to the preparation and release of the July 2002 consultation paper after an adverse market reaction to some of the proposals in the consultation paper. We have implemented, as appropriate, the recommendations of the panel's report and in particular made changes to our consultation process to enhance sounding of the market prior to the issue of consultation papers.

Also, to improve liaison between the SFC and the Stock Exchange, a High Level Group, comprising the chairmen of HKEx and the SFC, senior officials from the two organisations, and the chairmen of the listing committees and the Takeovers Panel, has been established to review systemic and policy issues concerning listing-related matters.

There were several amendments to the Listing Rules of the Main Board and GEM in 2002.

Amendments to the Listing Rules of the Main Board and GEM that took effect on 15 February 2002 were aimed at reducing the printing cost burden on listed issuers while helping to protect the environment. Subject to certain conditions and with shareholders' approval, listed issuers are permitted to send corporate communications by electronic means or make them available to shareholders in English or Chinese only.

On 17 February 2002, we announced amendments to the Listing Rules of the Main Board and GEM allowing listed issuers to distribute summary financial reports in place of a full annual report, provided that they ascertain the wishes of shareholders and comply with the legal requirements of their own jurisdictions and provisions of their own memorandum and articles of association.

Amendments to the Main Board Listing Rules which took effect on 8 April 2002 reflect the use of our websites rather than the Teletext system for the dissemination of news on listed issuers. The first listing on GEM in November 1999 marked the beginning of a shift towards the use of our websites, rather than the Teletext system and paid announcements, as the main channel for the dissemination of news on listed issuers. News posted on our websites

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is available to more market participants than news posted on the Teletext system. We expect to make a further announcement on paid advertisements later in 2003.

In June 2002, we announced amendments to the Main Board Listing Rules to allow a wider range of derivative products, including Equity Linked Instruments (ELI), to be listed on the Stock Exchange. The changes became effective on 1 July 2002. In addition, the listing application procedures for structured products have been streamlined, and structured product issuers are now required to publish their announcements on the HKEx website only. Paid advertisements are no longer required. Taken together, the amendments have broadened the range of products that may be introduced to meet market demand.

We announced amendments relating to Financial Disclosure provisions in the Main Board and GEM Listing Rules in August 2002. The changes cover the treatment of revalued assets in a listed issuer's first annual accounts published after listing and the content requirements for financial statements. The amendments were designed to foster greater transparency.

To help listed issuers and their directors meet their obligations to keep the market informed under the Listing Rules of the Main Board and GEM, we published a Guide on Disclosure of Price-sensitive Information at the beginning of 2002. The

principles and elaboration in the Guide reflect the main criteria that the Stock Exchange considers in its interpretation of the Listing Rules of the Main Board and GEM to determine whether certain information is price-sensitive and when an announcement should be made.

We proposed new organisational structures for listing matters in May 2002, which were subsequently modified in July 2002 to take account of market feedback. The proposals were designed to provide a streamlined and more effective administrative framework for listing matters, with the necessary checks and balances. We will finalise the detailed arrangement in the light of the report by the Expert Group, expected in March 2003.

We also announced several separate initiatives in July 2002 to streamline the listing process and strengthen the procedures for vetting listing applications. They included reorganisation of the Listing Division such that the vetting would be carried out by integrated teams under the direction of senior and experienced staff. The reorganisation is nearly complete and, from April 2003, each Corporate Finance team will be responsible for all aspects of the listing vetting, including accountancy matters, prospectus vetting, and authorisation for the purpose of Companies Ordinance registration. This integrated approach should make the vetting of listing applications and other transactions more efficient.

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The Listing Division will shortly issue guidance on its revised approach to the vetting of listing applications and will require the sponsors of listing applicants to adhere strictly to the documentation requirements of the Listing Rules of the Main Board and GEM. The new approach is based on the premise that listing applicants, sponsors, and professional advisors are responsible for ensuring compliance with all legal requirements and all stipulations in the Listing Rules of the Main Board and GEM as well as the standard and quality of their prospectuses.

Recent Development

The Government appointed a panel – the Expert Group to Review the Operation of the Securities and Futures Market Regulatory Structure – in September 2002 to review the roles of the Government, the SFC and HKEx on matters relating to the listing of securities and the governance of listed issuers. We welcomed the appointment of the Expert Group and had made detailed submission to it. The Expert Group is expected to submit its report to the Government in March 2003. We look forward to the publication of the Expert Group's report and discussion with the Government on its findings and recommendations.

On 28 January 2003, the Stock Exchange signed a new Memorandum of Understanding (MOU) with the SFC

governing listing matters. The MOU became effective immediately and replaced the memorandum, its addendum, and supplements signed between the two organisations in March and August 2000. The new MOU sets out, as in its predecessor, the roles and responsibilities of the two organisations along with their supervisory relationship.

In preparation for the commencement of the Securities and Futures Ordinance (SFO), which will come into effect on 1 April 2003, the new MOU also details the administrative arrangements for implementing the dual filing regime provided by the Securities and Futures (Stock Market Listing) Rules under the SFO. The dual filing of listing applications and disclosure documents with the Stock Exchange and the SFC will enable the SFC to exercise its powers under the SFO to investigate and, as appropriate, prosecute listing applicants and listed companies which intentionally or recklessly provide false or misleading information.

Within the framework of the new MOU, we also signed a Deed with the SFC under which the Stock Exchange agrees to pay the SFC \$20 million a year, for three years commencing from the date the dual filing regime comes into effect, to help the SFC to defray its costs of administering and taking enforcement action under the regime.

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Risk Management

HKEx participated in a market-wide rehearsal for the financial services sector in January 2002 to test its market contingency plans and inter-organisation communication in case of high impact contingency events, in particular those with cross-market implications, that could undermine the financial stability of Hong Kong. The rehearsal involved several other financial regulators and was led by the Financial Services Bureau (now the Financial Services and Treasury Bureau). Further updates and improvements on the HKEx market contingency plans will be made as and when necessary, based on the results of rehearsals, which will be conducted regularly.

Securities Market

Total funds raised in 2002 amounted to \$110 billion.

A total of 117 companies were listed in 2002, comprising 60 on the Main Board (of which two were the transfer of listings from GEM), and 57 on GEM. Total funds raised in the initial public offerings (IPO) amounted to \$52 billion, of which \$45 billion were on the Main Board and \$7 billion on GEM. Post-issue fund raising totalled an additional \$58 billion, made up of \$56 billion on the Main Board and \$2 billion on GEM.

Total funds raised by H-share and red chip companies through IPO and post-issue fund raising amounted to \$70.8 billion in 2002, representing 64 per cent of total funds raised.

The derivative warrant market expanded in 2002 as a result of streamlined listing procedures that became effective in December 2001, the introduction of liquidity providers in January 2002, and a reduction in the listing fees for derivative warrants launched on or after 2 April 2002. There were 644 new derivative warrants listed on the Main Board during the year under review, compared with 181 in 2001. Warrant turnover on the Main Board increased by 7 per cent in 2002 compared with that in 2001 and represented more than 7 per cent of total Main Board turnover in 2002.

The first batch of ELI was listed on the Main Board in August 2002. Subsequent activity resulted in a total of 25 listings for the year under review. We posted an ELI calculator on the HKEx website in January 2003 to promote better understanding of the pricing of the instruments. Stock Exchange Participants are permitted to make the calculator available through their websites via hyperlinks.

GEM, which serves predominantly start-up companies and growth-oriented enterprises, continued to be one of the most successful markets of its type in Asia in terms of funds raised. In the first nine months of 2002, GEM was ranked first among its regional peers in terms of funds raised.

Total market turnover for the year under review was \$1,643 billion, compared with \$1,990 billion in 2001. H shares and red chips represented approximately 28 per cent of total turnover in 2002.

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We introduced a 30-minute pre-opening session and an index basket order trading mechanism in March 2002. The pre-opening session helps to determine a fair opening price and reduces the loading of the trading system at the commencement of the morning session. The index basket order trading mechanism enables market participants to buy or sell a group of designated stocks with a single order. The mechanism also complements our index products. Between introduction and the end of 2002, there was an average of more than 540 auction and pre-open trades per day during the pre-opening session, with an average transaction value of \$270 million per day.

In December 2002, we completed an upgrading of the network of AMS/3, the Third Generation Automatic Order Matching and Execution System. With the upgraded network, Stock Exchange Participants can increase the order throughput (or throttle rate) of their Open Gateways (OG) to AMS/3 on a user-pays basis. Participants can also install additional OG at their own cost. As at 31 December 2002, 10 Stock Exchange Participants had subscribed for additional throttle rates.

Derivatives Market

Futures and Options turnover in the year under review rose 4.5 per cent from 2001 to 11,029,404 contracts, a record high.

Hang Seng Index (HSI) Futures' trading volume of 4,802,422 contracts led the market, followed by Hong Kong stock options, with 3,724,705 contracts traded. Mini-HSI Futures, HSI Options, and Three-month HIBOR (Hong Kong Interbank Offered Rate) Futures were also among the top products in terms of trading volume. HSI Options volume rose more than 49 per cent in 2002 from the previous year, while Mini-HSI Futures volume rose nearly 44 per cent. Both contracts set one-day volume records in the year under review along with Three-month HIBOR Futures. In addition, Mini-HSI Futures, Hong Kong stock options, Hong Kong stock futures, and Three-year Exchange Fund Note Futures set open interest records in 2002.

In March 2002, the Futures Exchange was granted exempt futures market status in Australia, which allows it to offer its Remote Trading Access (RTA) programme in that country. The RTA programme allows Futures Exchange Participants who are also HKFE Clearing Corporation Participants to offer their qualified clients direct access to HKATS, the Hong Kong Futures Automated Trading System, for the purpose of trading on the Futures Exchange. The RTA programme can also be offered to qualified market participants in the United Kingdom and the United States.

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The Block Trade Facility introduced in October 2001 under a six-month pilot programme became a standing facility in April 2002. The facility extends HKEx's services by bringing transactions to its markets that may otherwise be executed in the over-the-counter market. More than 865,000 contracts were traded through the Block Trading Facility during the year under review.

In May 2002, the Bulletin Board function on HKATS became available for the trading of Hong Kong stock options. It had already been available for the trading of HSI Futures and Options. The Bulletin Board function increases market efficiency and gives market participants additional flexibility in their trading strategies.

We also introduced Dow Jones Industrial Average (DJIA) Futures in May 2002. DJIA Futures expanded our range of international benchmark products and enabled us to establish a business relationship with another leading index provider. Average daily volume in 2002 was 41 contracts and an open interest high of 306 contracts was recorded on 7 November 2002.

The two other product changes in May 2002 involved interest rate and currency futures. To meet the needs of the marketplace, we increased the size of the HIBOR futures contracts. The revisions were based on market participants'

comments and designed to strengthen the competitiveness of HIBOR products. In addition, we delisted the One-day Rolling Currency Futures or Rolling Forex contracts after reviewing our products to ensure that they continue to meet the needs and demands of the marketplace in a cost efficient manner.

In July 2002, we gave market participants more choice by introducing three new Hong Kong stock futures contracts and three new Hong Kong stock option classes. Total volume for the six new products in 2002 was nearly 29,000 contracts.

New contingency procedures to clarify the trading arrangement in the event of an interruption in market operations became effective on 1 August 2002. The new procedures were decided upon following consultation with market participants.

We introduced Mini-HSI Options in November 2002 - our second mini contract - to meet the needs of individual investors and other market participants. Mini-HSI Options allow investors to participate in the stock index options market on a small scale and they complement Mini-HSI Futures and our other HSI products. In the first full month of trading, average daily volume for Mini-HSI Options was 246 contracts. Open interest reached a high of 3,115 contracts on 27 December 2002.

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Clearing and Settlement

Average daily settlement efficiency of continuous net settlement stock positions stood at 99.65 per cent on settlement day, rising to 99.96 per cent on the following day.

We introduced the first and second phases of CCASS/3, the new generation Central Clearing and Settlement System, in 2002. We plan to introduce the third and final phases during the first half of 2003. Upon full implementation, CCASS/3 will be capable of supporting multiple markets with different settlement cycles and extended operating hours. CCASS/3 will also facilitate ISO 15022 compliant message exchange to facilitate straight-through-processing (STP).

We introduced new features to our Stock Segregated Account with Statement Service in June 2002. As a result, investors can now receive statements at mailing addresses outside Hong Kong and brokers or custodians can use computer diskettes and CD ROM to send completed application details to us for processing. The use of computer diskettes and CD ROM improves efficiency, especially when a large number of application forms are submitted at one time. The Stock Segregated Account with Statement Service is designed to enable investors to reconcile their stockholdings and trading records with their brokers or custodians against stockholdings and trading record statements issued by the

Hong Kong Securities Clearing Company, a wholly-owned subsidiary of HKEx. At the end of the year under review, there were 1,624 Stock Segregated Accounts with Statement Service.

In July 2002, we consulted the market on third party clearing (TPC) for the securities market. The TPC model under consideration would give Stock Exchange Participants the option to outsource to a third party clearing and settlement of their Stock Exchange trades. In light of market feedback, the model and timing of this initiative will be considered further.

We are evaluating with the market, the SFC, and the Government a number of clearing and settlement initiatives aimed at improving the operating environment of the Hong Kong securities market.

The introduction of the new Derivatives Clearing and Settlement System (DCASS) was rescheduled to end 2003 while the upgrading of HKATS is being pursued separately. DCASS will replace the two systems currently used for the clearing and settlement of contracts traded on HKATS.

E-Business and Information Services

At the end of the year under review, there were 70 real-time information vendors for the securities market, a decrease of 13 from the end of 2001, and 35 for the derivatives market, a decrease of three. The

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total real-time data services provided by these vendors rose to 331 from 290, while the total delayed data services remained at 94.

HKEx Information Services, a wholly-owned subsidiary of HKEx, was appointed in June 2002 as an agent to provide real-time market information from the Shenzhen Stock Exchange (SSE) outside Mainland China. The arrangement enables HKEx and SSE to better meet the growing demand from overseas for securities market information from the Mainland. It also further strengthens HKEx's ties with the stock exchanges in the Mainland.

In July 2002, we signed an agreement with Standard & Poor's (S&P) for the creation of a new series of equity indices covering stocks listed on our Stock Exchange. The S&P/HKEx LargeCap Index, comprising 25 large-cap stocks and representing about 75 per cent of the Main Board's market cap, and the S&P/HKEx GEM Index were introduced on 3 March 2003. The remaining three indices, the S&P/HKEx MidCap, SmallCap, and Composite indices, will be introduced later in 2003. The indices are free-float adjusted, and are calculated and managed by S&P. S&P will seek to license financial products based on the indices. It will also promote the indices as benchmarks for asset managers.

We introduced a new information service in September 2002 to enable market participants to subscribe for price depth information in the derivatives market via information vendors. The service provides aggregated five best bid and ask prices with full volume for all instruments trading on the derivatives market. Previously, the information was only available to Exchange Participants through HKATS.

IT/Systems

In June 2002, we announced short and medium term measures to address the power failure problems experienced at the primary data centre of the derivatives market on 28 May 2002 that led to the suspension of derivatives trading. The measures, which were recommended by an independent consultant commissioned to review the causes of the power failure, have all been implemented.

There were also several initiatives throughout 2002 to further strengthen our information technology (IT) systems and operations. They included the establishment of a quality development standard to reinforce quality control and assurance of IT outsourcing projects or IT systems/services provided by the vendors of key software. We commissioned an external review of our IT requirements and environment as well as the need for a quality management and certification framework for IT system development and

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management. The recommendations from these reviews are being implemented. In addition, we had also begun comprehensive reviews of AMS/3, HKATS, and their satellite systems.

Corporate Treasury

The Corporate Treasury manages funds amounting to about \$9 billion, comprising mainly accumulated operating profits, Clearing House Funds, and margin funds received. Investment income represents approximately 15 to 20 per cent of HKEx's total income.

Investments are kept sufficiently liquid to meet operating and possible requirements of the Clearing House Funds and margin funds. As at 31 December 2002, 55 per cent of funds were invested in highly liquid investment-grade bonds, 44 per cent in cash or bank deposits, and 1 per cent in global equities. The maturity profile of the investments as at 31 December 2002 was as follows:

	>Overnight	>1 month	>1 year		
Overnight	to 1 month	to 1 year	to 3 years	>3 years	
35%	5%	14%	36%	10%	

Credit exposure was well diversified. In view of uncertain corporate profitability and the negative impact of corporate scandals in the United States, credit quality of the investments was maintained at a high level to minimise credit losses. As at 31 December 2002, all bonds held were of

high-grade and had a weighted average credit rating of Aa2 and a weighted average maturity of 2.1 years. Deposits were placed only with the note-issuing banks in Hong Kong and authorised institutions with a credit rating of A3 or above.

Investment and fund management is governed by guidelines approved by the Board, aimed at optimising return, safeguarding assets and satisfying liquidity requirements. A professional Treasury team in Corporate Treasury is dedicated to the day-to-day management and investment of the funds. External fund managers have also been appointed to manage part of the Corporate Funds.

An Investment Advisory Committee, comprised of non-Executive Directors of the Board and external members from the financial community, advises the company on portfolio management and monitors the risk and performance of our investments. To enhance risk management, a risk control group closely monitors and analyses all investment activities.

Risk management techniques, such as Value-at-Risk (VaR) and portfolio stress testing, are used to identify, measure, monitor, and control market risks. In 2002, the overall portfolio risk, as measured by VaR methodology, recorded an average, maximum and minimum VaR of \$20 million, \$25 million, and \$16 million respectively.

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China and International Development

We have continued our efforts to strengthen Hong Kong's position as the international capital formation centre for China. Apart from regular marketing visits to Mainland China, we also organised listing promotion conferences in Nanjing, Jinan, Hangzhou, Shanghai, and Shenzhen. The conferences attracted representatives from approximately 1,080 Mainland enterprises. In addition, we collaborated with the local governments of a number of the provinces and cities in the Mainland in organising 41 seminars to promote listing in Hong Kong. More than 7,300 people attended these seminars.

The new listings in 2002 included 44 private enterprises which have their main business operations in Mainland China. In addition, there were four red chip and four H-share companies listed on the Main Board, and 12 H-share companies listed on GEM. The total capital raised by these 64 companies amounted to \$43 billion, representing 83 per cent of the total capital raised by IPOs in 2002 in Hong Kong.

We will continue to focus our marketing efforts in Mainland China in 2003, further develop our ties with the Mainland exchanges, and expand our business network in the Mainland through promotional and educational activities. We will also continue to explore possible business co-operation and alliances with other exchanges.

Business and Market Development

In May of 2002, we entered into a Memorandum of Understanding with the London Stock Exchange (LSE) with a view to facilitating, inter alia, the dual listing of companies in Hong Kong and the United Kingdom. The programme is designed in particular to attract issuers who are seeking greater access to the capital markets in both Europe and Asia.

In April 2002, we acquired 14.47 per cent interest in BondsInAsia, one of Asia's leading platforms for the trading of fixed income instruments. The strategic partnership will enable us to participate in the development of the region's bond markets. It will also provide an opportunity for us to leverage the development of a trading facility for both fixed income securities and interest rate futures contracts, which could generate additional business for HKEx and its participants.

Our share registration operations were sold and merged with Computershare's Hong Kong share registration operations in May 2002. We received 18 per cent of the issued share capital of the merged operations, Computershare Hong Kong Investors Services (CHIS), as consideration for the sale. At the same time, we acquired a further 6 per cent of the issued share capital of CHIS with cash. CHIS has a major position in the market for share registration services in Hong Kong. Its clients include about two-thirds of the 33 constituent companies in the HSI and all of the H-share companies that comprise the Hang Seng China Enterprise Index. The

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merger helped us streamline our operations and reduce costs while acquiring a significant interest in a strong company with good growth prospects.

In May 2002, we also formed a joint venture with ADP Wilco, a wholly-owned subsidiary of Automatic Data Processing, to provide transaction-processing services for the securities market. The joint venture will offer Brokers' Electronic Support Services (BESS) to our Stock Exchange Participants. The services will have cross-border capability as well as the capacity for seamless STP.

Review of Rules of Clearing House Guarantee and Reserve Funds

The Group is currently reviewing the rules of the Clearing House Guarantee and Reserve Funds with the SFC with a view to clarifying the rules to remove any possible ambiguity in interpretation and standardising them across the three funds.

Exchange Participants

At the end of 2002, there were 509 Stock Exchange Participants and 133 Futures Exchange Participants. There were also 34 holders of Stock Exchange Trading Rights and 59 holders of Futures Exchange Trading Rights. They are former members of the two exchanges who have not activated their brokerage businesses and are not registered as Exchange Participants.

The two-year moratorium established at the time of the merger on the issue of new Trading Rights (save for such rights as may be issued in respect of alliances with other

stock exchanges or futures exchanges) has been lifted. Since 6 March 2002, each new Stock Exchange Trading Right and Futures Exchange Trading Right can be issued for no less than \$3 million and \$1.5 million respectively. There will be no restrictions on HKEx to issue new Trading Rights from 6 March 2004. During the year under review, no applications for new Trading Rights had been received.

Websites

There was increasing use of the HKEx websites during the year under review. There were 9,200,520 visits to the HKEx website and the linked GEM website in 2002, compared with 5,852,293 in 2001. Page views in 2002 increased to 97,938,829 from 65,899,244 in 2001.

The HKEx website was upgraded in 2002 with the addition of on-line questionnaires for our consultation papers. We also added more frequent updates of data from the derivatives market and a Continuous Professional Training section that provides easy access to course details, schedules, and application forms.

In August 2002, we started posting Exchange News on the HKEx and GEM websites immediately after its dissemination through AMS/3. The initiative was part of our on-going efforts to improve market transparency. Exchange News covers a wide range of market information, such as short selling turnover, new options series, manual transactions for Equity Linked Instruments and derivative warrants, Exchange Fund Note data, closing bid and ask quotes for

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Hong Kong stocks traded in London, and last sale prices of Hong Kong stocks traded in the United States. Previously, Exchange News was posted on our websites after the close of the securities market.

Community Involvement

HKEx raised more than \$15 million for the Community Chest through balloting of special stock codes for new listed companies on the Main Board and GEM. The staff contributed to the Community Chest by participating in Dress Casual Day and the \$10 Donation Drive.

We continued to provide a wide range of public education programmes in 2002. We organised 34 investor seminars and participated in Hong Kong's Information Infrastructure Expo as well as other seminars and conferences run by professional and international bodies. The highlights included a continuing professional development forum in October 2002 for directors of listed companies. The event was organised by the Hong Kong Institute of Directors and the Hong Kong Securities Institute, and sponsored by HKEx and the SFC. We also continued to provide briefings on our operations for teachers from Hong Kong's secondary schools, business students, journalists, and other important visitors.

Staff

Our achievements during the year under review would not have been possible without the dedication and hard work of our staff. Their efforts have helped to improve the quality of the market, better our products and services, and keep our costs down. I thank them for their contributions. I am confident that with their continued efforts and dedication, HKEx will have another successful year in 2003.

I decided not to seek renewal of my contract with the Group upon its expiry in March 2003. As a result, I will step down from my post as the Chief Executive of HKEx after the annual general meeting in April. I am honoured for having the privilege of serving as the first chief executive of HKEx. I appreciate the support I have received from the Board of Directors and the staff, and I wish the group and the people associated with the group all the best in the future.

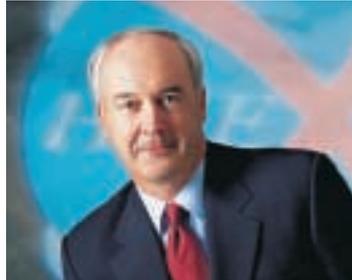
KWONG Ki Chi

Director and Chief Executive

12 March 2003



Senior Management



Frederick Grede
Chief Operating Officer



Lawrence Fok
Deputy Chief Operating Officer



David Cheung
Chief Financial Officer



Karen Lee
Head - Listing, Regulation and
Risk Management



Walter Reisch
Head - Clearing



Stephen Law
Head - IT/Systems



Roger Lee
Head - E-Business and
Information Services

Senior Management



Jimmy Ho
Head - Corporate Strategy



Coven Hui
Head - Group Internal Audit



Mary Kao
Head - Legal and
Secretarial Services



Henry Law
Head - Corporate Communications



Brenda Yen
Head - Human Resources



Joseph Mau
Company Secretary