



Report of the Directors

The Directors submit their report together with the audited accounts of Hong Kong Exchanges and Clearing Limited (HKEx) and its group of companies (collectively, the Group) for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

HKEx is a recognised exchange controller under the Exchanges and Clearing Houses (Merger) Ordinance (Merger Ordinance). It owns and operates the only stock exchange and futures exchange in Hong Kong and their related clearing houses, namely Hong Kong Securities Clearing Company Limited (HKSCC), HKFE Clearing Corporation Limited (HKCC) and The SEHK Options Clearing House Limited (SEOCH).

The Stock Exchange of Hong Kong Limited (the Stock Exchange) has the exclusive right under the Stock Exchanges Unification Ordinance to operate and maintain a stock market in Hong Kong and Hong Kong Futures Exchange Limited (the Futures Exchange) is licensed under the Commodities Trading Ordinance to establish and operate a commodity exchange. HKSCC, SEOCH and HKCC are the recognised clearing houses for the purposes of the Securities and Futures (Clearing Houses) Ordinance.

The Group's revenue is derived solely from business activities in Hong Kong. An analysis of the Group's income and

contribution to operating profit for the year ended 31 December 2002 is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 61.

An interim dividend of \$0.08 per share, amounting to a total of about \$83 million, was paid to shareholders during the year.

The Directors recommend the payment of a final dividend of \$0.43 per share to shareholders on the register of members on 15 April 2003, which together with the interim dividend payment amounts to a total of about \$532 million, and the retention of the remaining profit for the year.

The share register will be closed from Thursday, 10 April 2003 to Tuesday, 15 April 2003, both dates inclusive, during which period, no transfer of shares will be registered. Dividend warrants will be despatched to shareholders on or about Friday, 25 April 2003. In order to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with HKEx's registrar, Hong Kong Registrars Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 9 April 2003.

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DIVIDEND POLICY

The Directors have adopted a dividend policy of providing shareholders with regular dividends at a target payout ratio of 90 per cent. The Group will continue to actively and regularly review and manage its capital structure to ensure optimal capital structure and shareholder returns, considering:

- the future capital requirements of the Group and capital efficiency;
- the need to retain capital to support the Group's stability, growth and maintain prudent risk management;
- prevailing and projected profitability;
- prevailing market dividend yields;
- projected operating cash flow and the extent to which this will be sufficient to meet projected capital expenditure; and projected strategic investment opportunities.

RESERVES

The distributable reserves of HKEx as at 31 December 2002, calculated under section 79B of the Companies Ordinance, amounted to \$3,554 million (2001: \$3,286 million).

The movements in reserves of the Group and HKEx during the year are set out in notes 26 to 29 to the accounts.

GROUP FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on pages 4 and 5.

FIXED ASSETS

Particulars of the movements during the year in the fixed assets of the Group are set out in note 13 to the accounts.

SHARE CAPITAL

Details of the share capital during the year are set out in note 25 to the accounts.

SHARE OPTION SCHEMES

Pre-Listing Share Option Scheme (Pre-Listing Scheme)

The Pre-Listing Scheme was adopted by HKEx on 31 May 2000. Share options were granted to employees of HKEx or its subsidiaries in accordance with the terms of the Pre-Listing Scheme on 20 June 2000. No further options can be, or have been, issued under the Pre-Listing Scheme from 27 June 2000, the date of listing of HKEx on the Stock Exchange. The key terms of the Pre-Listing Scheme are summarised herein below:

- (i) The participants of the Pre-Listing Scheme include any employee (including any executive director) of HKEx or its subsidiaries.

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- (ii) The total number of shares available for issue is 23,245,020 which represents 2.2 per cent of the existing issued share capital of HKEx as at the date of this report.
 - (iii) The maximum entitlement of any one participant, when aggregated with shares issued and issuable under all options granted to him, must not exceed 25 per cent of the aggregated number of shares for the time being issued and issuable under the Pre-Listing Scheme.
 - (iv) An option granted is exercisable subject to a vesting scale which shall commence on 6 March 2002 in tranches of 25 per cent and reaching 100 per cent from 6 March 2005, and in any event shall end not later than 30 May 2010, subject to the provisions for early exercise and/or termination contained in the Pre-Listing Scheme.
 - (v) A non refundable remittance of \$1 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the option.
 - (vi) The subscription price for a share in HKEx in respect of any particular option granted is determined based on a formula: $P=80\% (A \times B)$, where “P” is the subscription price; “A” is 18.81, a price/earnings multiple determined by reference to the price/earning multiples of various financial companies listed on the Stock Exchange and/or overseas; and “B” is the earnings of the Group, based on its audited combined results for the year ended 31 December 1999 as if the current group structure of HKEx had been in existence throughout the year divided by 1,040,664,846 shares in issue.
 - (vii) The life of the Pre-Listing Scheme is until 30 May 2010.
- Share options were granted to continuous contract employees of HKEx or its subsidiaries on 20 June 2000. Share options granted are exercisable between 6 March 2002 to 30 May 2010, in tranches of 25 per cent each reaching 100 per cent as from 6 March 2005 at a subscription price (calculated on the basis of the formula described above) of \$7.52 per share.
- The number of shares issuable under the share options outstanding as at 1 January 2002 and 31 December 2002 were 27,267,384 shares and 23,253,020 shares respectively. During the year, 2,916,000 shares were issued upon the exercise of options, and the weighted average closing price immediately before the dates on which the options were exercised was about \$12.24. A total of 1,098,364 shares issuable under the options had lapsed during the year due to the resignation of option holders.

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As at 1 January 2002, 1,454,126 shares were issuable under an option granted to a Director of HKEx, of which 362,000 shares were subscribed during the year, and 1,092,126 shares remain issuable as at 31 December 2002. The closing price immediately before the date on which the option was exercised was \$12.00. Please refer to the section of “Directors’ interests in Shares and Options” for more information.

Post-Listing Share Option Scheme (Post-Listing Scheme)

The Post-Listing Scheme was amended on 17 April 2002 to comply with the new requirements of Chapter 17 of the Listing Rules effected on 1 September 2001. No share option has so far been granted under the Post-Listing Scheme since its adoption on 31 May 2000. The key terms of the Post-Listing Scheme are summarised herein below:

- (i) The purpose of the Post-Listing Scheme is to attract and retain high calibre employees of HKEx or its subsidiaries.
- (ii) The participants of the Post-Listing Scheme include any employee (including any executive director) of HKEx or its subsidiaries.
- (iii) The total number of shares available for issue is 77,897,464 which represents 7.5 per cent of the existing issued share capital of HKEx at the date of this report.
- (iv) Unless approved by shareholders in general meeting, no employee shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to such employee in any 12-month period up to the date of the latest grant would exceed 1 per cent of the issued share capital of HKEx from time to time.
- (v) An option may be exercised in accordance with the terms of the Post-Listing Scheme at any time during a period to be notified by the Board to each grantee. Such period may commence on the second anniversary of the date on which the option is offered in tranches of 25 per cent and reaching 100 per cent from the fifth anniversary of the date on which the option is offered, and in any event shall end not later than 10 years from the date upon which the option is granted and accepted, subject to the provisions for early exercise and/or termination as contained in the Post-Listing Scheme.
- (vi) A non refundable remittance of \$1 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the option.

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(vii) The subscription price of a share in respect of any particular option granted shall be at least the higher of (a) the closing price of HKEx shares on the Stock Exchange, as stated in the Stock Exchange's daily quotations sheet on the relevant offer date in respect of such option; or (b) the average of the closing prices of HKEx shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option; or (c) the nominal value of a share in HKEx.

(viii) The life of the Post-Listing Scheme is until 30 May 2010.

SUBSIDIARIES

Particulars of HKEx's subsidiaries, as at 31 December 2002 are set out in note 24 to the accounts.

DIRECTORS' EMOLUMENTS

Particulars of the Directors' emoluments disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 8 to the accounts.

DIRECTORS' SERVICE CONTRACT

No Director has any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

DIRECTORS

The Directors of HKEx during the year and up to the date of this report were:

Non-executive Chairman

LEE Yeh Kwong, Charles

Executive Director and Chief Executive

KWONG Ki Chi

Non-executive Directors

CHAN Cho Chak, John

FAN Chor Ho, Paul

FRESHWATER, Timothy George

KWOK Chi Piu, Bill

LEE Jor Hung, Dannis

LEE Kwan Ho, Vincent Marshall

LEONG Ka Chai

LIU Jinbao

LO Ka Shui

SETO Gin Chung, John

STRICKLAND, John Estmond

WARD, Rodney Gordon

YUE Wai Keung

As at 31 December 2002, the Board consisted of fifteen Directors. Messrs. LEE Yeh Kwong, Charles, CHAN Cho Chak, John, Timothy George FRESHWATER, LEONG Ka Chai, LIU Jinbao, LO Ka Shui, John Estmond STRICKLAND and Rodney Gordon WARD were appointed by the Financial Secretary of the HKSAR in the interest of the investing public or in the public interest (Public Interest Directors). Messrs. FAN Chor Ho, Paul, KWOK Chi Piu,

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Bill, LEE Jor Hung, Dannis, LEE Kwan Ho, Vincent Marshall, SETO Gin Chung, John and YUE Wai Keung, were elected by shareholders at an extraordinary general meeting held on 27 March 2000. The Chief Executive of HKEx is an *ex-officio* member of the Board. The Board recommended Mr LEE Yeh Kwong, Charles to serve as non-executive Chairman and his appointment was approved by the Chief Executive of the HKSAR.

The term of services of all Non-executive Directors will expire at the conclusion of the forthcoming annual general meeting to be held on 15 April 2003 (2003 AGM). Shareholders will be invited to elect up to six Non-executive Directors at the 2003 AGM to fill the vacancies of the six retiring Directors who were elected by shareholders in 2000. Details of the proposed candidates standing for election are set out in the circular sent together with this annual report.

Under Section 20(2) of the Merger Ordinance, the number of Public Interest Directors immediately following the 2003 AGM and thereafter, shall not be more than the maximum number of other members of the Board (but excluding the Chief Executive).

The employment contract of Mr Kwong Ki Chi, Chief Executive and Executive Director, with HKEx has expired on 6 March 2003 but Mr Kwong has agreed to stay on until the conclusion of the 2003 AGM.

The Securities and Futures Commission (SFC) had, on 8 June 2000, confirmed the independence of all non-executive Directors.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT Directors

(a) Non-executive Chairman

LEE Yeh Kwong, Charles, GBS, JP, aged 66, has been the Chairman of HKEx since 6 March 2000. Mr Lee is the Chairman of the Mandatory Provident Fund Schemes Authority, and one of the founders of the solicitors' firm of Woo, Kwan, Lee & Lo in Hong Kong. He is a former member of the Council of the Stock Exchange (1988 to 1994) and a former Chairman of the Stock Exchange (1992 to 1994). He has held a number of Government appointments, including member of the Executive Council of Hong Kong (1997 to 2002), Secretary to the Companies Law Revision Committee (1968 to 1973), member of the Governor's Business Council (1992 to 1997), Hong Kong Affairs Adviser (1993 to 1997), and member of the Selection Committee of the Hong Kong Special Administrative Region of the People's Republic of China in 1996. Mr Lee is also actively involved in numerous community activities, and is a member of the Equal Opportunities Commission of Hong Kong, Chairman of the Council of the Open University of Hong Kong, a member of the Court of the Hong Kong Polytechnic University, a member of the Council of the Hong Kong University of Science and Technology, and the Vice-Patron of the Community Chest. He is

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admitted as a solicitor in both Hong Kong and England & Wales, and is also a qualified accountant and chartered secretary. He has over 30 years of experience in the securities industry.

(b) Executive Director

KWONG Ki Chi, GBS, JP, aged 51, has been the Executive Director and Chief Executive of HKEx since 6 March 2000. Mr Kwong is also the chairman and director of various subsidiaries of HKEx. Prior to joining HKEx on 6 March 2000, Mr Kwong served in the Government from September 1972 to March 2000. His postings in the Government included the positions of Secretary for Information Technology and Broadcasting (May 1998 to March 2000) and Secretary for the Treasury (April 1995 to April 1998). He holds a Bachelor of Science degree from the University of Hong Kong, a Master of Philosophy degree from the University of Cambridge and a Diploma in Management Studies from the Chinese University of Hong Kong.

(c) Non-executive Directors

CHAN Cho Chak, John, GBS, JP, aged 59, has been a Non-executive Director of HKEx since 3 April 2000. Mr Chan is the Managing Director of The Kowloon Motor Bus Holdings Limited (KMB) and the Chairman of RoadShow Holdings Limited. He is a former Chairman of HKSCC, and a non-executive director of Hang Seng Bank

Limited and Guangdong Investment Limited. Mr Chan holds various community appointments, including being Deputy Chairman of the Hong Kong Jockey Club, Council Chairman of the Hong Kong University of Science and Technology, and Board Member and Executive Committee Vice Chairman of The Community Chest. Prior to joining KMB, Mr Chan served in the Government for two periods, from 1964 to 1978 and from 1980 to 1993. Among the key posts he held over the years were those of Private Secretary to the Governor, Deputy Secretary (General Duties), Director of Information Services, Deputy Chief Secretary, Secretary for Trade and Industry and Secretary for Education and Manpower. He also served as a member of the Executive Council from 1992 to 1993. Mr Chan was Executive Director and General Manager of Sun Hung Kai Finance Company Limited from 1978 to 1980. He was awarded the Gold Bauhinia Star in July 1999. He holds a Bachelor of Arts degree, a Diploma in Management Studies and an Honorary Doctor of Business Administration degree. He has about 10 years of experience in the securities industry.

FAN Chor Ho, Paul, JP, aged 61, has been a Non-executive Director of HKEx since 3 April 2000. Mr Fan is the Chairman of Paul Fan Securities Limited. He was the former Chairman of the Hong Kong Stockbrokers Association and a member of the Council

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of the Stock Exchange from 1990 to 1993. He was a member of the Advisory Committee to the SFC from 1993 to 1997 and again serving in the same capacity from 2001. Mr Fan is a director of the Hong Kong Securities Institute and holds many appointments on other Government boards and committees including the Chairman of the Hong Kong Awards for Young People. He is also actively involved in community activities particularly with the Lions Clubs. Mr Fan was awarded with Her Majesty The Queen's Badges of Honour in 1991. Mr Fan graduated from King's College, Hong Kong before starting his career in financial and banking industry. Mr Fan has over 30 years of experience in the securities and futures industry.

FRESHWATER, Timothy George, aged 58, has been a Non-executive Director of HKEx since 3 April 2000. Mr Freshwater is Chairman-Corporate Finance (Asia) of Goldman Sachs (Asia) L.L.C. Before that, he was Chairman of Jardine Fleming (1999), with regional responsibility for the Jardine Fleming group's businesses in 14 countries in the Asia-Pacific region. He was a member of the Hong Kong Takeovers Panel from 1997 to 1999 and is currently a member of the Hong Kong Securities and Futures Appeals Panel. Mr Freshwater is admitted as a solicitor in England & Wales and in Hong Kong. After obtaining Bachelor of Laws and Master of Arts degrees at the

University of Cambridge he joined the international law firm Slaughter and May in 1967 and remained with them for 29 years before joining the Jardine Fleming group in 1996. He became a partner in Slaughter and May in 1975 and worked in their Hong Kong office for seven years between 1978 and 1985. He was a member of the Council of the Law Society of Hong Kong from 1981 to 1985 and President of the Law Society of Hong Kong in 1984/5. He returned to London in late 1985 and was head of Slaughter and May's worldwide corporate practice from 1993 until 1996. He has over 30 years of experience in the securities industry.

KWOK Chi Piu, Bill, aged 50, has been a Non-executive Director of HKEx since 3 April 2000. Dr Kwok is the Managing Director of Wocom Holdings Limited. He is currently a director of the Hong Kong Securities Institute and serves on the Government's Advisory Committee on Human Resources Development in the Financial Services Sector. He is a member of the Professional Advisory Board of the Asian Institute of International Financial Law at the University of Hong Kong. He is also a director of Wing On International Holdings Limited and Wing On Company International Limited. He was the Chairman of the Hong Kong Securities Institute from 1999 to 2001, a director of the Futures Exchange from 1991 to 2000 and a Vice

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Chairman from 1997 to 2000. He was also a member of the Financial Services Advisory Committee of the Hong Kong Trade Development Council from 1996 to 2002. Dr Kwok holds a Bachelor of Science (Chemistry) degree and a Bachelor of Arts (Economics) degree from Stanford University as well as a Doctor of Philosophy (Biochemistry) degree from the University of Chicago. He has about 20 years of experience in the securities and futures industry.

LEE Jor Hung, Dannis, BBS, aged 48, has been a Non-executive Director of HKEx since 3 April 2000. Mr Lee is the Chairman of DL Brokerage Limited and a Non-executive Director of Stockmartnet Holdings Limited. He is a member of the Appeals Panel to the SFC. Mr Lee is a Permanent Honorable President of the Hong Kong Stockbrokers Association and was the Chairman of that Association from 1997 to 1999. Mr Lee is a former member of the Advisory Committee to the SFC and a former member of the Council of the Stock Exchange (1991 to 1997 and Vice Chairman 1994/1995) and a former director of HKSCC (1992 to 1997 and Vice Chairman 1995 to 1997). Mr Lee holds a Bachelor degree in Business Administration and Commerce and a Master Degree in Business Administration, and a fellow of the Hong Kong Institute of Directors. He has about 20 years of experience in the securities industry.

LEE Kwan Ho, Vincent Marshall, aged 47, has been a Non-executive Director of HKEx since 3 April 2000. Mr Lee is the Managing Director of the Tung Tai Group of Companies (securities and finance companies) and a Vice Chairman of the Institute of Securities Dealers Limited. He has extensive experience in banking, corporate and real estate transactions in Hong Kong, Mainland China, the United States and Canada. While engaged as a senior banker with the HSBC group in Hong Kong and Vancouver, and as a Certified Public Accountant with Coopers and Lybrand in Los Angeles and Boston, Mr Lee executed a wide variety of investment transactions, including corporate acquisitions, financing, divestitures, real estate transactions, share offerings and commodities trading. He is actively involved in numerous community activities, including being a Founding Member (as well as past Governor) of the Canadian International School Foundation Limited. He graduated Magna Cum Laude in Accounting and Finance from the University of Southern California and received a Master degree in Economics from the London School of Economics and Political Science and has received numerous academic awards and recognition. He has over 20 years of experience in the securities and futures industry.

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LEONG Ka Chai, JP, aged 53, has been a Non-executive Director of HKEx since 3 April 2000. Mr Leong has 20 years of experience in the securities and derivatives business. He is a dealing director of Roctec Securities Company Limited and Roctec Futures Trading Company Limited, and an investment adviser of Roctec Investment Limited. Mr Leong was a director of the Futures Exchange from 1989 to 2000 and was the Chairman of the Futures Exchange from 1992 to 1995.

Dr LIU Jinbao, aged 50, has been a Non-executive Director of HKEx since 3 April 2000. Dr Liu is the Vice Chairman of Bank of China, Vice Chairman and Chief Executive of BOC Hong Kong (Holdings) Limited, Vice Chairman and Chief Executive of Bank of China (Hong Kong) Limited and Chairman of Nanyang Commercial Bank Limited. He is a member of the Hong Kong Monetary Authority Exchange Fund Advisory Committee, Member of the Banking Advisory Committee, Vice Chairman of the Hong Kong Association of Banks, Director of Hong Kong Note Printing Limited and Hong Kong Interbank Clearing Limited. He is a member of the Board of Airport Authority Hong Kong, Director of Shanghai Commercial Bank Limited, Chairman of the Hong Kong Chinese Enterprises Association and General Committee member of the Hong Kong General Chamber of Commerce. Dr Liu is also a member of the Commission

on Strategic Development of the Hong Kong Special Administrative Region, Director of BOCHK Charitable Foundation, Vice President of the Chinese Red Cross Foundation, Managing Director of China Youth Federation Committee and member of the Hong Kong Red Cross Advisory Board. He has over 25 years of experience in the banking and financial industries.

LO Ka Shui, JP, aged 56, has been a Non-executive Director of HKEx since 3 April 2000. Dr Lo is the Deputy Chairman and Managing Director of Great Eagle Holdings Limited. He is presently the Chairman of the GEM Listing Committee and was Chairman of the Listing Committee of the Stock Exchange from 1992 to 1996. He is a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited, Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited and China Mobile (Hong Kong) Limited. He is also actively involved in community activities, including being a Vice President of The Real Estate Developers Association of Hong Kong, a trustee of the Hong Kong Center for Economic Research and a member of the Council of Advisors on Innovation and Technology. Dr Lo holds a Bachelor of Science (Biophysics) degree from McGill University and a M.D. from Cornell University, certified in Cardiology. He has over 20 years of experience in the property, hotel and financial industries.

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SETO Gin Chung, John, aged 54, has been a Non-executive Director of HKEx since 3 April 2000. Mr Seto is the Chairman and non-executive director of Stockmartnet Holdings Limited. He is also the non-executive director of Kowloon Development Company Limited. He was the Chief Executive of HSBC Broking Services (Asia) Limited. From 1997 to 2000, he was the first Vice Chairman of the Stock Exchange and a director of HKSCC. He was also a member of the Council of the Stock Exchange from 1994 to 2000. Mr Seto holds a Master of Business Administration degree from New York University. He has about 30 years of experience in the securities and futures industry.

STRICKLAND, John Estmond, GBS, JP, aged 63, has been a Non-executive Director of HKEx since 3 April 2000. Mr Strickland is a former Chairman of The Hongkong and Shanghai Banking Corporation Limited and is a director of the Airport Authority Hong Kong and Esquel Holdings Inc. He is active in numerous community organisations. He has been awarded honorary Doctorate degrees from City University of Hong Kong and Hong Kong Polytechnic University.

WARD, Rodney Gordon, aged 58, has been a Non-executive Director of HKEx since 1 April 2001. Mr Ward is the Chairman of UBS Warburg, Asia. He joined

one of the firm's predecessors, S.G. Warburg, in 1972 and was actively involved in building the firm's business in the U.S. and Canada. In 1990, he was appointed Joint Head of the Corporate Finance Division. In 1994, he moved to Hong Kong as Chairman of S.G. Warburg's operations in Asia Pacific and, following its acquisition by Swiss Bank Corporation, became Chairman of the combined group's business in Asia Pacific and a member of the Group Executive Board of the Bank. In 1997, he was appointed Chairman of the Group's business in Eastern Europe, the Middle East and Africa. From 1998 until December 1999, he was Vice Chairman and Director of Republic Bank of New York and Republic New York Corporation. He rejoined UBS Warburg in his current position in February 2000. He was educated at Cambridge University and attended Yale Law School before joining Simmons & Simmons, the international law firm, which he left in 1972 to join S.G. Warburg. He has over 30 years of experience in the securities industry.

YUE Wai Keung, aged 50, has been a Non-executive Director of HKEx since 3 April 2000. Mr Yue is a dealing director of Luen Fat Securities Company Limited, a vice chairman and a non-executive director of Stockmartnet Holdings Limited, a non-executive director of Prosper eVision Limited as well as a director of numerous other

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privately held securities or financial companies. He was a member of the Council of the Stock Exchange from 1993 to 2000 and the Deputy Chairman of HKSCC from 1997 to 2000. Mr Yue was also a member of the Departmental Advisory Board of Guangdong Academy of Social Science in 1997. Mr Yue has been an Honorary Advisor of the Chamber of Hong Kong Listed Companies Limited since September 2002. He is also a Director of the Hong Kong Stockbrokers Association and has about 30 years of experience in the securities and futures industry.

Senior Management

CHEUNG Kwok Wai, David, aged 53, is the Chief Financial Officer of HKEx. Prior to joining HKEx in April 2000, he was the Chief Financial Officer of Standard Chartered Bank, Hong Kong and North East Asia. He is a member of the American Institute of Certified Public Accountants. Mr Cheung has over 22 years of international experience in the banking and securities industries, including postings as Vice President, First Interstate Bank, London and Controller, Standard Chartered Bank, New York. He has completed the Advanced Management Programme, Templeton, University of Oxford and holds a Bachelor of Science (Accounting) degree and a Master of Business Administration (Finance) degree from the University of Southern California.

FOK Kwong Man, Lawrence, aged 53, is the Deputy Chief Operating Officer of HKEx and is the Chief Executive of the Stock Exchange. Mr Fok joined the Stock Exchange in February 1992 as an Assistant Director of the Listing Division. He was appointed Executive Director of the Listing Division in February 1997 and Senior Executive Director of its Regulatory Affairs Group in November 1998. Mr Fok has over 21 years of experience in financial services and securities regulatory work. Before joining the Stock Exchange he worked for the SFC, the Office of the Commissioner for Securities and Commodities Trading of the Hong Kong Government and other private organisations in areas of corporate finance advisory work, securities dealing, venture capital investment, mainland China trade and investment management. He holds a Bachelor of Science in Engineering degree from the University of Hong Kong, a Master of Business Administration degree from Columbia University, and a Master of Arts (Economics) degree and a Master of Science (Statistics) degree from Stanford University.

GREDE, Frederick John, aged 50, is the Chief Operating Officer of HKEx and Chief Executive of the Futures Exchange. He also serves on HKEx's Executive Committee and Management Committee, and chairs the Company's IT Steering Committee. Additionally, he is a member of the SFC's

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On-Line Trading Working Group and Investor Education Advisory Committee. Before joining HKEx in April 2000, he was the Executive Vice President of Planning and Operations at the Chicago Board of Trade (CBOT). He joined CBOT in 1974 and during his term of employment held various executive positions in both the Administration and Planning Division(s) and the Office of Investigations and Audits. He holds a Bachelor of Science degree in Finance from the University of Illinois, a Master of Business Administration degree from the University of Chicago Graduate School of Business and a Juris Doctor degree from DePaul University School of Law.

REISCH, Walter Anton, aged 56, is Head of the Clearing Business Unit of HKEx and Chief Executive of HKSCC. He joined HKEx on 9 January 2001, after several years of consultancy in financial markets around the world. He was with London Clearing House (formerly ICCH) for 18 years where he held senior management and board positions in Sydney and London. He was subsequently with SunGard Futures in the capacity of Managing Director and with Austraclear in the position of Chief Operating Officer. He has some 29 years of experience in developing and operating exchange trading systems, clearing services, payments systems and back-office services for a number of financial markets.

Company Secretary

MAU Kam Shing, Joseph, aged 44, is the Company Secretary of HKEx and its group of companies. Mr Mau is a Fellow Member of the Association of Chartered Certified Accountants and an Associate Member of the Hong Kong Society of Accountants. He holds a Master of Science (Business Administration) degree from the University of Bath.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

(i) Shares

As at 31 December 2002, the Directors and their respective associates had interests in the shares of HKEx, as recorded in the register maintained by HKEx pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (SDI Ordinance) as follows:

Name of Director	Number of shares held		
	Personal Interests	Corporate Interests	Total
FAN Chor Ho, Paul	-	2,187,000 (note 1)	2,187,000
KWONG Ki Chi	362,000	-	362,000
LEE Jor Hung, Dennis	-	1,610,000 (note 2)	1,610,000
YUE Wai Keung	-	1,000 (note 3)	1,000

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Notes:

1. 2,187,000 shares were owned by Compu-Chart Investment Adviser Limited, a private company in which Mr FAN Chor Ho, Paul holds a 99.99 per cent interest.
2. 1,610,000 shares were owned by DL Brokerage Limited, a private company beneficially wholly owned by Mr LEE Jor Hung, Dannis.
3. 1,000 shares were owned by Luen Fat Securities Company Limited, a private company in which Mr YUE Wai Keung holds a 47.66 per cent interest.

Saved as disclosed above, no interests were held or deemed or taken to be held under the SDI Ordinance by any Director or the Chief Executive of HKEx or their respective associates in any equity or debt securities of HKEx or any of its associated corporations which were required to be notified to HKEx and the Stock Exchange pursuant to Section 28 of the SDI Ordinance or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein.

(ii) Options

As at 31 December 2002, the outstanding number of shares issuable under a share option granted pursuant to the Pre-Listing Scheme to Mr KWONG Ki Chi, a Director of HKEx, was 1,092,126 shares (2001:

1,454,126 shares). The said option was granted on 20 June 2000, and is exercisable between 6 March 2002 to 30 May 2010 at a subscription price of \$7.52 per share. During the year, Mr Kwong had exercised the option and subscribed for 362,000 shares.

Apart from the aforesaid, at no time during the year was HKEx, or its subsidiaries, a party to any arrangement to enable the Directors of HKEx to acquire benefits by means of the acquisition of shares in, or debentures of, HKEx or any other body corporate, and neither the Directors nor the Chief Executive, nor any of their spouses or children under the age of 18, had any interest in, or had been granted, or exercised, any right to subscribe for the securities and options of HKEx and its associated corporation within the meaning of the SDI Ordinance, or had exercised any such rights.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which HKEx or any of its subsidiaries was a party, and in which a Director of HKEx had a material interest, whether directly or indirectly subsisted at the year end or at any time during the year.

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CONNECTED TRANSACTIONS

During the year ended 31 December 2002, the Group had the following connected transactions, details of which are set out below:

(A) For the year ended 31 December 2002, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with the use of (i) the facilities provided by HKEx or its subsidiaries for the trading, clearing and/or settlement of securities and futures products and transactions and (ii) all services offered by HKEx or its subsidiaries which are ancillary, incidental or otherwise related to the foregoing:

- (1) Mr FAN Chor Ho, Paul, a Director of HKEx, was interested in the transactions entered into by Paul Fan Securities Limited, an Exchange Participant in which Mr Fan has a 99.99 per cent interest.
- (2) Mr LEE Jor Hung, Dannis, a Director of HKEx, was interested in the transactions entered into by DL Brokerage Limited, an Exchange Participant which is beneficially wholly owned by Mr Lee.
- (3) Mr LEONG Ka Chai, a Director of HKEx, was interested in the transactions entered into by Roctec

Securities Company Limited and Roctec Futures Trading Company Limited, Exchange Participants in which Mr Leong has a 30 per cent interest in each of the companies.

- (4) Mr YUE Wai Keung, a Director of HKEx, was interested in the transactions entered into by Luen Fat Securities Company Limited, an Exchange Participant in which Mr Yue has a 47.66 per cent interest.

All the above connected transactions were entered into in the ordinary course of business and on normal commercial terms.

(B) For the year ended 31 December 2002, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with HKSCC's arrangement on behalf of a Clearing Participant of a Buy-in Transaction:

- (1) Mr FAN Chor Ho, Paul, a Director of HKEx, was interested in the transactions entered into by Paul Fan Securities Limited in which Mr Fan has a 99.99 per cent interest. For the year ended 31 December 2002, the total consideration of such transactions, which were transacted on normal commercial terms was \$3,873,650.11.

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(2) Mr LEE Jor Hung, Dannis, a Director of HKEx, was interested in the transactions entered into by DL Brokerage Limited beneficially wholly owned by Mr Lee. For the year ended 31 December 2002, the total consideration of such transactions, which were transacted on normal commercial terms was \$237,980.65.

(3) Mr YUE Wai Keung, a Director of HKEx, was interested in the transactions entered into by Luen Fat Securities Company Limited in which Mr Yue has a 47.66 per cent interest. For the year ended 31 December 2002, the total consideration of such transactions, which were transacted on normal commercial terms was \$4,722,968.92.

Two independent Non-executive Directors who have not entered into any connected transactions with the Group have reviewed and confirmed that the connected transactions, as set out above had been entered into by the Group in accordance with the waiver conditions granted by the SFC that:

(a) the connected transactions disclosed above were in the ordinary and usual course of business of the relevant Group company and conducted on an arm's length basis;

(b) in respect of transactions other than Buy-in Transactions, they were in accordance with the rules and regulations of the relevant Group company governing such transactions and where the rules and regulations do not govern those transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;

(c) in respect of transactions which are Buy-in Transactions, they were in accordance with the standard terms and conditions of HKSCC applicable generally to all Buy-in Brokers in such transactions for and on behalf of HKSCC and at the standard commission rate payable by HKSCC in respect of all such Buy-in Transactions; and

(d) the connected transactions were in the opinion of the Directors fair and reasonable so far as the shareholders of HKEx are concerned.

The Auditors of HKEx have also confirmed that:

(a) the connected transactions disclosed above had received approval from the Directors; and

(b) the connected transactions were in accordance with the relevant rules and regulations of the relevant Group company governing fees for the

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applicable facilities, services or goods provided by, or to, the Group and where the rules and regulations did not govern the transaction in full, were in accordance with the standard terms and conditions of the relevant Group company relating to the applicable facilities, services or goods provided by, or to, the Group.

SUBSTANTIAL SHAREHOLDER

The Directors are not aware of any party who was directly or indirectly interested in 10 per cent or more of the issued share capital of HKEx as at 31 December 2002 as recorded in the register required to be kept by HKEx under Section 16(1) of the SDI Ordinance.

MINORITY CONTROLLER

Under the Merger Ordinance, no person shall be or become a Minority Controller, i.e. a person who either alone or with any associate or associates, is entitled to exercise, or control the exercise of 5 per cent or more of the voting power at any general meeting of the recognised exchange controller, except with the approval in writing of the SFC after consultation with the Financial Secretary of the HKSAR.

As of 12 March 2003, two CCASS Participants are holding approximately 29.2 per cent and 11.8 per cent respectively of HKEx's issued share capital. (As of 13 March 2002: two CCASS Participants each held approximately 28.8 per cent and 12.1 per cent of HKEx's issued share capital.) The SFC had granted approval to these two CCASS Participants for being Minority Controllers of HKEx on the basis that the shares are held in custody for their clients.

SHAREHOLDERS' STRUCTURE

An analysis of the shareholders' structure of HKEx for the respective year ended December 2002 and 2001 are set out below:

	No. of Shareholders	%	Aggregated Shareholders	%
As at 31 December 2002				
Corporate	109	7.5	986,639,253	94.5
Individual	1,342	92.5	56,941,593	5.5
Total	<u>1,451</u>	<u>100</u>	<u>1,043,580,846</u>	<u>100</u>
As at 31 December 2001				
Corporate	120	11.5	983,533,103	94.5
Individual	925	88.5	57,131,743	5.5
Total	<u>1,045</u>	<u>100</u>	<u>1,040,664,846</u>	<u>100</u>

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The respective holdings by the top ten shareholders that appeared on the Register of Members of HKEx as at 31 December 2002 were:

Name	Number of shares	% of holding
HKSCC Nominees Ltd	865,294,586	82.92
Sun Hung Kai Investment Services Ltd	8,050,000	0.77
Roctec Futures Trading Co Ltd	5,574,000	0.53
The Bank of East Asia Ltd	4,830,000	0.46
Sun Hung Kai Commodities Ltd	4,180,500	0.40
Phillip Securities (H K) Ltd	4,025,000	0.39
Corporate Brokers Ltd	3,220,000	0.31
Tung Tak Securities (H K) Co Ltd	3,220,000	0.31
Phillip Commodities (H K) Ltd	2,787,000	0.27
Wocom Ltd	2,787,000	0.27

Further analysis of shareholdings as at 31 December 2002 is set out in “Corporate Information” section on page 9.

MAJOR CUSTOMERS AND SUPPLIERS

Contracts with the HKEx’s five largest suppliers combined by value which are not of a capital nature, contributed to less than 30 per cent in value of supplies purchased during the year ended 31

December 2002. HKEx’s five largest customers combined by value contributed to less than 30 per cent in value of the income during the year ended 31 December 2002.

PURCHASE, SALE OR REDEMPTION OF HKEx’S LISTED SECURITIES

During the year ended 31 December 2002, HKEx had not redeemed and neither HKEx nor any of its subsidiaries had purchased or sold any of HKEx’s listed securities.

PROVIDENT FUND SCHEME

Particulars of the provident fund scheme of the Group are set out in note 10 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the 2003 AGM.

On behalf of the Board of Directors
LEE Yeh Kwong, Charles
Chairman

12 March 2003