

# Other Information

*(Financial figures are expressed in Hong Kong Dollar)*

## Board of Directors

Dr Kwok Chi Piu, Bill and Mr Lee Kwan Ho, Vincent Marshall were successfully re-elected by shareholders at the Annual General Meeting held on 12 April 2005 (“2005 AGM”) and their service terms will be approximately three years from 12 April 2005 until the conclusion of the annual general meeting to be held in 2008. On the same day, the Financial Secretary appointed Dr Cheung Kin Tung, Marvin, and re-appointed Messrs Fan Hung Ling, Henry and Fong Hup as Government Appointed Directors each for a term of approximately two years from 12 April 2005 until the conclusion of the annual general meeting to be held in 2007. Mr Leong Ka Chai, a Government Appointed Director, retired after the conclusion of the 2005 AGM. The Board takes this opportunity to express its appreciation to Mr Leong for his invaluable contributions, advice, and support rendered to Hong Kong Exchanges and Clearing Limited (“HKEx”) over the past years.

Members of the Board are independent non-executive Directors with the exception of the Chief Executive who is an ex-officio Board member and the only executive Director of HKEx. Four of the independent non-executive Directors are Certified Public Accountants with substantial experience in financial matters and three of them are members of the Audit Committee.

## Interim Dividend

The Board of Directors has resolved to declare an interim dividend of \$0.49 per share (2004: \$0.43 per share) for the year ending 31 December 2005, amounting to a total of about \$520 million (2004: \$454 million).

## Share Option Schemes

On 31 May 2000, the Pre-Listing Share Option Scheme (“Pre-Listing Scheme”) and the Post-Listing Share Option Scheme (“Post-Listing Scheme”) were approved by shareholders under which the Directors of HKEx may, at their discretion, offer any employee (including any executive Director) of HKEx or of any of its subsidiaries, options to subscribe for shares in HKEx subject to the terms and conditions stipulated in the two schemes.

The Post-Listing Scheme was subsequently amended by shareholders on 17 April 2002 to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) effective 1 September 2001.

As at 30 June 2005, the total number of shares available for issue, save for those granted but yet to be exercised, under the Pre-Listing Scheme and the Post-Listing Scheme, was 62,376,484 which represented about 5.88 per cent of the issued share capital of HKEx.

Details of the share options outstanding as at 30 June 2005 under the Pre-Listing Scheme and the Post-Listing Scheme were as follows:

### Pre-Listing Scheme

Date of Grant	Exercise Price	Number of shares issuable under the options granted			As at 30 June 2005	Exercise Period
		As at 1 January 2005	Issued upon subscription during the six months ended 30 June 2005	Lapsed during the six months ended 30 June 2005		
<b>Employees</b> (note 1)						
20 June 2000	\$6.88	6,680,000	3,742,000 (note 2)	–	2,938,000	6 March 2002- 30 May 2010 (note 3)

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 of Hong Kong Limited (“Stock Exchange”).

### Post-Listing Scheme

Date of Grant	Exercise Price	Number of shares issuable under the options granted			As at 30 June 2005	Exercise Period (note 5)	
		As at 1 January 2005	Granted during the six months ended 30 June 2005	Issued upon subscription during the six months ended 30 June 2005			Lapsed during the six months ended 30 June 2005
<b>Director</b> (note 4)							
2 May 2003	\$8.28	3,280,000	–	820,000 (note 6)	–	2,460,000	2 May 2005- 1 May 2013
<b>Employees</b> (note 1)							
14 August 2003	\$12.45	1,094,000	–	–	–	1,094,000	14 August 2005- 13 August 2013
18 August 2003	\$12.49	1,968,000	–	–	–	1,968,000	18 August 2005- 17 August 2013
15 January 2004	\$17.30	1,094,000	–	–	–	1,094,000	15 January 2006- 14 January 2014
31 March 2004	\$16.96	5,582,000	–	–	66,000	5,516,000	31 March 2006- 30 March 2014
17 May 2004	\$15.91	200,000	–	–	–	200,000	17 May 2006- 16 May 2014
26 January 2005	\$19.25 (note 7)	–	5,884,000	–	–	5,884,000	26 January 2007- 25 January 2015

No option granted under these two share option schemes was cancelled during the six months ended 30 June 2005.

## Notes:

1. *Employees working under employment contracts that were regarded as “continuous contracts” for the purpose of the Employment Ordinance of Hong Kong.*
2. *The weighted average closing price immediately before the dates on which the options were exercised was \$19.90.*
3. *Options granted are exercisable between 6 March 2002 and 30 May 2010, in tranches of 25 per cent each reaching 100 per cent as from 6 March 2005.*
4. *The option was granted to Mr Chow Man Yiu, Paul, a Director and the Chief Executive of HKEx.*
5. *Options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of grant.*
6. *The closing price immediately before the date on which the option was exercised was \$19.15.*
7. *The closing price immediately before the date of grant was \$19.05.*
8. *HKEx has used the Binomial Option Pricing Model for estimating the fair value of options issued under the Post-Listing Scheme. The assumptions used in the calculation are:*
  - *Risk-free rate of return – the yield of 10-year Exchange Fund Notes*
  - *Expected volatility of share price – annualised volatility for 1 year immediately preceding the grant date*
  - *Expected dividend yield – annual dividend (excluding special dividend) of the most recent financial year and the closing price on grant date*

*The amount written off in the profit and loss account for the six months ended 30 June 2005 was \$11,345,000 (30 June 2004: \$5,902,000).*

*According to the Binomial Option Pricing Model, the value of the option granted on 26 January 2005 was \$26,183,800. For details, please refer to note 22 to the condensed consolidated accounts.*

*The Binomial Option Pricing Model was developed to estimate the fair value of American style options. It is one of the commonly used models to estimate the fair value of an option which can be exercised before the expiry of the option period. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.*

## Directors' and Chief Executive's Interests and Short Positions

As at 30 June 2005, the Directors, the Chief Executive and their respective associates had the following interests in the shares and underlying shares of HKEx, as recorded in the register maintained by HKEx pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"):

### (A) Interests in the shares and underlying shares of HKEx

Name of Director	Number of Shares/Underlying Shares Held				Total	% of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Chow Man Yiu, Paul	3,280,000 (note 1)	–	–	–	3,280,000	0.31
Lee Jor Hung, Dannis	–	–	1,610,000 (note 2)	–	1,610,000	0.15
Lee Kwan Ho, Vincent Marshall	–	–	–	820,000 (note 3)	820,000	0.08
John Estmond Strickland	18,000 (note 4)	–	–	–	18,000	0.00
David Michael Webb	2 (note 5)	2 (note 6)	6 (note 7)	–	10	0.00

#### Notes:

1. Mr Chow, a Director and the Chief Executive of HKEx, has beneficial interests in 820,000 shares, and 2,460,000 underlying shares in respect of the share option granted to him pursuant to the Post-Listing Scheme on 2 May 2003. The said option is exercisable between 2 May 2005 and 1 May 2013 at an exercise price of \$8.28 per share. The number of shares issuable under the option granted and the exercise price had been adjusted in accordance with the resolution passed by shareholders at the annual general meeting held in 2004.
2. 1,610,000 shares were owned by DL Brokerage Limited, a private company beneficially wholly-owned by Mr Lee.
3. Mr Lee has interest in 560,000 shares, and 260,000 underlying shares through listed derivatives (physically settled options), held by a corporation controlled by Lee Tung Hai Family Trust, a discretionary trust of which Mr Lee is a beneficiary.
4. The shares were held by Mr Strickland as beneficial owner.
5. The shares were held by Mr Webb as beneficial owner.
6. The shares were owned by the spouse of Mr Webb.
7. The shares were owned by Fundamental Consultants Limited, Member One Limited and Member Two Limited which are under the control of Mr Webb.

**(B) Short positions in the shares and underlying shares of HKEx**

As at 30 June 2005, Mr Lee Kwan Ho, Vincent Marshall was, under the SFO, interested in an aggregate short positions of 560,000 underlying shares of HKEx, representing 0.05 per cent of the total issued share capital of HKEx, which arose through certain listed equity derivatives (physically settled options) held by a corporation controlled by Lee Tung Hai Family Trust, a discretionary trust of which Mr Lee is a beneficiary.

Save for those disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or the Chief Executive of HKEx or their respective associates in the shares, underlying shares and debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to HKEx and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the Directors and the Chief Executive (including their spouses and children under the age of 18) had, as at 30 June 2005, any interest in, or had been granted any right to subscribe for the securities and options of HKEx and its associated corporations within the meaning of the SFO, or had exercised any such rights.

**Disclosable Interests and Short Positions of Shareholders under the SFO**

As at 30 June 2005, the Directors are not aware of any party who was directly or indirectly interested in five per cent or more of the issued share capital of HKEx, as recorded in the register required to be kept by HKEx under Section 336 of the SFO.

**Minority Controllers**

Under Section 61 of the SFO, 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 five 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.

The SFC has so far granted approval to five entities to be Minority Controllers of HKEx, on the basis that the shares are held by them in custody for their clients.

As at 30 June 2005, the Minority Controllers were in aggregate holding 54.7 per cent of the issued share capital of HKEx (30 June 2004: 52.9 per cent).

## Corporate Governance

HKEx is committed to building and maintaining high standards of corporate governance. HKEx applied the principles and complied with all requirements set out in the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 of the Listing Rules, with certain deviations from code provisions A.4.1 and A.4.2 in respect of the service term and rotation of Directors, throughout the review period.

The code provisions A.4.1 and A.4.2 provide that (a) non-executive directors should be appointed for specific terms, subject to re-election, and (b) all directors appointed to fill casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Details of the deviations were set out in the Corporate Governance Report of HKEx’s 2004 Annual Report issued in March 2005.

To ensure stricter compliance with the CG Code, relevant amendments to the Articles of Association were proposed and approved by shareholders at the 2005 AGM and subsequently approved by the SFC on 18 April 2005 pursuant to Section 67 of the SFO.

Following the effectiveness of the amendments to the Articles, and shareholders’ resolutions passed at the 2005 AGM, HKEx fully complies with the CG Code.

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group. In the preparation of the accounts for the year ended 31 December 2004, HKEx has early adopted various new Hong Kong Financial Reporting Standards which are aligned with the requirements of the International Financial Reporting Standards in all material respects. The accounting policies and methods of computation used in the preparation of the accounts for the six months ended 30 June 2005 are consistent with those used in the annual accounts for the year ended 31 December 2004.

The Board acknowledges its ultimate responsibility for setting up a robust internal control system for the Group to safeguard the shareholders’ investment and its assets. According to the CG Code, the Board has annually conducted review of the effectiveness of HKEx’s system of internal control. The Audit Committee has been considering alternative approaches to formalise such annual review framework. The Board is satisfied that the Group has fully complied with the code provisions on internal controls in the first half of 2005 as set forth in the CG Code.

## Corporate Governance Assessments

In March 2005, GovernanceMetrics International announced the new ratings of HKEx, the scores so assigned to HKEx were 7.0 (Global, 2004: 6.0) and 9.5 (Home Market, 2004: 9.0) out of the full score of 10.0.

In the joint announcement issued by FTSE and Institutional Shareholders Services (“ISS”) on 14 April 2005 regarding the newly introduced FTSE ISS Corporate Governance Index Series, HKEx was mentioned as one of the five companies in Asia, which exhibited highly ranked corporate governance practice. The ratings covered over 2,200 companies from 24 countries.

In addition, the scores under the ISS Corporate Governance Quotient (CGQ) ratings recently assigned to HKEx on 9 August 2005 were 92.6 (Index ranking, as at 8 January 2005: 80.5) and 96.3 (Industry ranking, as at 8 January 2005: 84.1). The scores suggested that HKEx outperformed 92.6% of the companies in the ISS Development Ex-US Universe Index and 96.3% of the companies in the Diversified Financial group.

HKEx had been mentioned as one of the top best performing companies under the HKIoD Corporate Governance Score-card organised by The Hong Kong Institute of Directors and executed by the City University of Hong Kong in 2004. The project aimed at assessing the quality of corporate governance practices of Hong Kong listed companies and had involved 168 major companies in Hong Kong.

HKEx, as the exchange controller, would continue to work closely with the Government, the SFC, listed issuers, market participants and users to promote and implement corporate governance reforms in Hong Kong.

## Succession Plan for Senior Executives and Organisational Changes

As part of HKEx's succession plan, a number of senior executives have been assigned new responsibilities to further enrich their exposures and management experience:

- Mr Bryan Chan (formerly Deputy Head of Clearing Division) has been appointed Head of Information Services;
- Mr Roger Lee (formerly Head of Information Services Department) has been appointed Senior Vice President of Cash Market; and
- Mr Derek Tam (formerly Senior Vice President of Cash Market) has been appointed Senior Vice President of Participant Admission and Surveillance.

In addition, in anticipation of the increasing investor services and preparation for the expanded public exhibition area in the Trading Hall, the Investor Services Department under the Business Development and Investor Services Division ("BDIS") has been transferred to the Corporate Communications Department in order to streamline the provision of services to investors and the general public.

BDIS has been renamed Business Development Division effective 1 August 2005 with the focus on marketing and liaison functions, in particular through the Beijing Representative Office and the special representatives in Shanghai and Guangzhou.

## Compliance with the Model Code

HKEx has adopted the Model Code as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by HKEx, that they fully complied with the Model Code throughout the review period.

## Purchase, Sale or Redemption of HKEx's Listed Securities

During the six months ended 30 June 2005, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold any of HKEx's listed securities.

By Order of the Board  
**Hong Kong Exchanges and Clearing Limited**  
**Lee Yeh Kwong, Charles**  
*Chairman*

Hong Kong, 17 August 2005