

Other Information

(Financial figures are expressed in Hong Kong dollars)



THE CHAIRMAN AND BOARD OF DIRECTORS

At the annual general meeting held on 31 March 2004 (AGM), shareholders elected Mr John Estmond Strickland and re-elected Mr Wong Sai Hung, Oscar as Directors. Mr Strickland, a former Public Interest Director, was appointed by the Board last year to fill a vacancy on the Board, while Mr Wong was elected to the Board at last year's annual general meeting. They both retired at the conclusion of the AGM in accordance with the Articles of Association, and were eligible for re-election. The Financial Secretary had also on the same day reappointed Mr Lee Yeh Kwong, Charles, Mr Tim Freshwater and Dr Lo Ka Shui as Public Interest Directors for a term of two years from 1 April 2004 until the conclusion of the annual general meeting to be held in 2006.

At the board meeting held on 1 April 2004, the Board also reappointed Mr Lee Yeh Kwong, Charles as the Chairman for a term to be co-terminous with his term of directorship, and his appointment was subsequently approved by the Chief Executive of the Hong Kong Special Administrative Region (HKSAR) in accordance with Section 69 of the SFO on 2 April 2004.

INTERIM DIVIDEND AND CLOSE OF REGISTER

The Board of Directors has resolved to declare an interim dividend of \$0.43 per share (2003: \$0.18 per share) for the year ending 31 December 2004, amounting to a total of about \$454 million (2003: \$188 million).

The share register will be closed from Tuesday, 7 September 2004 to Thursday, 9 September 2004, both dates inclusive, during which period no transfer of shares will be registered. Dividend warrants will be despatched to shareholders on or about Monday, 13 September 2004. In order to qualify for the interim 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 Monday, 6 September 2004.

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. 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.



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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 (Listing Rules) effected on 1 September 2001.

At the AGM, shareholders approved the adjustments to the subscription price and the contract size of the unexercised options granted under the Pre-Listing Scheme and those granted under the Post-Listing Scheme prior to the AGM. The adjusted subscription price and contract size of the relevant unexercised options are specifically set out in notes 2 and 7 below.

As at 30 June 2004, the total number of shares available for issue was 67,940,484 which represented about 6.43 per cent of the issued share capital of HKEx. Since the first grant of options in 2000, options for the issue of 12,761,465 shares had lapsed up to and including 30 June 2004. No options granted under the Pre-Listing Scheme and Post-Listing Scheme were cancelled during the six months ended 30 June 2004.

Details of the share options outstanding as at 30 June 2004 under the Pre-Listing Scheme and Post-Listing Scheme were as follows:

(a) Pre-Listing Scheme

	Date of grant	Exercise price	No. of shares				Exercise period
			issuable as at 1 January 2004	issued during the six months ended 30 June 2004	lapsed during the six months ended 30 June 2004	issuable as at 30 June 2004	
Aggregate total for employees (note 1)	20 June 2000	\$6.88 (note 2)	14,171,626	7,474,000 (note 3)	362,829 (note 4)	7,008,000 (note 2)	6 March 2002 – 30 May 2010 (note 5)

Other Information

(b) Post-Listing Scheme

Date of grant	Exercise price	No. of shares issuable under the options granted	Option value as at the date of grant	No. of shares			Exercise period
				issued during the six months ended 30 June 2004	lapsed during the six months ended 30 June 2004	issuable as at 30 June 2004	
Director (note 6)							
2 May 2003	\$8.28 (note 7)	3,280,000 (note 7)	\$8,036,000 (note 8)	–	–	3,280,000	2 May 2005 – 1 May 2013 (note 9)
Employees (note 1)							
14 August 2003	\$12.45 (note 7)	1,094,000 (note 7)	\$4,561,980 (note 8)	–	–	1,094,000	14 August 2005 – 13 August 2013 (note 10)
18 August 2003	\$12.49 (note 7)	1,968,000 (note 7)	\$8,226,240 (note 8)	–	–	1,968,000	18 August 2005 – 17 August 2013 (note 11)
15 January 2004	\$17.30 (note 7)	1,094,000 (note 7)	\$6,564,000 (note 8)	–	–	1,094,000	15 January 2006 – 14 January 2014 (note 12)
31 March 2004 (note 13)	\$16.96 (note 14)	5,688,000	\$32,250,960 (note 8)	–	14,000 (note 15)	5,674,000	31 March 2006 – 30 March 2014 (note 16)
17 May 2004 (note 13)	\$15.91 (note 17)	200,000	\$1,156,000 (note 8)	–	–	200,000	17 May 2006 – 16 May 2014 (note 18)

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Notes:

1. Employees working under employment contracts that were regarded as “continuous contracts” for the purpose of the Employment Ordinance of Hong Kong.
2. At the AGM, shareholders of HKEx approved the adjustments to the subscription price and the contract size of the unexercised options granted under the Pre-Listing Scheme and those granted under the Post-Listing Scheme prior to the AGM. The subscription price of the shares issuable under the unexercised options granted under the Pre-Listing Scheme was adjusted from \$7.52 per share to \$6.88 per share. The aggregate contract size of the unexercised options granted was adjusted, resulting in the additional grant of 673,203 shares. After taking into account the shares issued and lapsed under the Pre-Listing Scheme during the six months ended 30 June 2004, the number of shares issuable as at 30 June 2004 was 7,008,000.
3. The weighted average closing price immediately before the dates on which the options were exercised was \$20.10.
4. Options lapsed in accordance with the terms of the Pre-Listing Scheme due to resignation of employees.
5. 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.
6. The option was granted to Mr Chow Man Yiu, Paul, a Director and the Chief Executive of HKEx.
7. At the AGM, shareholders approved the adjustments to the subscription price and the contract size of the unexercised options granted under the Post-Listing Scheme prior to the AGM. Adjustments made to the four unexercised options granted under the Post-Listing Scheme prior to the AGM are as follows:

Date of grant	Exercise price before adjustment	Exercise price after adjustment	No. of shares issuable under the options granted before adjustment	No. of shares issuable under the options granted after adjustment	Closing price immediately before the date on which the option was granted	Closing price immediately before the date on which the option was adjusted
2 May 2003	\$9.05	\$8.28	3,000,000	3,280,000	\$9.10	\$16.85
14 August 2003	\$13.60	\$12.45	1,000,000	1,094,000	\$13.95	\$16.85
18 August 2003	\$13.65	\$12.49	1,800,000	1,968,000	\$13.35	\$16.85
15 January 2004	\$18.90	\$17.30	1,000,000	1,094,000	\$19.00	\$16.85

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8. According to the Binomial Option Pricing Model, the value of the options granted as at the date of grant and the revaluation of the adjusted options (as approved by shareholders at the AGM) were as follows:

	Date of grant					
	2 May 2003	14 August 2003	18 August 2003	15 January 2004	31 March 2004	17 May 2004
<u>Option value</u>						
Before adjustment	\$8,010,000	\$4,560,000	\$8,226,000	\$6,550,000	\$32,250,960	\$1,156,000
After adjustment	\$8,036,000	\$4,561,980	\$8,226,240	\$6,564,000	(note 13)	(note 13)
<u>Variables</u>						
Risk Free Rate (being the yield of 10-year Exchange Fund Notes)	4.3% as at 30 April 2003	4.84% as at 14 August 2003	4.76% as at 18 August 2003	3.96% as at 15 January 2004	3.78% as at 31 March 2004	4.55% as at 17 May 2004
Expected Volatility (annualised volatility for 1 year immediately preceding the grant date)	36%	36%	36%	34%	35%	37%
Expiration of the option	10 years from 2 May 2003	10 years from 14 August 2003	10 years from 18 August 2003	10 years from 15 January 2004	10 years from 31 March 2004	10 years from 17 May 2004
Expected ordinary dividend	5.6% (2003 prospective dividend yield of the shares as at 2 May 2003)	4.49% (2003 prospective dividend yield of the shares as at 14 August 2003)	4.47% (2003 prospective dividend yield of the shares as at 18 August 2003)	3.23% (2004 prospective dividend yield of the shares as at 15 January 2004)	3.59% (2004 prospective dividend yield of the shares as at 31 March 2004)	3.77% (2004 prospective dividend yield of the shares as at 17 May 2004)

The above calculation is based on the assumption of no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in HKEx over the respective periods.

The Binomial Option Pricing Model is 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.

9. Option granted is exercisable between 2 May 2005 to 1 May 2013, in tranches of 25 per cent each reaching 100 per cent as from 2 May 2008.
10. Option granted is exercisable between 14 August 2005 to 13 August 2013, in tranches of 25 per cent each reaching 100 per cent as from 14 August 2008.
11. Option granted is exercisable between 18 August 2005 to 17 August 2013, in tranches of 25 per cent each reaching 100 per cent as from 18 August 2008.
12. Option granted is exercisable between 15 January 2006 to 14 January 2014, in tranches of 25 per cent each reaching 100 per cent as from 15 January 2009.
13. Options granted on or after 31 March 2004 under the Post-Listing Scheme, and are not subject to the adjustments as referred to in note 7.

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14. The closing price immediately before the date on which the options were granted was \$16.85.
15. Options lapsed in accordance with the terms of the Post-Listing Scheme due to resignation of employees.
16. Options granted are exercisable between 31 March 2006 to 30 March 2014, in tranches of 25 per cent each reaching 100 per cent as from 31 March 2009.
17. The closing price immediately before the date on which the options were granted was \$15.55.
18. Options granted are exercisable between 17 May 2006 to 16 May 2014, in tranches of 25 per cent each reaching 100 per cent as from 17 May 2009.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at 30 June 2004, 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 SFO:

(i) Shares

Name of Director	Number of shares held			Total
	Personal Interests	Family Interests	Corporate Interests	
Lee Jor Hung, Dannis	–	–	1,610,000 <i>(note 1)</i>	1,610,000
David Michael Webb	2 <i>(note 2)</i>	2 <i>(note 3)</i>	6 <i>(note 4)</i>	10
John Estmond Strickland	18,000 <i>(note 5)</i>	–	–	18,000

Notes:

1. 1,610,000 shares were owned by DL Brokerage Limited, a private company beneficially wholly-owned by Mr Lee Jor Hung, Dannis, representing approximately 0.15 per cent of the issued share capital of HKEx.
2. The shares held by Mr David Michael Webb as beneficial owner represent approximately 0.00 per cent of the issued share capital of HKEx.
3. The shares were owned by the spouse of Mr David Michael Webb, representing approximately 0.00 per cent of the issued share capital of HKEx.

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4. The shares were owned by Fundamental Consultants Limited, Member One Limited and Member Two Limited which are under the control of Mr David Michael Webb, representing approximately 0.00 per cent of the issued share capital of HKEx.
5. The shares held by Mr John Estmond Strickland as beneficial owner represent approximately 0.00 per cent of the issued share capital of HKEx.

(ii) Underlying Shares

As at 30 June 2004, the outstanding number of shares issuable under a share option granted pursuant to the Post-Listing Scheme to Mr Chow Man Yiu, Paul, a Director and the Chief Executive of HKEx, was 3,280,000, which represents approximately 0.31 per cent of the issued share capital of HKEx. The said option was granted on 2 May 2003, and 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 have been adjusted in accordance with the resolution passed by shareholders at the AGM. Please refer to note 7 under “Share Option Schemes” for more information.

Other than the holdings 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 2004, 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 2004, the Directors are not aware of any party who was directly or indirectly interested in 5 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.

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MINORITY CONTROLLERS

Under 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 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.

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 2004, the Minority Controllers were in aggregate holding 52.9 per cent of the issued share capital of HKEx (30 June 2003: 48.0 per cent).

CONTINUING CONNECTED TRANSACTION

On 5 February 2003, the Futures Exchange as the tenant entered into a tenancy agreement with Shine Hill Development Limited (Shine Hill) as the landlord (the Lease). The Futures Exchange is a wholly-owned subsidiary of HKEx. Shine Hill is a subsidiary of Great Eagle Holdings Limited (Great Eagle). Dr Lo Ka Shui is an independent non-executive director of HKEx and the managing director of Great Eagle. Pursuant to the revised Listing Rules that took effect from 31 March 2004, Shine Hill becomes an associate of Dr Lo Ka Shui. The Lease was entered into in the ordinary and usual course of business of HKEx for a period of two years commencing 1 January 2003. The premises of Suites 501-3 (including the store room on the 5th Floor), 1101 & 1109-11, Asia Pacific Finance Tower, Citibank Plaza, 3 Garden Road, Hong Kong (the Premises) under the Lease are used by the Futures Exchange as offices. The lettable area of the Premises is in a total of 10,348 square feet. The rent and management charges payable to Shine Hill per calendar month are respectively \$285,604.80 and \$62,812.36 (subject to increase at any time during the continuance of the Lease).

The Lease constitutes a continuing connected transaction under Rule 14A.14 of the Listing Rules (the Transaction). The Transaction was an arm's length transaction entered into on normal commercial terms. The rental payments, including air conditioning and cleaning service charges, for 2003 and the six-month period ended 30 June 2004 amounted to \$4,487,432 (as reported in the 2003 Annual Report under "Material Related Party Transactions") and \$1,980,100 respectively (six months ended 30 June 2003: \$1,929,427).

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Since the total annual rental payment under the Lease represents less than 2.5 per cent of the applicable percentage ratios of HKEx as defined in the Listing Rules, the Transaction is exempt from the requirement of having to seek independent shareholders' approval and will be reported in the next published annual report and accounts in accordance with Rule 14A.34 of the Listing Rules, and included in the results announcement for the six months ended 30 June 2004.

CORPORATE GOVERNANCE

HKEx is committed to maintaining and building high standards of corporate governance. 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. Three of the independent non-executive directors are qualified accountants with substantial experience in financial matters.

None of the directors of HKEx is aware of information that would reasonably indicate that HKEx is not, or was not for any part of the six-month period to 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

For the six-month period to 30 June 2004, HKEx has adopted the Model Code as set out in Appendix 10 to the Listing Rules. HKEx has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2004, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

PURCHASE, SALE OR REDEMPTION OF HKEx'S LISTED SECURITIES

During the six months ended 30 June 2004, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold any of HKEx's listed securities.