Review of Operations

CHOW Man Yiu, Paul
Director and Chief Executive

(Financial figures are expressed in Hong Kong dollars)

Financial Review

Hong Kong's economy improved in the second half of the year after slowing in the second quarter due to the outbreak of SARS (Severe Acute Respiratory Syndrome) and other factors. Better economic conditions led to improved investor sentiment and a significant increase in market activity along with stronger revenue for the Group as reflected in the financial results reported by the chairman.

Operational Review

We continued working to raise the quality of our markets. We reorganised our operations to make them more efficient, and we completed a thorough review of ongoing projects to ensure we focus on our most important initiatives.

Listing Matters

The Listing, Regulation and Risk Management Unit was reorganised in June. The Exchange Business Unit is now responsible for Participant admission and surveillance. Risk Management is conducted by the Finance, Treasury, Administration and Risk Management Unit, and Listing is dedicated to listing matters and sponsor regulation. After the changes, Listing was reorganised into three functional teams to increase effectiveness and efficiency. They comprise Compliance and Monitoring, Enforcement and IPO (initial pubic offering) Transactions. Apart from the three core functional teams, there are various sub-teams which are primarily responsible for providing advice and support in accounting and legal matters, policy coordination, quality assurance and other areas.

Listing accepted a total of 101 applications for listing on The Stock Exchange of Hong Kong Limited (Stock Exchange) in 2003. Fifty-two of the applications, or 51 per cent, were for listings on the Main Board while 49 of the applications, or 49 per cent, were for listings on the Growth Enterprise Market (GEM). Of the 223 listing applications considered in 2003, comprising listing applications accepted during the year and 122 active listing applications submitted in 2002 in respect of which the vetting was carried over into 2003, 73 had been approved and subsequently 46 issuers had listed on the Main Board and 27 listed on the GEM as at 31 December. Of the rest, eight applications had been granted approval in principle but had not yet listed, 12 applications had been granted approval in principle but the approvals had since lapsed as the companies had not yet been listed by the respective expiry dates of the approval, seven applications were rejected, seven had been withdrawn, 65 applications had lapsed prior to approval in principle to list being granted and 51 applications remained active and were being processed.

During the year Listing vetted 8,938 listed company announcements and 1,773 circulars. They conducted enquiries in 8,305 cases in the light of share price and trading volume movements and as a result 3,801 clarifications announcements were published by listed issuers.

During the same period, Listing handled 170 complaints about the conduct of issuers or their directors. Arising from these complaints, 24 cases required remedial action to be taken by listed issuers (usually the publication of further information) and another 21 cases were either referred to the Listing Enforcement team for further investigation in contemplation of disciplinary action or were referred to the Securities and Futures Commission (SFC).

Investigations were completed on 178 cases involving possible breaches of the Listing Rules of the Main Board and GEM involving listed issuers and/or their directors. This led to four public censures, eight public statements of criticism, and three private reprimands by the Disciplinary Committee for breaches of the Listing Rules relating to failure to disclose price sensitive information; failure to obtain shareholder approval prior to entering into connected party transactions; late financial reporting; failure to maintain a public float; failure to comply with the dealing restrictions for share repurchases; and failure to meet the standards of conduct required of directors. A further 113 cases relating to minor breaches were dealt with by the issue of warning letters and 21 cases relating to conduct inconsistent with Listing Rules requirements were dealt with by issuing caution letters.

In August 2003, a listed company sought judicial review of procedural directions issued by the chairman of the Listing (Disciplinary) Committee in disciplinary proceedings against the listed company. The judicial review hearing was held in February 2004 and judgement reserved. The Stock Exchange opposed the listed company's application for judicial review and has sought to recover its costs in responding to the application. On the advice of its legal advisers, the Stock Exchange considers that there are good grounds to believe that the listed company's application will not be successful. The maximum liability in respect of legal costs to be payable to the listed company in the event its application against the Stock Exchange is successful is not expected to be material.

The dual filing regime has been working smoothly since its implementation on 1 April last year under the Securities and Futures (Stock Market Listing) Rules of the Securities and Futures Ordinance (SFO).

We jointly published a consultation paper with the SFC in May on the regulation of sponsors and independent financial advisers. The paper included proposed measures to tighten the regulation of IPO intermediaries. The submissions were published in November and we are working with the SFC on the way forward.

Listing completed drafting the rule amendments stemming from our Corporate Governance consultation and the consultation on initial listing criteria and continuing obligations. The rule amendments were published at the end of January this year together the draft Corporate Governance Code and Corporate Governance Report. We have given market participants an opportunity to comment on the Code and the timetable for its implementation. Listing is working on proposals arising from our market consultation on continuing listing criteria and related issues. We plan to announce the way forward later this year.

On 14 January this year, we submitted our views on the Government's consultation paper on "Proposals to Enhance the Regulation of Listing". We support a modified version of the model that retains the present division of functions between the SFC and HKEx, except that the SFC would be the ultimate enforcement agency for new statutory obligations. In order to sharpen the teeth of the regulatory regime for deterring and dealing with corporate misconduct, Hong Kong's statutory framework should be updated through primary legislation. Our proposed modifications would improve the present system by clarifying roles and accountability and making the system more efficient. The present system for regulating listed companies is generally accepted to have served Hong Kong well. There has been no experience which shows that fundamental change in the structure is necessary. The institutionalised checks and balances in the present three-tier system are of great value, especially in the Hong Kong context; they would be practically impossible to replace; to dismantle them would be likely to damage Hong Kong as a capital formation centre.

Ongoing projects relating to listing matters include revamping the listing committees' roles in decision-making and related issues, and improving disciplinary processes. In addition, Listing will take proposals to the Listing Committee arising from our market consultation on continuing listing criteria and related issues, and we will announce the way forward later this year.

Securities Market

Total funds raised amounted to $214 billion. A total of 73 companies were listed in 2003, comprising 46 on the Main Board (of which six were the transfer of listings from GEM), and 27 on GEM. Thirty-eight of the 73 new listings, or more than half, were categorised as Mainland enterprises, which comprise H-share, red-chip and private companies. Total funds raised in IPOs amounted to $59 billion, $57 billion on the Main Board and $2 billion on GEM. Mainland enterprises represented 88 per cent of all IPO funds raised. Post-issue fund raising totalled an additional $155 billion, made up of $152 billion on the Main Board and $3 billion on GEM.

Total market turnover was $2,584 billion, the third highest on record, compared with $1,643 billion in 2002. Turnover attributable to Mainland enterprises was 46 per cent of the total equity turnover. Warrant turnover on the Main Board increased by 132 per cent compared with that in 2002 and represented more than 10 per cent of total Main Board turnover. In October, derivative warrants set a monthly turnover record of $47.8 billion.

There were 688 warrants listed on the Stock Exchange during the year and one Exchange Traded Fund (ETF). The ETF, the third ETF listed on the Exchange, is designed to track the performance of the Hang Seng China Enterprises Index, which comprises H shares.

Under our programme that allows Stock Exchange Participants to increase the order throughput rate, or throttle rate, of their Open Gateways to the Stock Exchange's trading system, AMS/3 (Third Generation Automatic Order Matching and Execution System), 39 Participants subscribed to increase their throttle rates by a total of 120 units.

Derivatives Market

Futures and Options turnover rose 31.9 per cent from 2002 to 14,546,213 contracts, a record high. Hang Seng Index (HSI) Futures' trading volume of 6,800,360 contracts led the market, followed by stock options, with 4,220,638 contracts traded. Mini-HSI Futures and HSI Options were also among the top products in terms of trading volume. HSI Options volume rose 97.9 per cent from the previous year, while HSI Futures volume rose 41.6 per cent. Both contracts set one-day volume records along with Mini-HSI Futures, Dow Jones Industrial Average Futures and Three-year Exchange Fund Note Futures. In addition, HSI Options and Mini-HSI Futures set open interest records.

In October, we upgraded the software used for our derivatives trading system, the Hong Kong Futures Automated Trading System (HKATS), as part of our continuing efforts to further strengthen our market infrastructure. The new software improved the performance and stability of HKATS, and made it more efficient. The upgrade was also a core part of the DCASS (Derivatives Clearing and Settlement System) project and a prerequisite for the introduction of DCASS.

We introduced H-shares Index Futures on 8 December to meet market demand created by the rapid growth of the H-shares market, and to offer an effective trading and hedging instrument for investors interested in Mainland China enterprises listed in Hong Kong. Trading volume rose from 1,419 contracts on the first day to 4,824 on 30 December, the last trading day for the December contract, while open interest rose from 572 contracts to 7,711. Average daily trading volume between 8 and 31 December was 3,196 contracts.

We are planning to introduce H-shares Index Options this year.

Clearing and Settlement

Average daily settlement efficiency of continuous net settlement stock positions stood at 99.69 per cent on settlement day, rising to 99.97 per cent on the following day.

We completed the rollout of CCASS/3, the upgraded Central Clearing and Settlement System (CCASS), on 26 May with the introduction of the Participant Gateway. CCASS/3 is capable of supporting multiple markets with different settlement cycles as well as extended operating hours. It can also facilitate straight-through processing.

On 23 October, we published our Consultation Paper on a Proposed Operational Model for a Scripless Securities Market. The proposed operational model is mainly based on the scripless market model set out in a consultation paper issued in

February 2002 by the SFC. Under that model, the complete register of members comprises an Issuer Register and a CCASS Register to be maintained respectively by issuers or their appointed share registrars and Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of HKEx. We are reviewing the 26 responses HKEx received on the consultation paper. We are also continuing our discussions on the issue with the SFC and market participants.

We have identified several potential enhancements to the Investor Participant (IP) Accounts in CCASS which we plan to implement later this year. Separately, we are working on an enhanced IP model suitable for the local environment and we will consult the market on the proposed model.

We plan to introduce DCASS in the early second quarter of this year. DCASS will replace the two systems currently in use to clear and settle futures and options contracts trading in our markets, enabling us to consolidate the clearing and settlement of all our derivatives market products on a single platform. PRiME (Portfolio Risk Margining System of HKEx), which is based on SPAN (Standard Portfolio Analysis of Risk), will be introduced with DCASS to serve as the clearing house margining methodology for all futures and options contracts, replacing the methods currently in use. PRiME will enable the derivatives clearing houses to assess and manage their exposure to their Participants more accurately. Several briefings were held in October and November to explain the features of DCASS and PRiME to Participants from our clearing houses for futures and options.

During the year Tai Wah Securities Limited and Yicko Futures Limited failed to meet their obligations to the clearing houses. The Tai Wah Securities default totalled approximately $2.4 million and the Yicko Futures default totalled approximately $4.9 million. The incidents should have no financial impact on the clearing houses.

Information Services

At the end of the year, there were 63 real-time information vendors for the securities market, a decrease of seven from the end of 2002, and 34 for the derivatives market, a decrease of one. The total real-time data services provided by these vendors rose to 353 from 331, while the total delayed data services rose to 98 from 94. Our income from the sale of information declined as a result of consolidation in the brokerage industry and a reduction in the demand for stock market information.

Sixteen information vendors participated in our extended China Promotion programme that allows investors on the Mainland to follow the HKEx markets by subscribing for HKEx market data.

In late April, we introduced *HKEx Data Products*, an Internet-based service which provides easy access to our historical market data products through online subscription, payment and delivery. The service is available through the HKEx website.

There was a sharp increase in Disclosure of Interests information processed for posting on the HKEx and GEM websites after a new disclosure regime became effective on 1 April.

According to Part XV of the SFO on Disclosure of Interests, the Stock Exchange is to publish the information it receives in a manner approved by the SFC. The SFC also prescribes the ways of filing disclosure notices with the Stock Exchange. We published 2,753 disclosure notices in the first three months of the year and approximately 27,000 in the final nine months of the year. About 10 per cent of the notices were filed through the Internet after an online submission channel was introduced together with the new regime.

IT/Systems

Our key market systems all achieved very good system uptime. Uptime for securities trading and derivatives clearing was 100 per cent. Uptime for derivatives trading was 99.99 per cent and uptime for securities clearing was 99.92 per cent. For securities trading, we have maintained a 100 per cent uptime record since the launch of AMS/3 in October 2000. For derivatives trading, we achieved 100 per cent uptime for 12 consecutive months on 29 January this year. In securities clearing, there was a major revamp in December 2002 when the new CCASS/3 architecture was rolled out. Uptime for the final three quarters of last year was 100 per cent. Our objective remains 100 per cent availability for all key systems.

We are studying the possible consolidation of the networks of our trading and clearing systems, the market data feed and other systems to reduce our costs and the costs of our Participants without sacrificing service quality. We are also considering the consolidation of our data centres.

Total IT capital expenditures decreased by $99 million or 77 per cent from $129 million in 2002 to $30 million in 2003, mainly attributable to the drop in spending following the introduction of CCASS/3 in May 2002, and lower expenditure on DCASS and HKATS in 2003 as the projects were completed/close to completion.

Total information technology and computer maintenance expenses fell by $16 million or 6 per cent from $263 million in 2002 to $247 million in 2003, mainly attributable to lower hardware and software rental but partly offset by expenditures relating to the maintenance of CCASS/3.

Depreciation charge relating to IT systems increased by $18 million or 14 per cent to $149 million (2002: $131 million), mainly on account of the commencement of depreciation of CCASS/3 in May 2002.

Treasury

The Treasury Division supervises the investment of funds amounting to about $10.6 billion on average, comprising mainly three sources of funds, viz Corporate Funds (accumulated operating profits), Clearing House Funds and margin funds received (excluding contributions receivable from Participants of the Clearing House Funds and securities deposited by Participants as alternatives to cash deposits of the margin funds). The average amount of funds available for investment increased by 17 per cent or $1.5 billion to $10.6 billion (2002: $9.1 billion), mainly due to a rise in margin funds received from Clearing Participants as a result of increased trading in futures and options contracts.

Investment income represents approximately 15 per cent (2002: 16 per cent) of HKEx's total income.

An Investment Advisory Committee, comprised of non-Executive Directors and an external member from the financial community, advises the Board on portfolio management and monitors the risk and performance of our investments. The Treasury Division is dedicated to the day-to-day management and investment of the funds. Three external fund managers have also been appointed to manage part of the Corporate Funds since July 2001.

Investment and fund management is governed by investment policies and risk management parameters approved by the Board. Investment restrictions and guidelines form an integral part of risk control. Fund-specific restrictions and guidelines are set according to the investment objectives of each fund. In addition, specific limits are set for each fund to control risk (e.g., permissible asset type, asset allocation, liquidity, credit, counterparty concentration, maturity, foreign exchange, interest rate and market risks).

The investment objective of the Corporate Funds is the provision of liquidity for funding ongoing operations and long-term capital preservation. Accordingly, the funds can be invested in cash, money market instruments, bonds, collective investment schemes and equities. Only external fund managers are permitted, subject to compliance with guidelines on conflict of interest and to limits forming part of the investment policies, to invest in equities, which include convertible bonds. For Clearing House Funds and margin funds, the investment objective of which is to satisfy liquidity requirements and safeguard financial assets of the funds, their portfolios only consist of cash, money market instruments and bonds. As at 31 December 2003, of the total portfolio of $13.58 billion, 39 per cent of the funds were invested in investment grade bonds, 59 per cent in cash or bank deposits and 2 per cent in global equities.

	Fund size $ billion	Bonds	Cash or bank deposits	Global equities
Corporate Funds	5.04	58%	36%	6%
Margin funds	7.07	31%	69%	0%
Clearing House Funds	1.47	9%	91%	0%
Total	13.58	39%	59%	2%

Investments of the three funds are kept sufficiently liquid to meet operating needs of the Group and possible liquidity requirements of the Clearing House Funds and margin funds. Excluding equities held under the Corporate Funds ($0.28 billion), which do not have a maturity date, the maturity profile of the remaining $13.30 billion of investments as at 31 December 2003 was as follows:

	Fund size $ billion	Overnight	>Overnight to 1 month	>1 month to 1 year	>1 year to 3 years	>3 years
Corporate Funds	4.76	22%	10%	18%	34%	16%
Margin funds	7.07	56%	7%	12%	25%	0%
Clearing House Funds	1.47	82%	0%	0%	18%	0%
Total	13.30	47%	8%	13%	27%	5%

Risk management techniques, such as Value-at-Risk (VaR) and portfolio stress testing, are used to identify, measure, monitor, and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by HKEx) at a given confidence level (95 per cent confidence interval is adopted by HKEx) based on historical data (one year is used by HKEx). In 2003, the overall risk, as measured by this VaR methodology, was as follows:

	Average VaR $ million	Maximum VaR $ million	Minimum VaR $ million
Corporate Funds	15.39	18.35	13.11
Margin funds	8.54	11.54	5.70
Clearing House Funds	1.48	1.69	1.13

Credit exposure was well diversified. As at 31 December 2003, all bonds held were of investment-grade and had a weighted average credit rating of Aa2 and a weighted average maturity of 1.9 years. Deposits were placed only with the note-issuing banks in Hong Kong and licensed banks and restricted licence banks with a minimum credit rating of A3 by Moody's or equivalent, which are approved by the Board from time to time.

Total investment income of the Group for the year amounted to $311 million, which is 9 per cent or $26 million higher than the $285 million reported for 2002. Of the total, $13 million related to income from the Group's investment in Singapore Exchange Limited (dividend of $14 million, including a special dividend of $12 million received during the year, less interest expense of $1 million for funding the investment; 2002: dividend of $2 million less interest expense of $1 million) and $5 million (2002: $6 million) was accommodation income (i.e., retention interest charged on securities deposited by Participants as alternatives to cash deposits of the margin funds).

Investment income for the year for the funds supervised by the Treasury Division was $293 million, 5 per cent or $15 million higher than the $278 million in 2002. The increase was due to higher net realised gain at $35 million (2002: loss of $14 million), net unrealised mark-to-market gain at $43 million (2002: $33 million) on the investment portfolio, and dividends at $4 million (2002: $3 million) received on Corporate Fund investments, but partly offset by lower net interest income at $211 million (2002: $256 million) due to lower interest rates. As the valuation of the investments in bonds and equities reflects movements in their market prices, unrealised gains or losses may fluctuate or reverse unless the investments are sold.

The average 6-month Hong Kong Exchange Fund Bill rate dropped from 1.70 per cent in 2002 to 0.84 per cent in 2003, and the average 90-day US Treasury Bill rate declined from 1.62 per cent to 1.02 per cent.

For the year ended 31 December 2003, the Group achieved a positive return on investments of 2.76 per cent (2002: 3.10 per cent). The Corporate Funds returned 4.25 per cent (2002: 3.92 per cent), the margin funds 1.55 per cent (2002: 2.10 per cent), and the Clearing House Funds 1.56 per cent (2002: 2.60 per cent). Therefore the overall portfolio recorded a spread of 192 basis points above the 6-month Hong Kong Exchange Fund Bill yield (2002: 140 basis points), with the Corporate Funds registering a spread of 341 basis points (2002: 222 basis points), the margin funds 71 basis points (2002: 40 basis points), and the Clearing House Funds 72 basis points (2002: 90 basis points) above the 6-month Hong Kong Exchange Fund Bill yield.

Risk Management

We participated in a successful market-wide rehearsal for the financial services sector at the end of January this year to test market contingency plans and inter-organisation communication in the event of high impact events, in particular those with cross-market implications, which could undermine the financial stability of Hong Kong. The rehearsal involved several other financial regulators and was led by the Financial Services and Treasury Bureau. Further updates and improvements on our market contingency plans will be made as and when necessary.

Business and Market Development

Beijing Representative Office

We opened our Beijing Representative Office on 17 November under the Mainland and Hong Kong Closer Economic Partnership Arrangement, or CEPA. On the same day, a conference was held in Beijing to mark the 10th anniversary of the listing of Mainland enterprises in Hong Kong in recognition of their significant contribution to our markets. The Beijing office will support our efforts to strengthen Hong Kong's position as the international capital formation centre for China.

We are looking into stationing staff in other Mainland cities including Shanghai and Guangzhou.

China Development & Listing Promotion

Apart from regular marketing visits to the Mainland, we organised listing conferences in Harbin, Guangzhou, Fuzhou and Hangzhou. The conferences attracted some 1,530 representatives from approximately 850 Mainland enterprises, and wide support from market practitioners from both Hong Kong and the Mainland. In addition, we conducted four training programmes for listed issuers and potential listing applicants on the Mainland with a view to promoting listing and increasing awareness of corporate governance issues. Through our marketing efforts during the year, we were able to identify many Mainland enterprises with an interest in listing on our markets.

Cooperation with Mainland Counterparts

We signed an agreement on 11 April with the Shanghai Futures Exchange (SHFE) to jointly explore the possibility of developing an Asian energy derivatives market. Our Hong Kong Futures Exchange Limited (Futures Exchange) and the SHFE have formed a working group to coordinate the exploratory efforts.

We also established a working group with the Shenzhen Stock Exchange (SZSE) to explore further cooperation between HKEx and the SZSE.

International Activities

HKEx co-organised the 13th Annual Asia-Pacific Futures Research Symposium, which was held in Shanghai on 27 and 28 February, in conjunction with the Chicago Board of Trade Educational Research Foundation, the SHFE, Hong Kong Baptist University and the Journal of Futures Markets. The Group sent a representative to the Organisation of Economic Cooperation and Development's November Asian Roundtable on Corporate Governance in Tokyo for the formal presentation of the White Paper on Corporate Governance in Asia. The head of our Clearing Business Unit chaired the June CCP 12 Meeting organised by 12 clearing organisations from Asia, Europe and the Americas, and we participated in the Seventh Conference of Central Securities Depositories, also in June. Both clearing events were in Europe.

Exchange Participants

At the end of the year, there were 499 Stock Exchange Participants and 129 Futures Exchange Participants. In addition, there were 33 holders of Stock Exchange Trading Rights and 65 holders of Futures Exchange Trading Rights which were not Exchange Participants.

Since 6 March 2002, HKEx has been able to issue new Stock Exchange Trading Rights for no less than $3 million each and Futures Exchange Trading Rights for no less than $1.5 million each, but no new trading rights were issued last year. Commencing from 6 March this year, new trading rights can be issued without any price restrictions.

We streamlined our regulatory requirements for Exchange Participants with measures that took effect on 1 April and 25 August. The changes included the abolition of some fees and the standardisation of several other fees.

Websites

There was increasing use of our websites. There were 14,846,887 visits to the HKEx website and the linked GEM website, compared with 9,200,520 in 2002. Page views increased to 170,381,920 from 97,938,829 in 2002.

We further strengthened the websites. In addition to more content, we introduced upgraded versions of the Disclosure of Interests (DI) sections of the HKEx and GEM websites on 1 April to cater for the new DI regime which took effect the same day. They included a new electronic submission channel. HKEx operates electronic filing systems for the submission of completed DI forms and publishes disclosure information on its websites in accordance with the requirements of the SFC. We also added a new section to the HKEx website for the posting of responses to our consultation papers. Anonymity is granted to respondents upon request.

This year, we will introduce a revamped version of the HKEx website. Our aim is to provide better information services in a cost-effective manner. The current structure, design and functionality of the website will be improved based on users' comments. In addition to a new look and a more userfriendly navigation structure, there will be functional upgrades, including the introduction of an update alert service for selected web content with high utilisation rates and irregular updates. There will also be tools for the dynamic conversion of web content from traditional to simplified Chinese characters and a more advanced search function.

Investor Education & Community Support

We raised more than $13.1 million for the Community Chest through balloting of special stock codes for new listed companies on the Main Board and GEM. In addition, the staff contributed to the Community Chest by participating in Dress Casual Day.

We continued to provide a wide range of public education programmes. HKEx organised 21 investor seminars and participated in events arranged by local and international professional bodies. We joined Hong Kong's Information Infrastructure Expo, we were one of the five supporting organisations for the Professional Diploma in Corporate Governance and Directorship programme that ran from early June to the end of August, and we sponsored the 3rd Hong Kong Investment Competition organised by the Hong Kong Institute of Investors. As in years past, we arranged briefings on our operations for teachers from Hong Kong's secondary schools, business students, journalists, and other important visitors. We also continued to support public access to market information by donating hard and/or soft copy versions of issuer annual reports, circulars and HKEx publications to public and university libraries.

Recent Development

The Government has raised the possibility of HKEx contributing to the funding of an independent investigation board for the accounting profession. The Board will discuss the details when they are available.

Office Consolidation

We completed further consolidation of our offices at the beginning of this year to reduce our leased space. As a result, we were able to surrender portions of leased premises at two locations to the landlords. The space surrendered comprised nearly 13,000 square feet.

Staff

Our human resources policies are aimed at aligning individual, unit and Group objectives. Incentives have been established and good performance is rewarded. The Board approved performance rewards for 2003 and most employees received a bonus.

People are one of our most important assets so we are committed to further developing the collective skills of our staff. During the year, we arranged 49 in-house training courses and seminars and 77 external sessions. These included programmes on products, customer service, presentation skills, language, information technology and market development. We also continued to sponsor staff members who are pursuing academic and professional qualifications to further develop their careers.

Internal communication has been strengthened through the introduction of monthly executive forums on operations and quarterly presentations on our business strategy, our performance and other issues. In addition, there is a new Intranet web page, "My Community", where we post Staff Social Club news and other in-house information for our staff.

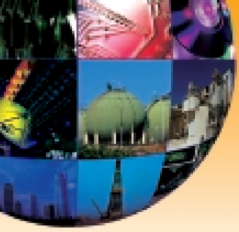
The Staff Social Club organised a variety of activities during the year. They included the annual staff dinner party, visits to Hong Kong's outlying islands and Spring Fun Day. Club-sponsored teams competed against other organisations in basketball and soccer tournaments, and the club arranged for HKEx to participate in Boundabout 2003, where teams played games to raise funds for Outward Bound Hong Kong's outreach programme for young people with financial or social difficulties.

Our achievements last year would not have been possible without the hard work and dedication of our staff. I thank them for their contributions, and I am confident that their efforts will ensure more success in the years ahead.

The Board of Directors continued to provide excellent leadership in 2003. I thank the members for their guidance and support.

CHOW Man Yiu, Paul
Director and Chief Executive

26 February 2004



Senior Management

Patrick Conroy

Chief Operating Officer

Lawrence Fok

Deputy Chief Operating Officer

Karen Lee

Chief Financial Officer

Richard Williams

Head - Listing

Stewart Shing

Head - Clearing

Mary Kao

Head - Legal and Secretarial Services

Senior Management

Stephen Law

Head - IT/Systems

Roger Lee

Head - E-Business and Information Services

Matthew Harrison

Head - Research and Planning

Coven Hui

Head - Internal Audit

Henry Law

Head - Corporate Communications

Joseph Mau

Company Secretary

Brenda Yen

Head - Human Resources