



Report of the Directors

(Financial figures are expressed in Hong Kong dollars)

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 2003.

PRINCIPAL ACTIVITIES

HKEx is the recognised exchange controller under the Securities and Futures Ordinance (SFO). 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 (Stock Exchange) and Hong Kong Futures Exchange Limited (Futures Exchange) are recognised exchange companies under the SFO to operate and maintain a stock market and futures market in Hong Kong respectively. HKSCC, SEOCH and HKCC are the recognised clearing houses for the purposes of the SFO.

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 2003 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 pages 85 and 86.

An interim dividend of \$0.18 per share, amounting to a total of about \$188 million, was paid to shareholders during the year.

The Board recommends the payment of a final dividend of \$0.42 per share to shareholders on the register of members on 31 March 2004, which together with the interim dividend payment amounts to a total of about \$629 million, and the retention of the remaining profit for the year.

The Board has carried out a review of the Group's policy regarding its cash funds, which are made up largely of liquid funds required in connection with our clearing businesses but also include substantial retained earnings. The review has taken into account the changed economic environment, the Group's strategy and our medium-term capital and risk management requirements. Following this review, the Board has recommended, in addition to the dividend referred to above, a special dividend of \$1.68 per share (2002: Nil) to shareholders on the register of members on 31 March 2004 amounting to about \$1,762 million.

The share register will be closed from Friday, 26 March 2004 to Wednesday, 31 March 2004, both dates inclusive, during which period, no transfer of shares will be registered. Dividend warrants will be despatched to shareholders on or about Wednesday, 14 April 2004. In order to qualify for the final and the special dividends, 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 Thursday, 25 March 2004.

RESERVES

The distributable reserves of HKEx as at 31 December 2003, calculated under section 79B of the Companies Ordinance, amounted to \$3,377 million (2002: \$3,554 million).

The movements in reserves of the Group and HKEx during the year are set out from notes 27 to 29 and 31 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 14 to the accounts.

SHARE CAPITAL

Details of the share capital during the year are set out in note 26 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.
- (ii) Based on the Pre-Listing options granted, the total number of shares available for issue is 13,715,626 which represents 1.31 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.

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(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.

Details of share options outstanding as at 31 December 2003 under the Pre-Listing Scheme were as follows:

	Date of grant	Exercise price	No. of shares				Exercise period
			issuable as at 1 January 2003	issued during the year ended 31 December 2003	lapsed during the year ended 31 December 2003	issuable as at 31 December 2003	
Aggregate total for employees (note 1)	20 June 2000	\$7.52	23,253,020	5,418,000 (note 2)	3,663,394 (note 3)	14,171,626	6 March 2002 - 30 May 2010 (note 4)

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. 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 74,760,858 which represents 7.1 per cent of the existing issued share capital of HKEx at the date of this report.

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- (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.
- (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 grant 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.

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Details of the share options outstanding as at 31 December 2003 under the Post-Listing Scheme were as follows:

Date of grant	Exercise price	No. of shares issuable under the option granted	Option value	No. of shares issuable under the option granted as at 31 December 2003	Exercise period
Director (note 5)					
2 May 2003	\$9.05 (note 6)	3,000,000	\$8,010,000 (note 9a)	–	2 May 2005 - 1 May 2013 (note 10)
Employees (note 1)					
14 August 2003	\$13.60 (note 7)	1,000,000	4,560,000 (note 9b)	–	14 August 2005 - 13 August 2013 (note 11)
18 August 2003	\$13.65 (note 8)	1,800,000	8,226,000 (note 9c)	–	18 August 2005 - 17 August 2013 (note 12)

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 \$11.53.
3. Options lapsed in accordance with the terms of the Pre-Listing Scheme due to resignation of employees.
4. 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.
5. The option was granted to Mr Chow Man Yiu, Paul, a Director and the Chief Executive of HKEx.
6. The closing price immediately before the date on which the option was granted was \$9.10.
7. The closing price immediately before the date on which the option was granted was \$13.95.
8. The closing price immediately before the date on which the option was granted was \$13.35.

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9. According to the Binomial Option Pricing Model, the value of the options granted during the period under review were as follows:

(a) 2 May 2003

The value of the option was estimated at \$8,010,000 with the following variables and assumptions:

- Risk Free Rate 4.3%, being the yield of 10-year Exchange Fund Note as at 30 April 2003.
- Expected Volatility 36%, being the annualised volatility of the closing price of the shares in HKEx from 3 May 2002 to 2 May 2003.
- Expiration date of the option 10 years from 2 May 2003.
- Expected Dividend 5.6%, being the 2003 prospective dividend yield of the shares as at 2 May 2003.
- Assumption 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 period from 3 May 2002 to 2 May 2003 is assumed.

(b) 14 August 2003

The value of the option was estimated at \$4,560,000 with the following variables and assumptions:

- Risk Free Rate 4.84%, being the yield of 10-year Exchange Fund Note as at 14 August 2003.
- Expected Volatility 36%, being the annualised volatility of the closing price of the shares in HKEx from 15 August 2002 to 14 August 2003.
- Expiration date of the option 10 years from 14 August 2003.
- Expected Dividend 4.49%, being the 2003 prospective dividend yield of the shares as at 14 August 2003.
- Assumption 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 period from 15 August 2002 to 14 August 2003 is assumed.

(c) 18 August 2003

The value of the option was estimated at \$8,226,000 with the following variables and assumptions:

- Risk Free Rate 4.76%, being the yield of 10-year Exchange Fund Note as at 18 August 2003.
- Expected Volatility 36%, being the annualised volatility of the closing price of the shares in HKEx from 19 August 2002 to 18 August 2003.
- Expiration date of the option 10 years from 18 August 2003.
- Expected Dividend 4.47%, being the 2003 prospective dividend yield of the shares as at 18 August 2003.
- Assumption 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 period from 19 August 2002 to 18 August 2003 is assumed.

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.

No option granted during the period under review has lapsed.

10. 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.
11. 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.
12. 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.

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SUBSIDIARIES

Particulars of HKEx's subsidiaries, as at 31 December 2003 are set out in note 25 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 9 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

CHOW Man Yiu, Paul (joined on 1 May 2003)
KWONG Ki Chi (retired on 15 April 2003)

Non-executive Directors

CHAN Cho Chak, John
(retired on 15 April 2003)
FAN Chor Ho, Paul (retired on 15 April 2003)
FAN Hung Ling, Henry
(appointment effective on 15 November 2003)

FONG Hup
(appointment effective on 16 April 2003)
FRESHWATER, Timothy George
KWOK Chi Piu, Bill
LEE Jor Hung, Dannis
LEE Kwan Ho, Vincent Marshall
LEONG Ka Chai
LIU Jinbao (resigned on 28 May 2003)
LO Ka Shui
SETO Gin Chung, John
(retired on 15 April 2003)
STRICKLAND, John Estmond
(retired on 15 April 2003 as a Public Interest Director and appointed by the Board on 16 April 2003)
WARD, Rodney Gordon
(retired on 15 April 2003)
WEBB, David Michael
(elected on 15 April 2003)
WONG Sai Hung, Oscar
(elected on 15 April 2003)
YUE Wai Keung (retired on 15 April 2003)

As at 31 December 2003, the Board consisted of thirteen Directors. Messrs Lee Yeh Kwong, Charles, Fan Hung Ling, Henry, Fong Hup, Timothy George Freshwater, Leong Ka Chai, and Lo Ka Shui were appointed by the Financial Secretary of the Hong Kong Special Administrative Region (HKSAR) in the interest of the investing public or in the public interest (Public Interest Directors). Mr Fan Hung Ling, Henry was appointed by the Financial Secretary of the HKSAR on 15 November 2003 to fill the vacancy left by the resignation of Dr Liu Jinbao. Messrs Kwok Chi Piu, Bill, Lee Jor Hung, Dannis, Lee Kwan Ho, Vincent Marshall, David Michael Webb and Wong Sai Hung, Oscar,

were elected by shareholders at the annual general meeting held on 15 April 2003 (2003 AGM). Since only five Directors were elected by shareholders to fill six available vacancies at the 2003 AGM, the Board of HKEx had on 16 April 2003, in accordance with Article 92, appointed Mr John Estmond Strickland, to fill the casual vacancy and his term of office shall expire at the conclusion of the forthcoming annual general meeting to be held on 31 March 2004 (AGM). 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.

According to Article 93(1) and (2), at every annual general meeting after the 2003 AGM, one-third of the Directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third of the Directors shall retire from office. The Public Interest Directors and the Chief Executive are not subject to retirement by rotation. Mr John Estmond Strickland, who was appointed under Article 92 to hold office until the AGM, is also not subject to retirement by rotation. Article 93(3) further provides that the Directors to retire by rotation on each occasion shall be those who have been longest in office since their last appointment or reappointment, but as between persons who became or were last reappointed Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by drawing lots. Article 93(5) provides

that a retiring Director is eligible for reappointment. Mr John Estmond Strickland, being a Director appointed by the Board after the 2003 AGM, will hold office only until the AGM in accordance with Article 92. In addition to Mr Strickland, one of the five Elected Directors elected by shareholders of HKEx on 15 April 2003, who are subject to retirement by rotation, shall retire at the AGM. The five Elected Directors are Messrs Kwok Chi Piu, Bill, Lee Jor Hung, Dannis, Lee Kwan Ho, Vincent Marshall, David Michael Webb and Wong Sai Hung, Oscar. Pursuant to Article 93(3), lots have been drawn and Mr Wong Sai Hung, Oscar shall retire at the conclusion of the AGM. Both Messrs John Estmond Strickland and Wong Sai Hung, Oscar are eligible for reappointment. Shareholders are invited to elect up to two Elected Directors at the AGM to fill the vacancies available due to retirement of the two said Directors. Details of the proposed candidates standing for election are set out in the circular sent together with this annual report.

The Securities and Futures Commission (SFC) had, on 4 August 2003 and 9 February 2004, 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 67, 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

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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 was until 2003 a member of the Equal Opportunities Commission of Hong Kong, Chairman of the Council of the Open University of Hong Kong and a member of the Court of the Hong Kong Polytechnic University. He is currently a member of the Council of the Hong Kong University of Science and Technology, and the Vice-Patron of the Community Chest. He is 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

CHOW Man Yiu, Paul, JP, aged 57, was appointed the Chief Executive of HKEx on 1 May 2003. In this capacity, Mr Chow is also an ex-officio member of the board of HKEx and chairman and director of various subsidiaries of HKEx. Before he joined HKEx, Mr Chow was the chief executive, Asia Pacific ex-Japan Region, of HSBC Asset Management

(Hong Kong) Limited for 6 years from April 1997 to April 2003. From November 1991 to January 1997, Mr Chow was the chief executive of the Stock Exchange and before then, he was the chief executive of Hong Kong Securities Clearing Company Limited for 2 years. Mr Chow holds various Government committee and community appointments, inter alia, a member of the Information Infrastructure Advisory Committee of the Government of Hong Kong Special Administrative Region, the Advisory Committee of the Securities and Futures Commission, the Corporate Advisory Council of the Hong Kong Securities Institute, and the Standing Committee on Company Law Reform, and a director of Cyberport Management Limited, Investor Compensation Company Limited, and the Community Chest of Hong Kong. He has also been a director of World Federation of Exchanges since 1 May 2003. Mr Chow holds a Bachelor of Science degree in Mechanical Engineering, a Diploma in Management Studies and an MBA degree from the University of Hong Kong, and a Diploma in Finance (Distinction) from the Chinese University of Hong Kong. Mr Chow is a Fellow of the Hong Kong Computer Society and the Hong Kong Management Association. Mr Chow has over 33 years of business and management experience, and has worked in a number of industries, including information technology, securities, banking and fund management.

(c) Non-executive Directors

FAN Hung Ling, Henry, SBS, JP, aged 55, was appointed a Non-executive Director of HKEx on 15 November 2003. Mr Fan is the Managing Director of CITIC Pacific Limited,

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a Deputy Chairman of Cathay Pacific Airways Limited, and a Director and Chairman of the executive committee of Hong Kong Dragon Airlines Limited. Mr Fan also serves on various public bodies. He is a Deputy Chairman of the Takeovers and Mergers Panel of the Securities and Futures Commission, a member of the Standing Committee on Judicial Salaries and Conditions of Service, a Director of the Hong Kong Science and Technology Parks Corporation and the Treasurer and Chairman of the Finance Committee of the University of Hong Kong. In addition, he is a member of the Zhejiang Province Committee of the Chinese People's Political Consultative Conference, the Hong Kong-United States Business Council and a Racing Steward of the Hong Kong Jockey Club. He graduated from the University of Hong Kong in 1969 with an honours degree in Economics and Business Management and holds a Bachelor of Laws degree from the University of Beijing. He was called to the Bar by Lincoln's Inn, England and subsequently admitted to the Bar in Hong Kong where he practised as a barrister. He is also an Attorney and Counselor at Law in the State of California, U.S.A.

FONG Hup, aged 59, has been a Non-executive Director of HKEx since 16 April 2003. Mr Fong is the Senior Advisor of Deloitte Touche Tohmatsu. Prior to that, he was a senior partner of Kwan Wong Tan & Fong and a senior assurance and advisory partner of Deloitte Touche Tohmatsu. Mr Fong is a fellow of both the Institute of Chartered Accountants in England & Wales and the Hong Kong Society of Accountants and holds a Bachelor degree in Business

Administration from Boston University. Mr Fong is currently a member of the Process Review Panel for the Securities and Futures Commission, a member of the Securities and Futures Appeals Tribunal, and a member of the Supervisory Committee of the Tracker Fund of Hong Kong. Mr Fong was formerly a member of the Council and a member of the Listing Committee of the Stock Exchange. He was also a former director of each of Hong Kong Securities Clearing Company Limited and The SEHK Options Clearing House Limited. Mr Fong has over 30 years of experience in the accounting profession as well as in the securities industry.

FRESHWATER, Timothy George, aged 59, 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 of the Hong Kong Securities and Futures Appeals Panel from 1999 to 2004. 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

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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 35 years of experience in the securities industry.

KWOK Chi Piu, Bill, aged 51, has been a Non-executive Director of HKEx since 3 April 2000. Dr Kwok is the Managing Director of Wocom Holdings Limited, a director of Wing On International Holdings Limited, Wing On Company International Limited and the Investor Compensation Company Limited. He is a member of the Government's Advisory Committee on Human Resources Development in the Financial Services Sector, the Panel of the Securities and Futures Appeals Tribunal and the Professional Advisory Board of the Asian Institute of International Financial Law at the University of Hong Kong. He was a director of the Hong Kong Securities Institute from 1997 to 2003 and the Chairman from 1999 to 2001. He was also a director of the Futures Exchange from 1991 to 2000 and a Vice Chairman from 1997 to 2000. 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 over 20 years of experience in the securities and futures industry.

LEE Jor Hung, Dannis, BBS, aged 49, 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 director of the Hong Kong Securities Institute and a member of the Securities and Futures Appeals Panel. 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 over 20 years of experience in the securities industry.

LEE Kwan Ho, Vincent Marshall, aged 48, 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), a Vice Chairman of the Institute of Securities Dealers Limited and a Panel Member of the Securities and Futures Appeals Tribunal. 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.

LEONG Ka Chai, JP, aged 54, has been a Non-executive Director of HKEx since 3 April 2000. Mr Leong is a dealing director of Roctec Securities Company Limited and Roctec Futures Trading Company Limited, and an investment adviser of Roctec Investment Limited. He was a director of the Futures Exchange from 1989 to 2000 and the Chairman of the Futures Exchange from 1992 to 1995. Mr Leong has been appointed as a member of the Shanghai Stock Exchange Index Advisory Committee in 2003. Mr Leong was also a member of the Advisory Committee of the Securities and Futures Commission from 1989 to 2000, and a member of the Shareholders Group of the Securities and Futures Commission from 2001 to 2002. Mr Leong has involved in various community services. He was a member of the Professional Education Committee of the Hong Kong Securities Institute from 1989 to 2002. He was the Chairman of the Advisory Committee of City University's Department of Finance and

Economics from 1995 to 1999 and an Advisory Committee member of the Baptist's University's Department of Finance from 1996 to 1997. Mr Leong has been a member of the Finance Committee of the Queen Elizabeth Foundation for the Mentally Handicapped since 1999. He has been an honorary member of the Hong Kong Association of Financial Advisors since 1995. Mr Leong has over 20 years of experience in the securities and derivatives industry.

LO Ka Shui, GBS, JP, aged 57, 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 was the Chairman of the GEM Listing Committee from 1999 to 2003 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 a Vice President of The Real Estate Developers Association of Hong Kong, a trustee of the Hong Kong Centre for Economic Research, a member of the Council of Advisors on Innovation and Technology and a member of the Airport Authority. He was a past chairman of the Hospital Authority. 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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STRICKLAND, John Estmond, GBS, JP, aged 64, has been a Non-executive Director of HKEx since 3 April 2000. Mr Strickland graduated from Jesus College, Cambridge University with a degree in Physics. He spent most of his working career with HSBC in Hong Kong, being responsible for the HSBC Group's IT from 1971 to 1995. From 1996 to 1998 he was chairman of The Hongkong and Shanghai Banking Corporation Limited, which has responsibility for HSBC's operations in Asia Pacific. Presently he is chairman of Hong Kong Cyberport Management Co Ltd, a director of the Airport Authority Hong Kong and Esquel Holdings Inc. He is a member of the Council of The University of Hong Kong, President of the Outward Bound Trust, and a member of the boards of the Community Chest, the Boys and Girls Clubs Association, the Youth Hostel Association, the Salvation Army Advisory Board, the Antiquities Advisory Board, the Hong Kong Adventure Corps, the China Exploration and Research Society, the Asia Society and the ICAC Operations Review Committee. He has honorary doctorates awarded by City University of Hong Kong and The Hong Kong Polytechnic University. He has honorary fellowships awarded by The Hong Kong Computer Society, the Hong Kong Institute of Bankers, the Hong Kong Management Association and The University of Hong Kong.

WEBB, David Michael, aged 38, is the Editor of Webb-site.com, a non-profit publication he established in 1998 to promote better corporate and economic governance in Hong Kong. He has published wide-ranging articles on the regulatory framework of Hong Kong's

securities markets. He is a member of the Shareholders Sub-Committee of the Standing Committee on Company Law Reform, the SFC's Takeovers and Mergers Panel, the Takeover Appeals Committee and the SFC Shareholders Group. Mr Webb has over 17 years' experience of the securities markets, including five years as a corporate financier in London before moving in 1991 to Hong Kong. From 1993 to 1994, he was a director of BZW Asia Limited, and from 1994 to 1998, he was a director of Wheelock Capital Limited, both of which were registered investment advisers. In 2000, he was named by Business Week magazine as a "Star of Asia" in the "Opinion Shapers" category. In 2001 the World Economic Forum named him a "Global Leader for Tomorrow". In 2002 CFO Magazine named him one of the "Global 100" who shape finance. He gained an honours degree in Mathematics from Oxford University in 1986 and prior to that was a best-selling author of games and books for the first generation of home computers. He is a full member of the Hong Kong Securities Institute and was Chairman of Hong Kong Mensa from 1998-2000.

WONG Sai Hung, Oscar, aged 48, has been the Chief Executive Officer of BOCI-Prudential Asset Management Limited since 1 January 2001. Mr Wong was the Regional Managing Director of Prudential Portfolio Managers Asia from 1999 to 2000. From 1977 to October 1998, Mr Wong was working with LGT Asset Management Limited, a company which became a subsidiary of AMVESCAP, the parent of INVESCO in June 1998. During his first 10 years with LGT in Hong Kong, Mr Wong

was involved in managing equity portfolios with investments in the Japanese and other Asia Pacific markets. From 1987 to 1990, Mr Wong was seconded to run an investment management joint venture in Taipei and assisted in starting of other similar investment management joint ventures of LGT in Thailand, Indonesia and the Mainland China. From 1994 to 1997, Mr Wong was responsible for LGT's mutual fund marketing operations in Canada, a business which he helped to establish in 1994. Mr Wong was the Deputy Managing Director of LGT from 1990 to 1994 and became the head of its Asian operations in January 1998. From June to October 1998, Mr Wong was the Deputy Chief Executive of INVESCO Asia Limited. Mr Wong studied business at Hong Kong Polytechnic University and was one of its first Marketing graduates in 1977. Mr Wong has over 26 years of experience in the fund management industry.

Senior Management

CONROY, Patrick Kevin, aged 51, is the Chief Operating Officer of HKEx and Chief Executive of the Futures Exchange. He is also a director of various subsidiaries of HKEx. He joined HKEx on 18 August 2003. As the company's Chief Operating Officer, he oversees all business units of HKEx and serves as Chairman of the IT Working Group. Prior to joining HKEx he was the Director of the Financial Sector Development and Global Partnership Departments of the International Bank for Reconstruction and Development (the World Bank). Before joining the World Bank, Mr Conroy was an advisor for special projects at the Australian Stock Exchange (ASX), where his responsibilities included

assistance in the development and implementation of strategic policies such as the open interface project and ASX's demutualisation. Mr Conroy is also a former senior director of the supervision of markets division at the SFC and held other executive positions in market supervision, research and policy during his tenure with the SFC from May 1991 to January 1997. Prior to joining the SFC, Mr Conroy was the chief legal officer, corporate business ventures of the Chicago Stock Exchange, where he had worked since January 1982. Mr Conroy holds a Bachelor of Arts degree in English Literature from DePaul University in the US and a Juris Doctor degree from The John Marshall School of Law in the US.

FOK Kwong Man, Lawrence, aged 54, 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 22 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

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Administration degree from Columbia University, and a Master of Arts (Economics) degree and a Master of Science (Statistics) degree from Stanford University.

KAO May Loy, Mary, aged 54, is the Head of Legal and Secretarial Services Unit of HKEx. Ms Kao joined the Stock Exchange in July 1990. She holds a LL.B. degree from the University of Hong Kong, a B.C.L. degree from the University of Oxford, England, a diploma in Chinese Law, University of East Asia, Macau. She is a barrister of the Supreme Court of England & Wales and of Hong Kong as well as a barrister and solicitor of the Australian Capital Territory. She has about 30 years' legal experience in the financial services industry, including insurance, securities, banking and derivatives. She also has significant experience in corporate regulatory matters.

LEE Kit Ying, Karen, aged 55, is the Chief Financial Officer of HKEx. Ms Lee has about 18 years experience in the securities and derivatives industry holding various senior executive positions, including about 10 years in the Compliance, Operation and Administration Divisions of the Futures Exchange, 5 years in the Traded Options Division of the Stock Exchange and 3 years in the Listing, Regulation and Risk Management Unit of HKEx. Ms Lee is a fellow member of the Institute of Chartered Accountants in England & Wales and an associate member of the Hong Kong Society of Accountants. She holds a Bachelor of Arts (Hons) in Accountancy degree from City of London Polytechnic in UK and a Master of Science in Financial Engineering degree from City University in Hong Kong.

SHING Shin Cheung, Stewart, aged 56, is the Head of the Clearing Business Unit of HKEx and Chief Executive of HKSCC. He joined HKEx on 15 December 2003. Mr Shing has more than 30 years of securities operations and business management experience. He has worked in several major international and local financial institutions where he has been responsible for planning and development, securities operations, system development and auditing. Before he joined HKEx, Mr Shing was the executive director and chief executive of South China Brokerage Company Limited from February 2001 to November 2003. Mr Shing became chief executive of HKSCC in October 1996. He subsequently became the first head of HKEx's clearing business unit and served in both positions until October 2000. Mr Shing joined HKSCC in April 1991 as director of planning and development, responsible for the development of CCASS, the Central Clearing and Settlement System, and was appointed deputy chief executive in November 1991. Mr Shing, who started his career in 1970 working in audit, is a fellow member of the Hong Kong Society of Accountants and has served as a member of working groups for various regulatory bodies and stockbroking associations in Hong Kong. From September 2002 to November 2003, Mr Shing represented South China Brokerage Company Limited in his role as the chairman of The Hong Kong Association of Online Brokers. He was also a founding member of the Asia-Pacific Central Securities Depository Group and was admitted to the Board of the International Securities Services Association in 1999. Mr Shing holds a Master of Business Administration degree from the University of New South Wales, Australia.

WILLIAMS, Richard George, aged 41, is the Head of Listing of HKEx. He became HKEx's Head of Listing and secretary to the Main Board and Growth Enterprise Market listing committees in June 2003, following the restructuring of Listing, Regulation and Risk Management (LRRM). He joined HKEx as Senior Vice President in October 2002 and headed LRRM's Listing Division before taking up his current post. A chartered accountant with extensive capital markets experience, Mr Williams was head of Listing Policy and Compliance at the Financial Services Authority in the UK between 2000 and 2002. He has also served as head of Listing Policy at the London Stock Exchange (LSE). His most recent UK role involved participation in the policy development work of the Committee of European Securities Regulators under the European Financial Services Action Plan. Before moving to the LSE, Mr Williams was with PricewaterhouseCoopers.

Company Secretary

MAU Kam Shing, Joseph, aged 45, is the Company Secretary of HKEx and its group of companies. Mr Mau is a Fellow Member of The Hong Kong Institute of Company Secretaries, The Institute of Chartered Secretaries and Administrators, 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

The Directors' and Chief Executive's interests and short positions are set out in the Corporate Governance report on pages 66 and 67.

DISCLOSABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2003, J.P. Morgan Chase & Co and its associates were holding 52,667,254 shares of HKEx, representing approximately 5.02 per cent of the issued share capital of HKEx as recorded in the register required to be kept by HKEx under Section 336 of the SFO, of which 989,724 shares were held by J.P. Morgan Chase & Co and its associates as beneficial owner, 322,000 shares as investment manager, and 51,355,530 shares as an approved lending agent pursuant to the Securities and Futures (Disclosure of Interests – Securities Borrowing and Lending) Rules.

Apart from the aforesaid, no other party has an interest or a short position in the issued share capital of HKEx, as recorded in the register required to be kept by HKEx under Section 336 of the SFO.

MINORITY CONTROLLER

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 recognized 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 31 December 2003, the Minority Controllers were in aggregate holding 57.6 per cent of the issued share capital of HKEx (31 December 2002: 48.2 per cent).

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TOP TEN SHAREHOLDERS

The respective holdings by the top ten shareholders that appeared on the Register of Members of HKEx as at 31 December 2003 were:

Name	Number of shares	% of holding
HKSCC Nominees Ltd	896,151,000	85.43
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	0.38
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 2003 is set out in Corporate Information Section on page 11.

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 2003. 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 2003.

PURCHASE, SALE OR REDEMPTION OF HKEx'S LISTED SECURITIES

During the year ended 31 December 2003, HKEx had not redeemed and neither HKEx nor any of its subsidiaries had purchased or sold any of HKEx's listed securities.

PROVIDENT FUND SCHEMES

Particulars of the provident fund schemes of the Group are set out in note 11 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment at the 2004 AGM.

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

26 February 2004