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Board of Directors

Mr John Estmond Strickland and Mr Wong Sai Hung, Oscar were successfully re-elected by Shareholders at the 2007 AGM and their service terms will be approximately three years from 26 April 2007 until the conclusion of the annual general meeting to be held in 2010. On the same day, the Financial Secretary re-appointed Mr Cheung Kin Tung, Marvin, Mr Fan Hung Ling, Henry and Mr Fong Hup as Government Appointed Directors each for a term of approximately two years from 26 April 2007 until the conclusion of the annual general meeting to be held in 2009.

Committees and Consultative Panels

After the 2007 AGM, changes were made to the composition of various Committees.

Audit Committee

Mr Cheung Kin Tung, Marvin was appointed the chairman to succeed Mr John Estmond Strickland. Mr David Michael Webb was appointed a member to succeed Mr Cheung Kin Tung, Marvin who has taken up the position as the chairman.

Investment Advisory Committee

Mr John Estmond Strickland was appointed the chairman to succeed Mr Fan Hung Ling, Henry.

Nomination Committee

Mr Fan Hung Ling, Henry and Mr John Estmond Strickland were appointed members to succeed Mr Fong Hup and Mr Wong Sai Hung, Oscar.

Remuneration Committee

Mr Ronald Joseph Arculli was appointed the chairman to succeed Mr Cheung Kin Tung, Marvin. Mrs Cha May-Lung, Laura was appointed a member to succeed Mr Fong Hup.

Risk Management Committee

Mr Cheung Kin Tung, Marvin was appointed a member to succeed Mr Fan Hung Ling, Henry.

Other members of the Committees and Consultative Panels remain unchanged.

The term of service of each Director with each Committee or Consultative Panel shall be coterminous with the individual's term of directorship with HKEx. The membership information is available on HKEx's corporate website.

Senior Executive

On 14 February 2007, the Board approved the appointment of Mr Gerald Dale Greiner, former Deputy Chief Operating Officer, as the Chief Operating Officer of HKEx and the Chief Executive of the Stock Exchange and such appointments took effect from 16 February 2007 upon the SFC's approval.

On 16 April 2007, Ms Bonnie Chan joined HKEx as Senior Vice President, Listing Division to lead the IPO Transactions Department. She succeeds Mr Peter Curley who has taken a leave of absence and will spend a year at the Massachusetts Institute of Technology in the US as a Sloan Fellow.

Share Option Schemes

HKEx operates two share option schemes, the Pre-Listing Scheme and the Post-Listing Scheme, under which the Board may, at its discretion, offer any employee (including any executive director) of HKEx or its subsidiaries, options to subscribe for shares in HKEx subject to the terms and conditions stipulated in the two schemes. Both schemes have a life of 10 years until 30 May 2010. Amendments to the Post-Listing Scheme including, inter alia, the abolition of granting options at a discounted price, were approved by the Shareholders on 17 April 2002 so as to comply with the new requirements of Chapter 17 of the Main Board Listing Rules which came into effect on 1 September 2001.

Details of the share options granted under the Share Option Schemes and which remained outstanding as at 31 March 2007 were as follows:

Pre-Listing Scheme

Date of grant	Exercise price	Number of shares issuable under the options				Exercise period (note 2)
		As at 1 Jan 2007	Issued upon subscription during the three months ended 31 Mar 2007 (note 1)	Lapsed during the three months ended 31 Mar 2007	As at 31 Mar 2007	
Employees (note 3)						
20 Jun 2000	\$6.88	788,000	76,000	–	712,000	6 Mar 2002 – 30 May 2010

No further options can be, or have been, granted under the Pre-Listing Scheme from 27 June 2000, the date of listing of HKEx's shares on the Stock Exchange.

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Post-Listing Scheme

Date of grant	Exercise price	Number of shares issuable under the options				Exercise period (note 5)
		As at 1 Jan 2007	Issued upon subscription during the three months ended 31 Mar 2007 (note 4)	Lapsed during the three months ended 31 Mar 2007	As at 31 Mar 2007	
Director (note 6)						
2 May 2003	\$8.28	2,460,000	–	–	2,460,000	2 May 2005 – 1 May 2013
Employees (note 3)						
14 Aug 2003	\$12.45	547,000	–	–	547,000	14 Aug 2005 – 13 Aug 2013
18 Aug 2003	\$12.49	1,476,000	492,000	984,000	–	18 Aug 2005 – 17 Aug 2013
15 Jan 2004	\$17.30	822,000	275,000	–	547,000	15 Jan 2006 – 14 Jan 2014
31 Mar 2004	\$16.96	4,084,500	19,000	–	4,065,500	31 Mar 2006 – 30 Mar 2014
17 May 2004	\$15.91	150,000	–	–	150,000	17 May 2006 – 16 May 2014
26 Jan 2005	\$19.25	5,054,000	486,500	–	4,567,500	26 Jan 2007 – 25 Jan 2015

Since the adoption of the Share Award Scheme by the Board on 14 September 2005, no further options have been granted under the Post-Listing Scheme.

No options granted under these two share option schemes were cancelled during the three months ended 31 March 2007.

Notes:

- The weighted average closing price immediately before the dates on which the options were exercised was \$72.76.
- Options granted are subject to a vesting scale in tranches of 25 per cent each per annum reaching 100 per cent as from 6 March 2005.
- Employees working under employment contracts that were regarded as “continuous contracts” for the purpose of the Employment Ordinance of Hong Kong.
- The weighted average closing price immediately before the dates on which the options were exercised was \$85.52.
- Options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of grant.
- The option was granted to Mr Chow Man Yiu, Paul, a Director and the Chief Executive of HKEx.
- HKEx adopts the Binomial Option Pricing Model for estimating the fair value of options issued under the Post-Listing Scheme. The assumptions used in the model for the following factors are:
 - Risk-free rate of return – the yield of 10-year Exchange Fund Notes
 - Expected volatility of share price – annualised volatility for one year immediately preceding the grant date
 - Expected dividend yields – annual dividend (excluding special dividend) of the most recent financial year and the closing price on grant date

The amortised fair value of the share options charged to the profit and loss account for the three months ended 31 March 2007 was \$2,782,000 (31 March 2006: \$5,199,000).

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

Share Award Scheme

On 14 September 2005 (“Adoption Date”), the Board adopted the Share Award Scheme in which selected employees (including any executive director) of the Group are entitled to participate. The purposes and objectives are to recognise the contributions by certain employees of the Group and to give them an incentive to remain for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of 15 years commencing on the Adoption Date provided that no contribution to the trust fund will be made by HKEx on or after the tenth anniversary date of the Adoption Date. The maximum numbers of shares which can be awarded under the Share Award Scheme and to a selected employee throughout its duration are limited to three per cent (ie 31,871,575 shares) and one per cent (ie 10,623,858 shares) respectively of the shares of HKEx in issue as at the Adoption Date.

Pursuant to the rules of the Share Award Scheme, the Board or the trustee of the Share Award Scheme (as the case may be) shall select the employees of the Group for participation in the Share Award Scheme, and determine the number of Awarded Shares. On 16 August 2006, the Board approved an amendment to the rules and the related trust deed of the Share Award Scheme under which the Board will approve the lump sum for acquiring the Awarded Shares instead of approving a fixed number of Awarded Shares. The amended and restated rules and trust deed are posted on HKEx’s corporate website.

The trustee acquires the relevant Awarded Shares from the market at the cost of HKEx and holds them in trust for those selected employees until the end of each vesting period. Awarded Shares and the income derived therefrom are subject to a vesting scale of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of approval of the award by the Board, provided that the selected employee remains an employee of the Group at all times until the relevant vesting dates and satisfies the conditions specified under the Share Award Scheme. Vested shares will be transferred at no cost to the relevant selected employees of HKEx.

Since its adoption, a total of 1,232,465 shares have been awarded to the selected employees. Details of the awards are set out below:

Date of award	Number of Awarded Shares	Average fair value per share	Vesting period
19 Dec 2005	960,000	\$31.20 (note 1)	19 Dec 2007 – 19 Dec 2010
15 Jan 2007	272,465	\$72.28 (note 2)	13 Dec 2008 – 13 Dec 2011

Notes:

1. The fair value of the Awarded Shares was based on the market value at the date of award.
2. As a result of the amendments to the rules of the Share Award Scheme which took effect from 16 August 2006, the fair value of the Awarded Shares was based on the average purchase cost per share.
3. The amortised fair value of the Awarded Shares charged to the profit and loss account for the three months ended 31 March 2007 was \$3,350,000 (31 March 2006: \$2,021,000).

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As at 31 March 2007, taking into account the further shares acquired by reinvesting the dividend income, there were a total of 1,258,000 shares held upon trust by the trustee under the Share Award Scheme, with an aggregate of 29,629 shares as returned shares (ie shares were not vested and/or forfeited and/or unallocated in accordance with the terms of the Share Award Scheme). The trustee shall hold these returned shares and future related income for the benefit of one or more employees of the Group as it determines at its discretion, after taking into consideration the recommendations of the Board. During the period, no Awarded Shares lapsed and none were vested.

Directors' and Chief Executive's Interests and Short Positions

As at 31 March 2007, 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, or as otherwise notified to HKEx and the Stock Exchange pursuant to the Model Code:

Interests in the shares and underlying shares of HKEx

Name of Director	Number of shares/underlying shares held				Total	% of the issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Chow Man Yiu, Paul	3,291,528 (note 1)	–	–	–	3,291,528	0.31
Lee Kwan Ho, Vincent Marshall	–	–	1,761,000 (note 2)	505,500 (note 3)	2,266,500	0.21
John Estmond Strickland	18,000 (note 4)	–	–	–	18,000	0.00
David Michael Webb	2 (note 5)	2 (note 6)	6 (note 7)	–	10	0.00

Notes:

1. The interests included Mr Chow's beneficial interests in 820,000 shares, 11,528 Awarded Shares and 2,460,000 underlying shares in respect of the share option granted to him pursuant to the Post-Listing Scheme on 2 May 2003 (details of which are set out in note 6 under Share Option Schemes). The number of shares issuable under the option granted and the exercise price had been adjusted in accordance with the resolution passed by Shareholders at the annual general meeting held in 2004. The beneficial interest of the relevant Awarded Shares and income derived therefrom are subject to a vesting scale of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of approval of the award by the Board.
2. This represented Mr Lee's interests in 671,000 shares and 1,090,000 underlying shares through listed equity derivatives (physically settled options) held by Pacific Trust Company Limited, in which Mr Lee holds 33.33 per cent beneficial interests.
3. This represented Mr Lee's interests in 205,500 shares and 300,000 underlying shares through listed equity derivatives (physically settled options) held by a corporation, controlled by Lee Tung Hai Family Trust, a discretionary trust of which Mr Lee is a beneficiary.
4. The shares were held by Mr Strickland as beneficial owner.
5. The shares were held by Mr Webb as beneficial owner.
6. The shares were owned by the spouse of Mr Webb.
7. The shares were owned by Fundamental Consultants Limited, Member One Limited and Member Two Limited which are under the control of Mr Webb.

Short positions in the shares and underlying shares of HKEx

As at 31 March 2007, Mr Lee Kwan Ho, Vincent Marshall was interested in an aggregate short positions of 660,000 underlying shares in HKEx, representing 0.06 per cent of the total issued share capital of HKEx, which arose through certain listed equity derivatives (physically settled options) held by Pacific Trust Company Limited in which Mr Lee holds 33.33 per cent beneficial interests.

Save for those disclosed above, as at 31 March 2007, none of the Director or the Chief Executive of HKEx or their respective associates had any interest and short position in the shares, underlying shares and debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to HKEx and the Stock Exchange pursuant to the Model Code.

Apart from the Share Option Schemes and the Share Award Scheme, at no time during the period was HKEx or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, HKEx or any body corporate. Save for the disclosed, none of the Directors or the Chief Executive (including their spouses and children under the age of 18) during the three months ended 31 March 2007 held any interest in, or were granted any right to subscribe for, the securities of HKEx and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Discloseable Interests and Short Positions of Shareholders under the SFO

As at 31 March 2007, the following corporation had interests in five per cent or more of the issued share capital of HKEx as recorded in the register required to be kept under Section 336 of the SFO.

Details of the interests and short positions in the shares or underlying shares of HKEx as notified to HKEx are set out below:

Long positions in the shares of HKEx

Name	Capacity	Number of shares held	Total	% of the issued share capital
JPMorgan Chase & Co	Beneficial owner	7,802,026	} 58,201,423 (note 1)	5.46
	Investment manager	15,018,810		
	Custodian corporation/ approved lending agent	35,380,587		

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Short positions in the shares and underlying shares of HKEx

Name	Capacity	Number of shares/ underlying shares held	Total	% of the issued share capital
JPMorgan Chase & Co	Beneficial owner	146,838,650	146,838,650 (note 2)	13.76

Notes:

1. It included 35,380,587 shares in the lending pool.
2. It represented interests held through certain unlisted equity derivatives (physically settled – 8,077,050 underlying shares and cash settled – 138,761,600 underlying shares).

Minority Controllers

Under Section 61 of the SFO, no person shall be or become a Minority Controller, ie a person who, either alone or with any associated person or persons, is entitled to exercise, or control the exercise of, five per cent or more of the voting power at any general meeting of the recognised exchange controller, except with the approval in writing of the SFC after consultation with the Financial Secretary.

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

According to the CCASS Participants Shareholding Report of HKEx as at 31 March 2007, the five approved Minority Controllers were in aggregate holding 58.62 per cent of the issued share capital of HKEx (31 March 2006: 61.60 per cent).

Corporate Governance

The Articles of Association were amended in 2005 to specify that all Directors (Government Appointed Directors and Elected Directors), other than the Chief Executive who is an ex-officio Director and whose term of service on the Board is subject to the term of his employment contract with HKEx, are appointed for a term of not more than three years, but shall be eligible for re-appointment upon retirement.

The Government Appointed Directors and the Chief Executive of HKEx in his capacity as a Director are not subject to election or re-election by Shareholders as governed by Section 77 of the SFO and the Articles of Association respectively. Save as disclosed in this paragraph, HKEx fully complied with all the provisions set out in the CG Code, Appendix 14 to the Main Board Listing Rules and where appropriate, adopted the recommended best practices throughout the review period.

GovernanceMetrics International, a corporate governance research and ratings agency, continued to assign high ratings to HKEx in recognition of its high corporate governance standards. As of 15 February 2007, the Global Rating and Home Market Rating remained at 7.5 and 10.0 respectively out of the maximum of 10.0.

On 24 April 2007, The Asset announced that HKEx has been named as one of the best companies in Hong Kong in terms of corporate governance in The Asset Magazine's annual Corporate Governance Rankings 2007.

Compliance with the Model Code

HKEx has adopted the Model Code. All Directors have confirmed, following specific enquiry by HKEx, that they fully complied with the Model Code throughout the review period.

Review of Accounts

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2007 in conjunction with HKEx's external auditors.

Management has appointed the external auditors to carry out certain agreed-upon procedures in accordance with Hong Kong Standards on Related Services 4400 "Engagements to perform agreed-upon procedures regarding financial information" issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated financial statements for the three months ended 31 March 2007.

Purchase, Sale or Redemption of HKEx's Listed Securities

During the three months ended 31 March 2007, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold, any of HKEx's listed securities.

By Order of the Board
Hong Kong Exchanges and Clearing Limited
Ronald Joseph ARCULLI
Chairman

Hong Kong, 9 May 2007