

Report of the Directors

The Directors are pleased to present to shareholders their report together with the audited accounts of Hong Kong Exchanges and Clearing Limited (HKEx) and its group of companies (the Group) for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

HKEx is a recognised exchange controller under the Exchanges and Clearing Houses (Merger) Ordinance (Merger Ordinance). 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 (the Stock Exchange) has the exclusive right under the Stock Exchanges Unification Ordinance to operate and maintain a stock market in Hong Kong and Hong Kong Futures Exchange Limited (the Futures Exchange) is licensed under the Commodities Trading Ordinance to establish and operate a commodity exchange. HKSCC, SEOCH and HKCC are the recognised

clearing houses for the purposes of the Securities and Futures (Clearing Houses) Ordinance.

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 2001 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 page 59 of the annual report.

An interim dividend of \$0.08 per share, amounting to a total of about \$83 million was paid to shareholders during the year.

The Directors recommend the payment of a final dividend of \$0.25 per share to shareholders on the register of members on 17 April 2002, which together with the interim dividend amounts to a total of about \$343 million, and the retention of the remaining profit for the year.

The share register will be closed from Monday, 15 April 2002 to Wednesday, 17 April 2002, both dates inclusive, during which period, no transfer of shares will be registered. Dividend warrants will be despatched to shareholders on or about Monday, 22 April 2002. In order to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with HKEx's registrar, Hong Kong Registrars Limited at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not later than 4:00 p.m. on Friday, 12 April 2002.

RESERVES

The distributable reserves of HKEx as at 31 December 2001, calculated under section 79B of the Companies Ordinance, amounted to \$3,286 million (as restated 2000: \$3,168 million).

The movements in reserves of the Group and HKEx during the year are set out in notes 25 to 28 to the accounts.

GROUP FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on pages 4 and 5 of the annual report.

FIXED ASSETS

Particulars of the movements during the year in fixed assets of the Group and HKEx are set out in note 13 to the accounts.

SHARE CAPITAL

Details of the share capital during the year are set out in note 24 to the accounts.

SHARE OPTION SCHEMES

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

The terms and conditions of the two schemes are similar and the summary terms and particulars of outstanding options are set out below pursuant to the requirements as contained in Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (Listing Rules):

(a) Summary of the Pre-Listing Scheme and Post-Listing Scheme

(i) Participants

Under both Pre-Listing Scheme and Post-Listing Scheme, the Board may, in its discretion, offer any employees (including any executive director) of HKEx or of any of its subsidiary, options to subscribe for such number of HKEx shares as the Board may determine.

(ii) Maximum number of shares available for issue

Pursuant to the provisions of the Pre-Listing Scheme, no options can be granted under the scheme effective from 27 June 2000. Options granted will however remain valid. As at 13 March 2002, the number of shares issuable under the options granted pursuant to the Pre-Listing Scheme is 26,058,625 shares that represents 2.5 per cent of the existing issued share capital of HKEx.

Pursuant to the Post-Listing Scheme, the maximum number of HKEx shares in respect of which options may be granted when aggregated with any other share option scheme of HKEx, shall represent 10 per cent of the issued share capital of HKEx from time to time, excluding for this purpose, shares to be issued on the exercise of options granted pursuant to the Post-Listing Scheme, or any such other scheme. As at 13 March 2002, there are 76,215,859 shares available for issue pursuant to options that may be granted, which represents 7 per cent of the existing issued share capital of HKEx.

(iii) Maximum entitlement to any one participant

Under both Pre-Listing Scheme and Post-Listing Scheme, no option may be granted to any one person which if exercised in full would result in total numbers of HKEx shares already issued and issuable to him under all the options granted to him exceeding 25 per cent of the aggregated number of shares for the time being issued and issuable under the schemes.

(iv) Time of exercise of option

Under the Pre-Listing Scheme, an option may be exercised in accordance with its terms at any time during a period to be notified by the Board to each

grantee. Such period commenced 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 10 years from the date upon which the option is granted and accepted, subject to the provisions for early exercise and/or termination contained in that scheme.

Under the Post-Listing Scheme, an option may be exercised in accordance with its terms 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 contained in that scheme.

(v) Payment on acceptance of options

Under both Pre-Listing Scheme and Post-Listing Scheme, a remittance in favour of HKEx of \$1 by way of consideration for the grant of an option is required to be paid by the grantee upon acceptance of the option, and such remittance shall in no circumstances be refundable.

(vi) The basis of determining the exercise price

For the Pre-Listing Scheme, the subscription price for a share in HKEx in respect of any particular option granted shall be determined by the Board based on the following 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 had been in existence throughout the year divided by 1,040,664,846 shares in issue.

For the Post-Listing Scheme, the subscription price of a share in respect of any particular option granted shall be such price as the Board may in its absolute discretion determine, save that such price will not be less than the higher of (i) the nominal value of a

share in HKEx, and (ii) 80 per cent of the average of the closing prices of the shares in HKEx on the Stock Exchange on the five trading days immediately preceding the date of grant of the option.

(vii) Remaining life of schemes

Both Pre-Listing Scheme and Post-Listing Scheme are valid until 30 May 2010.

No share option has been granted under the Post-Listing Scheme since its adoption. Amendments to the terms of the Post-Listing Scheme to comply with the new requirements of Chapter 17 of the Listing Rules effected on 1 September 2001 will be proposed at the forthcoming Annual General Meeting of HKEx to be held on 17 April 2002, and details of the amendments are setting out at the circular sent together with this annual report. No similar amendments are required to be made in relation to the Pre-Listing Scheme as no further options can be issued under the Pre-Listing Scheme, effective from 27 June 2000. The Pre-Listing Scheme, and the options already granted thereunder, are unaffected by the amendments to Chapter 17 of the Listing Rules.

(b) Particulars of outstanding options

During the year ended 31 December 2001, no share options had been granted or exercised.

Pursuant to the Pre-Listing Scheme, share options were granted to continuous contract employees of the Group on 20 June 2000. Share options granted are exercisable between 6 March 2002 to 30 May 2010, in tranches of 25 per cent each reaching 100 per cent as from 6 March 2005 at an exercise price of \$7.52 per share. Number of shares issuable under the share options outstanding as at 31 December 2001 is 27,267,384 shares.

The aforesaid number of shares issuable under the Pre-Listing Scheme include 1,454,126 shares issuable under an option granted to a Director of HKEx. For details, please refer to the section on “Directors’ Interests in Shares and Options”.

During the year ended 31 December 2001, a total of 3,321,856 shares issuable under the options had lapsed in accordance with the terms of the Pre-Listing Scheme due to the resignation of employees, the exercise price of which was \$7.52 per share.

SUBSIDIARIES

Particulars of HKEx's subsidiaries as at 31 December 2001 are set out in note 23 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 8 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

KWONG Ki Chi

Non-executive Directors

CHAN Cho Chak, John

FAN Chor Ho, Paul

FRESHWATER, Timothy George

KWOK Chi Piu, Bill

LEE Jor Hung, Dannis

LEE Kwan Ho, Vincent Marshall

LEONG Ka Chai

LIU Jinbao

LO Ka Shui

SETO Gin Chung, John

STRICKLAND, John Estmond

WARD, Rodney Gordon

(appointed on 1 April 2001)

YUE Wai Keung

As at 31 December 2001, the Board was comprised of fifteen Directors. Messrs. LEE Yeh Kwong, Charles, CHAN Cho Chak, John, Timothy George FRESHWATER, LEONG Ka Chai, LIU Jinbao, LO Ka Shui, John Estmond STRICKLAND and Rodney Gordon WARD were appointed by the Financial Secretary of the HKSAR (Public Interest Directors) in the interest of the investing public or in the public interest. The Public Interest Directors, have a term of service starting from 3 April 2000 for 3 years (except Mr Ward who was appointed on 1 April 2001) until the conclusion of the annual general meeting in 2003. The six Directors other than Public Interest Directors namely Messrs. FAN Chor Ho, Paul, KWOK Chi Piu, Bill, LEE Jor Hung, Dannis, LEE Kwan Ho, Vincent Marshall, SETO Gin Chung, John and YUE Wai Keung, were elected by the shareholders of HKEx at an extraordinary general meeting held on 27 March 2000 with a term of service starting from 3 April 2000 for 3 years until the conclusion of the annual general meeting in 2003. The Chief

Executive of HKEx is an *ex-officio* member of the Board. The Board recommended Mr LEE Yeh Kwong, Charles to act as non-executive Chairman and his appointment was approved by the Chief Executive of the HKSAR.

No Director will be proposed for re-election at the forthcoming Annual General Meeting to be held on 17 April 2002.

The Securities and Futures Commission (SFC) had on 8 June 2000 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 65, has been the Chairman of HKEx since 6 March 2000. Mr Lee is a member of the Executive Council of Hong Kong, the Chairman of the Mandatory Provident Fund Schemes Authority, and one of the founders of the 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 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 is a member of the Equal Opportunities Commission of Hong Kong, Chairman of the Council of the Open University of Hong Kong, a member of the Court of the Hong Kong Polytechnic University, 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

KWONG Ki Chi, GBS, JP, aged 50, has been the Executive Director and Chief Executive of HKEx since 6 March 2000. Mr Kwong is also the chairman and director of various subsidiaries of HKEx. Prior to joining HKEx on 6 March 2000, Mr Kwong served in the Government from September 1972 to March 2000. His postings in the Government included the positions of Secretary for Information Technology and Broadcasting (May 1998 to March 2000) and Secretary for the Treasury (April 1995 to April 1998). He holds a Bachelor of Science degree from the University of Hong Kong, a Master of Philosophy degree from the University of Cambridge and a Diploma in Management Studies from the Chinese University of Hong Kong.

(c) Non-executive Directors

CHAN Cho Chak, John, GBS, JP, aged 58, has been a Non-executive Director of HKEx since 3 April 2000. Mr Chan is the Managing Director of The Kowloon Motor Bus Holdings Limited (KMB) and the Chairman of RoadShow Holdings Limited. He is a former Chairman of HKSCC, and a non-executive director of Hang Seng Bank Limited and Guangdong Investment Limited. Mr Chan holds various community appointments, including being a steward of the Hong Kong Jockey Club, a member of the Council of the University of Hong Kong, and First Vice President of the Community Chest and Chairman of its Executive Committee. Prior to joining KMB, Mr Chan served in the Government for two periods, from 1964 to 1978 and from 1980 to 1993. Among the key posts he held over the years were those of Private Secretary to the Governor, Deputy Secretary (General Duties), Director of Information Services, Deputy Chief Secretary, Secretary for Trade and Industry and Secretary for Education and Manpower. He also served as a member of the Executive Council from 1992 to 1993. Mr Chan was Executive Director and General Manager of Sun Hung Kai Finance Company Limited from 1978 to 1980. He was awarded the Gold Bauhinia Star in July 1999. He holds a Bachelor of Arts degree, a Diploma in Management Studies and an Honorary Doctor of Business Administration degree. He has over 8 years of experience in the securities industry.

FAN Chor Ho, Paul, JP, aged 60, has been a Non-executive Director of HKEx since 3 April 2000. Mr Fan is the Chairman of Paul Fan Securities Limited. He was the former Chairman of the Hong Kong Stockbrokers Association and a member of the Council of the Stock Exchange from 1990 to 1993. He was a member of the Advisory Committee to the SFC from 1993 to 1997 and again serving in the same capacity from 2001. Mr Fan is a director of the Hong Kong Securities Institute and holds many appointments on other Government boards and committees including the Chairman of the Hong Kong Awards for Young People. He is also actively involved in community activities particularly with the Lions Clubs. Mr Fan was awarded with Her Majesty The Queen's Badges of Honour in 1991. Mr Fan graduated from King's College, Hong Kong before starting his career in financial and banking industry. Mr Fan has over 30 years of experience in the securities and futures industry.

FRESHWATER, Timothy George, aged 57, 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 is currently a member of the Hong Kong Securities and

Futures Appeals Panel. 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 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 30 years of experience in the securities industry.

KWOK Chi Piu, Bill, aged 49, has been a Non-executive Director of HKEx since 3 April 2000. Dr Kwok is the Managing Director of Wocom Holdings Limited. He is currently a director of the Hong Kong Securities Institute and serves on the Government's Advisory Committee on Human Resources Development in the Financial Services Sector. He is a member of the Financial Services Advisory Committee of the Hong Kong Trade Development Council and the Professional Advisory Board of the Asian Institute of International Financial Law at the University of Hong

Kong. He is also a director of Wing On International Holdings Limited and Wing On Company International Limited. He was the Chairman of the Hong Kong Securities Institute from 1999 to 2001, 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 17 years of experience in the securities and futures industry.

LEE Jor Hung, Dannis, BBS, aged 47, 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 member of the Appeals Panel to the SFC. 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 19 years experience in the securities industry.

LEE Kwan Ho, Vincent Marshall, aged 46, 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) and a Vice Chairman of the Institute of Securities Dealers Limited. 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 52, has been a Non-executive Director of HKEx since 3 April 2000. Mr Leong has 19 years of experience in the securities and derivatives business. He is a dealing director of Roctec Securities Company Limited and Roctec Futures Trading Company Limited. Mr Leong was a director of the Futures Exchange from 1989 to 2000 and was the Chairman of the Futures Exchange from 1992 to 1995. He is also a member of the finance committee of the Queen Elizabeth Foundation.

Dr LIU Jinbao, aged 49, has been a Non-executive Director of HKEx since 3 April 2000. Dr Liu is the Vice Chairman of Bank of China (BOC), Vice Chairman and Chief Executive of Bank of China (Hong Kong) Limited and Chairman of Nanyang Commercial Bank, Limited. He was previously General Manager of the BOC Shanghai Branch and the BOC Shanghai Trust and Consultancy Company. In serving for the Hong Kong financial sector, Dr Liu is the Chairman of the Hong Kong Association of Banks. He is a Member of the Exchange Fund Advisory Committee, Member of the Banking Advisory Committee, Director of Hong Kong Note Printing Limited and Director of the Hong Kong Interbank Clearing Limited. He is

also a Director of the Board of Airport Authority Hong Kong, Director of Shanghai Commercial Bank Limited, Chairman of the Hong Kong Chinese Enterprise Association and General Committee Member of the Hong Kong General Chamber of Commerce. Dr Liu is involved in other public duties such as Member of the Commission on Strategic Development of the Hong Kong Special Administrative Region, Vice President of the Chinese Red Cross Foundation, Managing Director of China Youth Federation Committee and Member of the Hong Kong Red Cross Advisory Board. He has over 25 years of experience in the banking and financial industries.

LO Ka Shui, JP, aged 55, 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 is presently the Chairman of the GEM Listing Committee and was Chairman of the Listing Committee of the Stock Exchange from 1992 to 1996. He is the Non-Executive Chairman of Panda-Recruit Limited and 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 actively involved in community activities, including being a Vice President of The Real Estate Developers Association of Hong Kong, a trustee of the Hong Kong Center

for Economic Research, a member of the Long Term Housing Strategy Advisory Committee, a member of the Council of Advisors on Innovation and Technology and 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.

SETO Gin Chung, John, aged 53, has been a Non-executive Director of HKEx since 3 April 2000. Mr Seto is the Chairman and non-executive director of Stockmartnet Holdings Limited. He is also the non-executive director of Poly Investments Holdings Limited and Kowloon Development Company Limited. He was the Chief Executive of HSBC Broking Services (Asia) Limited. From 1997 to 2000, he was the first Vice Chairman of the Stock Exchange and a director of HKSCC. He was also a member of the Council of the Stock Exchange from 1994 to 2000. Mr Seto holds a Master of Business Administration degree from New York University. He has over 27 years of experience in the securities and futures industry.

STRICKLAND, John Estmond, GBS, JP, aged 62, has been a Non-executive Director of HKEx since 3 April 2000. Mr Strickland is a former Chairman of The Hongkong and Shanghai Banking Corporation Limited

and is a director of the Airport Authority Hong Kong and Esquel Holdings Inc. He is active in numerous community organisations. He has been awarded honorary Doctorate degrees from City University and Hong Kong Polytechnic University.

WARD, Rodney Gordon, aged 57, was appointed a Non-executive Director of HKEx on 1 April 2001. Mr Ward is the Chairman of UBS Warburg, Asia. He joined one of the firm's predecessors, S.G. Warburg, in 1972 and was actively involved in building the firm's business in the U.S. and Canada. In 1990, he was appointed Joint Head of the Corporate Finance Division. In 1994, he moved to Hong Kong as Chairman of S.G. Warburg's operations in Asia Pacific and, following its acquisition by Swiss Bank Corporation, became Chairman of the combined group's business in Asia Pacific and a member of the Group Executive Board of the Bank. In 1997, he was appointed Chairman of the Group's business in Eastern Europe, the Middle East and Africa. From 1998 until December 1999, he was Vice Chairman and Director of Republic Bank of New York and Republic New York Corporation. He rejoined UBS Warburg in his current position in February 2000. He was educated at Cambridge University and attended Yale Law School before joining Simmons & Simmons, the international law firm, which he left in 1972 to join S.G. Warburg. He

has over 30 years of experience in the securities industry.

YUE Wai Keung, aged 49, has been a Non-executive Director of HKEx since 3 April 2000. Mr Yue is a dealing director of Luen Fat Securities Company Limited, a vice chairman and a non-executive director of Stockmartnet Holdings Limited, a non-executive director of Prosper eVision Holding Limited as well as a director of numerous other privately held securities or financial companies. He was a member of the Council of the Stock Exchange from 1993 to 2000 and the Deputy Chairman of HKSCC from 1997 to 2000. Mr Yue was also a member of the Departmental Advisory Board of Guangdong Academy of Social Science in 1997. Mr Yue is a Director of the Hong Kong Stockbrokers Association and has over 29 years of experience in the securities and futures industry.

Senior Management

CHEUNG Kwok Wai, David, aged 52, is the Chief Financial Officer of HKEx. Prior to joining HKEx in April 2000, he was the Chief Financial Officer of Standard Chartered Bank, Hong Kong and North East Asia. He is a member of the American Institute of Certified Public Accountants. Mr Cheung has over 21 years of international experience in the banking and securities industries, including postings as Vice President, First Interstate Bank, London and Controller, Standard Chartered Bank, New York. He

has completed the Advanced Management Programme, Templeton, University of Oxford and holds a Bachelor of Science (Accounting) degree and a Master of Business Administration (Finance) degree from the University of Southern California.

FOK Kwong Man, Lawrence, aged 52, 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 20 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 Administration degree from Columbia University, and a Master of Arts (Economics) degree and a Master of Science (Statistics) degree from Stanford University.

GREDE, Frederick John, aged 49, is the Chief Operating Officer of HKEx, and Chief Executive of the Futures Exchange. He also serves on HKEx's Executive Committee and Management Committee, and chairs the Company's IT Steering Committee. Additionally, he is a member of the SFC's On-Line Trading Working Group and Investor Education Advisory Committee. He is also a member of the Hong Kong Trade Development Council's Financial Services Advisory Committee and Financial Services Promotion Working Group. Before joining HKEx in April 2000, he was the Executive Vice President of Planning and Operations at the Chicago Board of Trade (CBOT). He joined CBOT in 1974 and during his term of employment held various executive positions in both the Administration and Planning Division(s) and the Office of Investigations and Audits. He holds a Bachelor of Science degree in Finance from the University of Illinois, a Master of Business Administration degree from the University of Chicago Graduate School of Business and a Juris Doctor degree from DePaul University School of Law.

REISCH, Walter Anton, aged 55, is Head of the Clearing Business Unit of HKEx and Chief Executive of HKSCC. He joined HKEx on 9 January 2001, after several years of consultancy of financial markets around the world. He was with London Clearing

House (formerly ICCH) for 18 years where he held senior management and board positions in Sydney and London. He was subsequently with SunGard Futures in the capacity of Managing Director and with Austraclear in the position of Chief Operating Officer. He has some 28 years of experience in developing and operating exchange trading systems, clearing services and back-office services for a number of financial markets.

Company Secretary

MAU Kam Shing, Joseph, aged 43, is the Company Secretary of HKEx and its group of companies. Prior to joining the Group, he was the company secretary of a listed group in Hong Kong for over 12 years. Mr Mau is a Fellow Member of the Association of Chartered Certified Accountants and an Associate Member of the Hong Kong Society of Accountants. He holds a Master of Science Degree in Business Administration from the University of Bath.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

(i) Shares

As at 31 December 2001, the Directors and their respective associates had interests in the shares of HKEx as recorded in the register maintained by HKEx pursuant to Section 29 of the Securities (Disclosure of

Interest) Ordinance (SDI Ordinance) as follows:

Name of Director	Number of shares held	
	Corporate Interests	Total
FAN Chor Ho, Paul	2,187,000 (note 1)	2,187,000
LEE Jor Hung, Dannis	1,610,000 (note 2)	1,610,000
YUE Wai Keung	1,000 (note 3)	1,000

Notes:

- 2,187,000 shares were owned by Compu-Chart Investment Adviser Limited, a private company in which Mr FAN Chor Ho, Paul holds a 99.99 per cent interest.
- 1,610,000 shares were owned by DL Brokerage Limited, a private company beneficially wholly owned by Mr LEE Jor Hung, Dannis.
- 1,000 shares were owned by Luen Fat Securities Company Limited, a private company in which Mr YUE Wai Keung holds a 36.75 per cent interest.

Save as disclosed in the aforesaid, none of the three directors have personal interests, family interests or other interests in the shares of HKEx.

Other than the holdings disclosed above, no interests were held or deemed or taken to be held (under the SDI Ordinance) by any Director or Chief Executive of HKEx or their respective associates in any equity or debt securities of HKEx or any of its

associated corporations which were required to be notified to HKEx and the Stock Exchange pursuant to Section 28 of the SDI Ordinance or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein.

(ii) Options

As at 31 December 2001, the number of shares issuable under a share option granted pursuant to the Pre-Listing Scheme to Mr Kwong Ki Chi, a Director of HKEx is 1,454,126 shares (2000: 1,454,126 shares). The said option was granted on 20 June 2000, and is exercisable between 6 March 2002 to 30 May 2010 at an exercise price of \$7.52 per share.

Apart from the aforesaid, at no time during the year was HKEx, or its subsidiaries, a party to any arrangement to enable the Directors of HKEx to acquire benefits by means of the acquisition of shares in, or debentures of, HKEx or any other body corporate, and neither the Directors nor the Chief Executive, nor any of their spouses or children under the age of 18, had any interest in, or had been granted, or exercised, any right to subscribe for the securities and options of HKEx and its associated corporation within the meaning of the SDI Ordinance, or had exercised any such rights.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which HKEx or any of its subsidiaries was a party and in which a Director of HKEx had a material interest, whether directly or indirectly subsisted at the year end or at any time during the year.

CONNECTED TRANSACTIONS

The SFC granted a waiver to HKEx on 21 June 2000 from strict compliance with the connected transaction requirements under the Listing Rules applicable to the connected transactions on the basis that:-

- (i) the transactions being:
 - (a) in the ordinary and usual course of business of the relevant Group company and conducted on an arm's length basis;
 - (b) in respect of transactions other than Buy-in Transactions, in accordance with the rules and regulations of the relevant Group company governing such transactions and where the rules and regulations do not govern those transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;

- (c) in respect of transactions which are Buy-in Transactions, in accordance with the standard terms and conditions of HKSCC applicable generally to all Buy-in Brokers in such transactions for and on behalf of HKSCC and at the standard commission rate payable by HKSCC in respect of all such Buy-in Transactions; and
- (d) in the opinion of the Directors, fair and reasonable so far as the shareholders of the Company are concerned;
- (ii) details of the connected transactions (except for Buy-in Transactions) as set out in Rule 14.25(1)(A) to (D) of the Listing Rules shall be disclosed in HKEx's subsequent annual reports, provided however that specific details of the dates of the transactions and the total consideration need not be disclosed but instead there should be disclosure of the period during which the transactions are conducted;
- (iii) details of the connected transactions (which are Buy-in transactions) as set out in Rule 14.25(1)(A) to (D) of the Listing Rules shall be disclosed in HKEx's subsequent annual reports, provided however that specific details of the dates of the transactions need not be disclosed but instead there should be disclosure of the period during which the transactions are conducted;
- (iv) at least two of the independent non-executive Directors shall review annually the connected transactions and confirm in HKEx's next following annual report that they were conducted in the manner as stated in the paragraph (i) condition above; and
- (v) the Auditors of HKEx shall review annually the connected transactions and provide the Directors with a letter confirming that:
 - (a) the connected transactions have received approval from the Directors; and
 - (b) the connected transactions are in accordance with the relevant rules and regulations of the relevant Group company governing fees for the applicable facilities, services or goods provided by, or to, the Group and where the rules and regulations do not govern the transaction in full, are in accordance with the standard terms and conditions of the relevant Group company relating to the applicable facilities, services or goods provided by, or to, the Group.

During the year ended 31 December 2001, the Group had the following connected transactions, details of which are set out below:

(a) For the year ended 31 December 2001, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with the use of (i) the facilities provided by HKEx or its subsidiaries for the trading, clearing and/or settlement of securities and futures products and transactions and (ii) all services offered by HKEx or its subsidiaries which are ancillary, incidental or otherwise related to the foregoing:

- (1) Mr FAN Chor Ho, Paul, a Director of HKEx, was interested in the transactions referred to in (a) entered into by Paul Fan Securities Limited, an Exchange Participant in which Mr Fan has a 99.99 per cent interest.
- (2) Mr LEE Jor Hung, Dannis, a Director of HKEx, was interested in the transactions referred to in (a) entered into by DL Brokerage Limited which is an Exchange Participant beneficially wholly owned by Mr Lee.

(3) Mr LEONG Ka Chai, a Director of HKEx, was interested in the transactions referred to in (a) entered into by Roctec Securities Company Limited and Roctec Futures Trading Company Limited, Exchange Participants in which Mr Leong has a 30 per cent interest in each of the companies.

(4) Mr YUE Wai Keung, a Director of HKEx, was interested in the transactions referred to in (a) entered into by Luen Fat Securities Company Limited, an Exchange Participant in which Mr Yue has a 36.75 per cent interest.

All the above connected transactions were entered into in the ordinary course of business and on normal commercial terms.

(b) For the year ended 31 December 2001, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with the listing or proposed listing of securities on a market maintained by HKEx or its subsidiaries and all services offered by HKEx or its subsidiaries which are ancillary,

incidental or otherwise related to foregoing:

- (1) Dr LO Ka Shui, a Director of HKEx, was interested in the transactions referred to in (b) entered into by Great Eagle Holdings Limited, a company listed on the Stock Exchange in which Dr Lo and his family members together have more than 60 per cent interest.

The above connected transactions were entered into in the ordinary course of business and on normal commercial terms.

- (c) For the year ended 31 December 2001, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with HKSCC's arrangement on behalf of a Clearing Participant of a Buy-in Transaction:

- (1) Mr FAN Chor Ho, Paul, a Director of HKEx, was interested in the transactions referred to in (c) entered into by Paul Fan Securities Limited in which Mr Fan has a 99.99 per cent interest.

For the year ended 31 December 2001, the total consideration of such transactions, which were transacted on normal commercial terms was \$11,874,194.

- (2) Mr LEE Jor Hung, Dannis, a Director of HKEx, was interested in the transactions referred to in (c) entered into by DL Brokerage Limited beneficially wholly owned by Mr Lee.

For the year ended 31 December 2001, the total consideration of such transactions, which were transacted on normal commercial terms was \$13,983,706.

- (3) Mr LEONG Ka Chai, a Director of HKEx, was interested in the transactions referred to in (c) entered into by Roctec Securities Company Limited in which Mr Leong has a 30 per cent interest.

For the year ended 31 December 2001, the total consideration of such transactions, which were transacted on normal commercial terms was \$3,166,414.

Two independent non-executive Directors who have not entered into any connected transactions as defined under the waiver from the SFC, have reviewed and confirmed that the connected transactions as set out above had been entered into by the Group in accordance with the waiver conditions granted by the SFC as stated in paragraphs (i), (ii), and (iii) above.

The Auditors of HKEx have also confirmed that the connected transactions as set out above had been conducted in the manner as stated in paragraph (v) above.

SUBSTANTIAL SHAREHOLDER

The Directors are not aware of any party who was directly or indirectly interested in 10 per cent or more of the issued share capital of HKEx as at 31 December 2001 as recorded in the register required to be kept by HKEx under Section 16(1) of the SDI Ordinance.

MINORITY CONTROLLER

Under the Merger Ordinance, no person shall be or become a Minority Controller, i.e. a person who either alone or with any associate or associates, is entitled to exercise, or control the exercise of 5 per cent or more of the voting power at any general meeting of the recognised exchange controller, except with the approval in writing of the SFC after consultation with the Financial Secretary of the HKSAR.

As of 13 March 2002, two CCASS Participants are holding approximately 28.8 per cent and 12.1 per cent (As of 13 March 2001: three CCASS Participants each held approximately 18.9 per cent, 11.8 per cent and 5.3 per cent of HKEx's issued share capital) respectively of HKEx's issued share capital. The SFC had granted approval to these two CCASS Participants for being Minority Controllers of HKEx on the basis that the shares are held in custody for their clients.

SHAREHOLDERS' STRUCTURE

An analysis of the shareholders' structure of HKEx for the respective year ended December 2001 and 2000 are set out below:

	No. of Shareholders	%	Aggregated Shareholdings	%
As at 31 December 2001				
Corporate	120	11.5	983,533,103	94.5
Individual	925	88.5	57,131,743	5.5
Total	<u>1,045</u>	<u>100</u>	<u>1,040,664,846</u>	<u>100</u>
As at 31 December 2000				
Corporate	170	37.5	984,038,681	94.6
Individual	283	62.5	56,626,165	5.4
Total	<u>453</u>	<u>100</u>	<u>1,040,664,846</u>	<u>100</u>

HKSCC Nominees Limited, a registered corporate shareholder of HKEx, holds 839,897,543 shares and 745,840,131 shares in 2001 and 2000 respectively, as a nominee for CCASS Participants.

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 2001. 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 2001.

PURCHASE, SALE OR REDEMPTION OF HKEx'S LISTED SECURITIES

During the year ended 31 December 2001, HKEx had not redeemed and neither HKEx nor any of its subsidiaries had purchased or sold any of HKEx's listed securities.

PROVIDENT FUND SCHEME

Particulars of the provident fund scheme of the Group are set out in note 10 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming Annual General Meeting of HKEx.

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

13 March 2002