
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult an exchange participant or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Hong Kong Exchanges and Clearing Limited, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, exchange participant or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Pursuant to Chapter 38 of the Listing Rules, the Securities and Futures Commission regulates Hong Kong Exchanges and Clearing Limited in relation to the listing of its shares on The Stock Exchange of Hong Kong Limited. The Securities and Futures Commission takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

**Hong Kong Exchanges and Clearing Limited****香港交易及結算所有限公司***(Incorporated in Hong Kong with limited liability)*

PROPOSALS FOR
AMENDMENTS TO THE SHARE OPTION SCHEME
GENERAL MANDATES TO ISSUE SHARES AND REPURCHASE SHARES
AND
AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Notice of Annual General Meeting of Hong Kong Exchanges and Clearing Limited to be held at the Trading Hall of the Stock Exchange at 1st Floor, One and Two Exchange Square, Central, Hong Kong on Wednesday, 17 April 2002 at 4:30 p.m. is set out on pages 120 to 128 of the Annual Report 2001 sent together with this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's registrar, Hong Kong Registrars Limited at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the Annual General Meeting or any adjourned meeting should you so wish.

13 March 2002

DEFINITIONS

In this circular, the following expressions have the following meanings unless the context otherwise requires:

“AGM”	the annual general meeting of HKEx to be held at the Trading Hall of the Stock Exchange at 1st Floor, One and Two Exchange Square, Central, Hong Kong on Wednesday, 17 April 2002 at 4:30 p.m., notice of which is set out on pages 120 to 128 of the Annual Report 2001 sent together with this circular or, where the context so admits, any adjournment thereof;
“Annual Report and Accounts”	the profit and loss accounts, balance sheets, group accounts (if any), reports of the Directors and of the Auditors and other documents (if any) as are required by the Companies Ordinance to be laid before a general meeting of a company;
“Articles of Association”	the articles of association of HKEx, as originally adopted, or as from time to time altered in accordance with the Companies Ordinance;
“Auditors”	the auditors for the time being and from time to time of HKEx;
“Company” or “HKEx”	Hong Kong Exchanges and Clearing Limited, a company incorporated in Hong Kong with limited liability;
“Companies Ordinance” or “Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong;
“Directors”	the directors of HKEx;
“Employee”	any employee of HKEx or any Subsidiary including (without limitation) any executive director of HKEx or any Subsidiary;
“Grantee”	any Employee who accepts the offer of the grant of any Option in accordance with the terms of the Scheme or (where the context so permits) a person who is entitled to any such Option in consequence of the death of the original Grantee;

DEFINITIONS

“Latest Practicable Date”	15 March 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Offer Date”	the date, which must be a Trading Day, on which an Option is offered to an Employee;
“Option”	an option to subscribe for Shares granted pursuant to the terms of the Share Option Scheme;
“Relevant Exchange”	any stock exchange on which the shares of the Company are listed and permitted to be dealt in at the relevant time, including without limitation, the Stock Exchange;
“SFC”	the Securities and Futures Commission;
“Share Option Scheme” or “Scheme”	the post listing share option scheme of HKEx adopted by the Shareholders on 31 May 2000;
“Shareholders”	holders of Shares;
“Shares”	shares of HK\$1.00 each in the share capital of HKEx;
“Statutes”	the Companies Ordinance and every other ordinance for the time being in force concerning companies and affecting the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription Price”	the price per Share at which a Grantee may subscribe for Shares on the exercise of an Option;
“Subsidiary”	a company which is for the time being and from time to time a subsidiary (within the meaning of section 2(4) of the Companies Ordinance) of HKEx whether incorporated in Hong Kong or elsewhere;

DEFINITIONS

“Summary Financial Report”	in relation to a listed company, a summary financial report of the company which complies with section 141CF(1) of the Companies Ordinance;
“Takeover Code”	the Hong Kong Code on Takeovers and Mergers;
“Trading Day”	a day on which the Stock Exchange is open for the business of dealing in securities.

LETTER FROM THE BOARD OF DIRECTORS



Hong Kong Exchanges and Clearing Limited

香港交易及結算所有限公司

(Incorporated in Hong Kong with limited liability)

Non-executive Directors:

LEE Yeh Kwong, Charles, *Chairman*
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
YUE Wai Keung

Registered Office:

12th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Executive Director:

KWONG Ki Chi, *Chief Executive*

13 March 2002

To the Shareholders

Dear Sir or Madam,

**PROPOSED AMENDMENTS TO THE SHARE OPTION SCHEME
GENERAL MANDATES TO ISSUE SHARES AND REPURCHASE SHARES
AND
AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

1. INTRODUCTION

The purpose of this circular is to give you information on the proposals to amend the Share Option Scheme, to grant general mandates to issue shares and to repurchase shares, and to amend the Articles of Association, all for your consideration and, if thought fit, approval at the AGM to be held on 17 April 2002.

LETTER FROM THE BOARD OF DIRECTORS

2. AMENDMENTS TO THE SHARE OPTION SCHEME

At the extraordinary general meeting of HKEx held on 31 May 2000, the Shareholders approved the adoption of the Share Option Scheme. As of the date of this circular, no Option has been granted under the Scheme and the Directors do not have any current plan to grant any Options prior to or immediately after the AGM.

After the adoption of the Scheme, on 1 September 2001, the Stock Exchange amended its requirements for share option schemes as set out in Chapter 17 of the Listing Rules. As a result of these amendments, the terms of the Share Option Scheme no longer comply with Chapter 17 of the Listing Rules and no Option can be granted under the Scheme without complying with the current requirements of Chapter 17 of the Listing Rules. The Directors consider that it would be in the best interests of HKEx and the Shareholders to amend the Scheme in order to comply with the current requirements of Chapter 17 of the Listing Rules. The proposed amendments to the terms of the Scheme are set out in Appendix I to this circular. In this regard, the Directors would like to draw the attention of Shareholders to the following:

- (a) while the current Listing Rules would permit a wider category of participants, no amendment is proposed to be made to the eligible participants of the Scheme, and the Scheme will continue to be available only to employees of the Company or any Subsidiary including (without limitation) any executive director of the Company or any Subsidiary; and
- (b) the vesting scale that defines the percentage of Shares comprised in an Option which is exercisable remains unchanged.

An ordinary resolution to amend the Share Option Scheme will be proposed at the AGM to be held on 17 April 2002. The Notice of AGM, which contains details of the relevant resolution, is set out on pages 120 to 128 of the Annual Report sent together with this circular.

Shareholders should note that no similar amendments are required to be made in relation to the pre-listing share option scheme (also adopted by the Shareholders on 31 May 2000) because all options under that scheme were issued prior to HKEx's listing on 27 June 2000 and no further options can be issued thereunder. The pre-listing share option scheme, and the options already granted thereunder, are unaffected by the amendments to Chapter 17 of the Listing Rules. Shareholders should refer to the Annual Report 2001 for details of options granted under the pre-listing share option scheme.

The Directors of HKEx consider that it is not appropriate to state the value of all the Options that can be granted pursuant to the Share Option Scheme as if they had been granted at the Latest Practicable Date, as any such statement would not be meaningful to the Shareholders due to the application of a number of assumptions such as, expected volatility of underlying shares and expected life of options for the estimation of the value of the Options.

LETTER FROM THE BOARD OF DIRECTORS

A copy of the Scheme, as amended by the proposals described in this circular, is available for inspection at 12/F., One International Finance Centre, 1 Harbour View Street, Central, Hong Kong during normal business hours up to and including the date of the AGM and will also be available for inspection at the AGM.

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company for the proposed amendments to the Share Option Scheme. The Directors collectively and individually accept full responsibility for the accuracy of such information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any such statement herein misleading.

3. GENERAL MANDATES TO ISSUE SHARES AND TO REPURCHASE SHARES

At the last annual general meeting of HKEx held on 27 April 2001, ordinary resolutions were passed to grant general mandates to the Directors to repurchase Shares and to issue Shares. These general mandates will lapse at the conclusion of the AGM.

Ordinary resolutions will be proposed at the AGM to grant to the Directors a general mandate to (i) allot, issue and deal with Shares not exceeding 20 per cent. of the aggregate nominal amount of the share capital of HKEx in issue on 17 April 2002, the date of the AGM; (ii) allot, issue and deal with Shares, including the aggregate nominal amount of Shares repurchased by HKEx under the Repurchase Mandate as mentioned in (iii) (the mandates referred to in (i) and (ii) herein being hereinafter collectively referred to as the “Issue Mandates”); and (iii) repurchase, inter alia, Shares, the aggregate nominal amount of which does not exceed 10 per cent. of the aggregate nominal amount of the share capital of HKEx in issue on 17 April 2002, the date of the AGM (the “Repurchase Mandate”). Shareholders are referred to the Notice of AGM, set out on pages 120 to 128 of the Annual Report 2001 sent together with this circular, for details of the resolutions on these general mandates which will be considered at the AGM. With reference to these resolutions, the Directors wish to state that they have no immediate plans to repurchase any Shares or to issue any new Shares pursuant to the relevant mandates.

An explanatory statement, as required by the Listing Rules to be sent to Shareholders in connection with the Repurchase Mandate, is set out in Appendix II to this circular. This contains all the information reasonably necessary to enable the Shareholders to make an informed decision on whether or not to vote for or against the ordinary resolution to grant the Repurchase Mandate at the AGM.

LETTER FROM THE BOARD OF DIRECTORS

4. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Financial Reports

On 4 January 2002, amendments to the Companies Ordinance came into force to permit a listed company incorporated in Hong Kong to send, subject to the consent of the relevant recipient, copies of Summary Financial Reports in place of the Annual Report and Accounts to its shareholders, debenture holders and any other person entitled for the purposes of a general meeting of the company. A listed company is also allowed, subject to the consent of the relevant recipient, to treat the publication of the Annual Report and Accounts and/or the Summary Financial Report on the computer network of the company as discharging its obligation under the Companies Ordinance to send a copy of the relevant documents to its shareholders, debenture holders and any other person entitled. There is no immediate plan to issue Summary Financial Reports and if the Board decides to do so, consent of individual Shareholders would be sought at a later stage.

Prior to these amendments to the Companies Ordinance, it was necessary for the Company to send each Shareholder and debenture holder, among others, a copy of the Annual Report and Accounts. Accordingly, Article 139 of the Articles of Association, in its present form, requires the delivery of printed copy of Annual Reports and Accounts to Shareholders and debenture holders, and does not permit HKEx to send Summary Financial Reports to Shareholders and debenture holders. In order to take advantage of the potential cost savings resulting from the amendments to the Companies Ordinance, a special resolution will be proposed at the AGM to, among others, amend the Articles of Association to allow HKEx to distribute Summary Financial Reports to Shareholders and debenture holders who would prefer to receive it in place of the Annual Report and Accounts and to enable HKEx to offer Shareholders and debenture holders the choice to forego receipt of a printed copy of either the Annual Report and Accounts or the Summary Financial Report and to rely the versions of those documents published on HKEx's website.

Even if Shareholders vote in favour of the special resolution, they will still be able to choose to receive printed copies of the Annual Report and Accounts.

Corporate Communications

Chapter 2 of the Listing Rules was amended on 15 February 2002 to allow listed companies to send or otherwise make available corporate communications to holders of securities using electronic means with their prior approval if that is allowed under applicable laws and regulations and the listed company's own constitutional documents.

The notice provisions in the Articles of Association contained in Articles 141 to 150 currently require notices to be given to or by any person pursuant to the Articles of Association to be in writing (except for notices calling a meeting of the Directors), and

LETTER FROM THE BOARD OF DIRECTORS

provide that a notice or other document may be served on or delivered to any Shareholder by means authorised in writing by the Shareholder concerned. The Directors believe that it will be desirable for the Articles of Association to be amended to clarify that corporate communications may also be made by electronic means. Accordingly, certain amendments to Articles 2, 141, 142, 145 and 146 of the Articles of Association will be proposed for your consideration and, if thought fit, approval at the AGM.

Indemnity

An amendment to Article 155 of the Articles of Association will also be proposed at the AGM to the effect that the Auditor will be excluded as a party entitled to be indemnified by HKEx against all costs, charges, losses, expenses and liabilities incurred by the Auditor in the execution and discharge of his duties. The Board considers that it is inappropriate for the Company to give indemnity to the Auditor.

General

The Directors consider that the proposed amendments to the Articles of Association are beneficial to the Company and the Shareholders. A special resolution which requires not less than 75 per cent. of the votes cast by Shareholders attending and entitled to vote at the AGM will be put forth as special business to be considered and approved by the Shareholders at the AGM. Details relating to the proposed amendments are set out in the Appendix III to this circular.

As Shareholders may know, the provisions of the Articles of Association may not be amended without the approval in writing of the SFC pursuant to section 10 of the Exchanges and Clearing Houses (Merger) Ordinance. The proposed amendments to the Articles of Association will be subject to the written approval of the SFC after passing of the special resolution at the AGM by Shareholders.

5. RECOMMENDATIONS

The Directors believe that the adoption of the proposed amendments to the Share Option Scheme, the granting of the Issue Mandates and the Repurchase Mandate and the amendments to the Articles of Associations are in the best interests of HKEx and the Shareholders, and accordingly recommend you to vote in favour of all the relevant resolutions to be proposed at the AGM.

Yours faithfully,

By Order of the Board

HONG KONG EXCHANGES AND CLEARING LIMITED

Lee Yeh Kwong, Charles

Chairman

APPENDIX I PROPOSED AMENDMENTS TO THE SHARE OPTION SCHEME

This appendix sets out the proposed amendments to the Share Option Scheme, which are intended to reflect the recent amendments to Chapter 17 of the Listing Rules.

1. DEFINITIONS

- (a) Note (1) to Listing Rule 17.03(9) now provides that the date of grant of an option must be a business day (as defined in the Listing Rules). To reflect this in the Scheme document, the definition of “Offer Date” will be amended and a new definition of “Trading Day” added, as follows:

““Offer Date” means the date, which must be a Trading Day, on which an Option is offered to an Employee”

““Trading Day” means a day on which the Stock Exchange is open for the business of dealing in securities”

- (b) A new definition of “Listing Rules” will also be added, as follows:

““Listing Rules” means the Rules Governing the Listing of Securities on the Stock Exchange”

2. PURPOSE OF THE SHARE OPTION SCHEME

Chapter 17 now requires the purpose of the scheme to be stated in the scheme documentation. The purpose of the Share Option Scheme will be added as a new clause 2 to the Scheme document, as follows:

Clause 2

“The purpose of the Scheme is to attract and retain high calibre Employees, and to motivate them to higher levels of performance.”

3. GRANT OF OPTION

- (a) Listing Rule 17.05 now sets specific restrictions on the time when options cannot be granted under a scheme. The Scheme currently prohibits the grant of any Option by Directors to any Employee during the period of one month preceding the date of publication of the interim results or the date of the preliminary announcement of the

final results. Clause 4.2 will be amended to reflect the new provisions of Listing Rule 17.05 and renumbered as clause 5.2, as follows:

Clause 5.2

“The Directors shall not offer the grant of any Option to any Employee after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published or disclosed in accordance with the requirements of the Listing Rules. In particular, no Option may be offered during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the SFC in accordance with paragraph 12 of the Company’s listing agreement with the SFC) for the approval of the Company’s interim or annual results for any financial year (as the case may be); and
- (ii) the deadline for the Company to publish its interim or annual results announcement for any financial year (as the case may be) under its listing agreement with the SFC,

and ending on the date of the interim or annual results announcement (as the case may be).”

- (b) Listing Rule 17.04 provides, inter alia, that options granted to certain connected persons of a listed issuer must be subject to the approval of the independent non-executive directors. A new clause 5.6 will be added to the Scheme document to reflect the new provisions (to the extent applicable), as follows:

Clause 5.6

“An offer of the grant of an Option to an executive director or chief executive or a proposed executive director of the Company or any of their respective associates (as defined in the Listing Rules) must be approved by the independent non-executive directors of the Company.”

4. SUBSCRIPTION PRICE

Listing Rule 17.03(9) provides detailed specifications regarding the exercise price for options. Exercise prices which are at a discount to the average closing price of the

APPENDIX I PROPOSED AMENDMENTS TO THE SHARE OPTION SCHEME

underlying shares are no longer permitted. Clause 5 of the Scheme document will be amended to reflect the new provisions and renumbered as clause 6, as follows:

Clause 6

“The Subscription Price in respect of any Option granted on or after the Listing Date shall be a price determined by the Board and notified to an Employee (subject to any adjustments made pursuant to Clause 10) which shall be at least the higher of:

- (i) the closing price of the 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
- (ii) the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange’s daily quotations sheets for the five Trading Days immediately preceding the relevant Offer Date in respect of such Option; or
- (iii) the nominal value of the Shares.”

5. EXERCISE OF OPTIONS

Listing Rule 17.03(7) requires a negative statement to be included in scheme documents if there are no performance targets which must be achieved before options are exercisable. A new clause 7.1 will be added to include such a statement, as follows:

Clause 7.1

“Performance targets have not been included as conditions to the exercise of Options.”

6. MAXIMUM NUMBER OF SHARES AVAILABLE FOR SUBSCRIPTION

- (a) Listing Rule 17.03(3) contains detailed provisions regarding the maximum number of shares available for subscription under any scheme. These provisions are significantly different than before and clause 8.1 will be amended to reflect the new provisions and renumbered as clause 9.1, as follows:

Clause 9.1

“The maximum number of Shares in respect of which Options may be granted under the Scheme (as adjusted herein, the “Maximum Number of Shares”) when aggregated with the maximum number of Shares in respect of which options may be granted

APPENDIX I PROPOSED AMENDMENTS TO THE SHARE OPTION SCHEME

under any other share option scheme established by the Company (“another scheme”) (if any) is that number which is equal to 10 per cent. of the issued share capital of the Company at the date of approval of the Scheme, provided, however, that:

- (i) if at any time Options have been granted which results in the number of Shares in respect of all the Options granted exceeding the then applicable Maximum Number of Shares, the Maximum Number of Shares may be increased or “refreshed”, with the approval of the shareholders of the Company in general meeting (where a circular has been issued for such meeting) up to a maximum of 10% of the issued share capital of the Company at the date of such shareholders’ approval less the maximum number of Shares in respect of which options may be granted under another scheme;
- (ii) the Company may obtain a separate approval of its shareholders in general meeting (where a circular has been issued for such meeting) to permit the granting of Options which will result in the number of Shares in respect of all the Options granted exceeding the then Maximum Number of Shares provided that such Options are granted only to Employees specifically identified by the Company before shareholders’ approval is sought (in which case such Options granted shall not be counted towards the then applicable Maximum Number of Shares); and
- (iii) the total maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Scheme and any other options granted and yet to be exercised under another scheme shall not exceed 10 per cent. of the issued share capital of the Company from time to time.

The Maximum Number of Shares as at the approval of the Scheme is 104,066,484. For the avoidance of doubt, (a) in calculating whether the Maximum Number of Shares has been exceeded, Options under the Scheme or options under another scheme which have lapsed in accordance with the terms of the relevant scheme shall not be counted, and (b) if the Maximum Number of Shares is increased or refreshed pursuant to this Clause 9.1, Options granted under the Scheme or another scheme (including without limitation those outstanding, cancelled or lapsed in accordance with the relevant scheme and those exercised) prior thereto shall not be counted for the purpose of calculating whether the new Maximum Number of Shares has been exceeded.”

- (b) Listing Rule 17.03(4) has amended the maximum entitlement of each participant under a scheme. Clause 8.2 will be amended to reflect the new provisions and renumbered as clause 9.2, as follows:

Clause 9.2

“Unless approved by shareholders of the Company in general meeting (where a circular has been issued for such meeting and with the relevant Employee and his associates abstaining from voting), 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 (including exercised, cancelled and outstanding Options) in any 12-month period up to the date of the latest grant would exceed 1 per cent. of the issued share capital of the Company from time to time. “Associate” for this purpose shall have the meaning ascribed to it in rule 1.01 of Chapter 1 of the Listing Rules in relation to any director, chief executive or substantial shareholder (being an individual).”

7. ALTERATION OF THE SCHEME

Listing Rule 17.03(18) provides, inter alia, for certain alterations to schemes to be approved by shareholders. Clauses 12.1 and 12.2 will be amended and renumbered clauses 13.1 and 13.2 and new clauses 13.3 and 13.4 added, to reflect the new provisions, as follows:

Clause 13.1

“The Scheme may be altered in any respect by resolution of the Board except that the provisions of the Scheme as to:

- (i) the definitions of “Employee”, “Grantee” and “Option Period” in Clause 1.1; and
- (ii) the provisions of Clauses 2, 4.1, 5.1, 5.3, 5.4, 5.5, 6, 7, 8, 9, 10, 11, 14 and this Clause 13

shall not be altered to the advantage of Grantees or prospective Grantees except with the prior sanction of a resolution of the shareholders of the Company in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the Grantees as would be required of the shareholders of the Company under the Regulations for the time being of the Company for a variation of the rights attached to the Shares.”

APPENDIX I PROPOSED AMENDMENTS TO THE SHARE OPTION SCHEME

Clause 13.2

“Any alterations to the terms and conditions of the Scheme which are of a material nature or any change to the terms of the Options granted shall be subject to the approval of the shareholders of the Company save where the alterations take effect automatically under the existing terms of the Scheme.”

Clause 13.3

“After any alteration, the amended terms of the Scheme must comply with the relevant requirements of the Listing Rules.”

Clause 13.4

“Any change to the authority of the Board in relation to any alteration to the terms of the Scheme shall be subject to the approval of the shareholders of the Company in general meeting.”

Other than the above, certain other minor changes will be made to the Scheme document in respect of the renumbering of clauses and changes in cross-references as a result of the insertion of additional clauses in the Scheme document.

This appendix serves as an explanatory statement given to Shareholders as required under the Listing Rules in connection with the proposed Repurchase Mandate and also constitutes the memorandum required under section 49BA of the Companies Ordinance.

1. THE LISTING RULES

The Listing Rules permit a company with a primary listing on the Stock Exchange to repurchase its securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(a) Shareholders' approval

The Listing Rules provide that all proposed repurchases of securities by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a particular transaction.

Such authority may only continue in force during the period from the passing of the resolution until whichever is the earlier of: (i) the conclusion of the next annual general meeting of the company, (ii) the expiration of the period within which the next annual general meeting of the company is required by law to be held, or (iii) the date of the passing of an ordinary resolution by the shareholders in general meeting of the company revoking or varying such mandate.

(b) Source of funds

Repurchases must be funded out of funds legally available for such purpose. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

(c) Trading restrictions

The shares proposed to be repurchased by a company must be fully paid up. A maximum of 10 per cent. of the existing issued share capital as of the date of resolution passed on the grant of a repurchase mandate may be repurchased on the Stock Exchange. A company may not issue or announce an issue of new shares for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange (or in the case of HKEx, the SFC). In addition, all repurchases of securities on the Stock Exchange in any calendar month are limited to a maximum of 25 per cent. of the trading volume of such

securities on the Stock Exchange in the immediately preceding calendar month. The Listing Rules also prohibit a company from repurchasing its own securities on the Stock Exchange if the repurchase would result in the number of that company's listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Listing Rules.

(d) Status of repurchased securities

The Listing Rules provide that the listing of all repurchased securities is automatically cancelled and that the certificates for those securities must be cancelled and destroyed. The aggregate of the authorised share capital shall remain unchanged.

(e) Suspension of repurchases

The Listing Rules prohibit any repurchase of securities at any time after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information is made publicly available. A company (other than an investment company listed pursuant to the provisions of Chapter 21 of the Listing Rules) may not repurchase securities on the Stock Exchange, unless the circumstances are exceptional, during the period of one month immediately preceding either the preliminary announcement of the company's annual results or the publication of the company's interim report. In addition, the Stock Exchange (or in the case of HKEx, the SFC) reserves the right to prohibit repurchases of securities on the Stock Exchange if a company has committed a breach of the Listing Rules.

(f) Reporting requirements

Under the Listing Rules, repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange (in the case of HKEx, the SFC and the Stock Exchange) by not later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, a company's annual report is required to disclose details regarding repurchases of securities made during the year including the number of securities repurchased each month, the repurchase price for each such security or the highest and lowest price paid for each repurchase where relevant, and the aggregate price paid for such purchases and the reasons of the directors of the company for making such repurchases.

A company shall procure that any broker appointed by the company to effect the repurchase of securities shall disclose to the Stock Exchange (or in the case of HKEx, the SFC) such information with respect to repurchases made on behalf of that company as the Stock Exchange (or in the case of HKEx, the SFC) may request.

(g) *Connected parties*

The Listing Rules prohibit a company from knowingly repurchasing securities on the Stock Exchange from a “connected person”, that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their respective associates (as defined in the Listing Rules) and a connected person is prohibited from knowingly selling his securities in the company back to the company.

No connected person (as defined in the Listing Rules) has notified HKEx that he has a present intention to sell Shares to HKEx, or has undertaken not to do so, if the Repurchase Mandate is exercised.

2. SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of HKEx comprised 1,041,706,846 Shares.

Subject to the passing of the ordinary resolution approving the Repurchase Mandate and on the basis that no further Shares are issued or repurchased following the Latest Practicable Date and up to the date of AGM, exercise in full of the Repurchase Mandate could accordingly result in up to 104,170,684 Shares being repurchased by HKEx during the period from 17 April 2002, date of AGM up to (i) the conclusion of the next annual general meeting of HKEx, (ii) the expiration of the period within which the next annual general meeting of HKEx is required by law to be held, or (iii) the date of the passing of an ordinary resolution by the Shareholders in general meeting of HKEx revoking or varying the Repurchase Mandate, whichever occurs first.

3. REASONS FOR REPURCHASES

The Directors believe that it is in the best interests of HKEx and the Shareholders to have a general authority from Shareholders to enable HKEx to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of HKEx and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit HKEx and its Shareholders.

4. FUNDING OF REPURCHASES

In repurchasing securities, HKEx may only apply funds legally available for such purchase in respective accordance with its memorandum and articles of association, the laws of Hong Kong and the Listing Rules. Repurchases pursuant to the Repurchase Mandate will be made out of funds of HKEx legally permitted to be utilised in this connection, including the funds of HKEx otherwise available for dividend or distribution or the

proceeds of a fresh issue of shares made for such purpose. Any premium payable on a purchase over the par value of the Shares to be purchased must be provided for out of funds of HKEx otherwise available for dividend or distribution or out of sums standing to the credit of HKEx's share premium account.

There might be a material adverse effect on the working capital or gearing position of HKEx group of companies, as compared with the position disclosed in the audited accounts contained in the annual report of HKEx for the year ended 31 December 2001, in the event that the Repurchase Mandate is exercised in full at any time. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of HKEx group of companies or its gearing levels which, in the opinion of the Directors, are from time to time appropriate for HKEx.

5. GENERAL

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, their respective associates (as defined in the Listing Rules), have any present intention, if the Repurchase Mandate is exercised, to sell any Shares to HKEx or its Subsidiaries.

The Directors have undertaken to the SFC that, so far as the same may be applicable, they will exercise the Repurchase Mandate only in accordance with the Listing Rules and the applicable laws of Hong Kong.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of HKEx increases, such increase will be treated as an acquisition of voting rights for the purposes of the Takeover Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning under the Takeover Code), depending on the level of increase in the Shareholders' interest, could obtain or consolidate control of HKEx and thereby become obliged to make a mandatory offer in accordance with Rule 26 of the Takeover Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeover Code as a result of any repurchases of Shares pursuant to the Repurchase Mandate.

6. SHARE REPURCHASES MADE BY HKEx

HKEx has not repurchased any Shares during the six months prior to the Latest Practicable Date (whether on the Stock Exchange or otherwise).

7. SHARE PRICES

During each of the previous twelve months preceding the Latest Practicable Date, the highest and lowest prices at which the Shares were traded on the Stock Exchange were as follows:

	Share Prices (per share)	
	Highest <i>(HK\$)</i>	Lowest <i>(HK\$)</i>
2001		
March	16.35	11.75
April	14.45	11.95
May	15.35	13.70
June	15.00	13.60
July	14.10	11.20
August	12.05	9.70
September	9.95	7.60
October	11.30	9.35
November	12.05	10.25
December	12.60	11.00
2002		
January	12.95	11.20
February	11.50	10.70

APPENDIX III AMENDMENTS TO THE ARTICLES OF ASSOCIATION

This appendix sets out the proposed amendments to the Articles of Association, which are intended to allow the Company to take advantage of the recent amendments to the Companies Ordinance and Chapter 2 of the Listing Rules and to exclude the Auditor from being a party entitled to be indemnified by the Company in connection with the execution and discharge of his duties.

1. ANNUAL REPORT AND ACCOUNTS

The existing Article 139 expressly requires the delivery of printed copies of Annual Reports and Accounts to the Shareholders and debenture holders of the Company before an annual general meeting and does not allow the Company to send Summary Financial Reports or to publish the Annual Report and Accounts and/or the Summary Financial Report on its website as permitted under the Companies Ordinance. The existing Article 139 will be replaced by the following Article:

Article 139 – Balance sheets, profit and loss accounts and summary financial reports

- “(1) The Directors shall, from time to time, in accordance with the Statutes, cause to be prepared and to be laid before the annual general meeting of the Company such profit and loss accounts, balance sheets, group accounts (if any), reports of the Directors and of the Auditors and other documents (if any) as are required by the Statutes. Each balance sheet shall be signed on behalf of the Directors by two of their number. The Directors may also cause to be prepared any other financial documents (including without limitation any summary financial report) as they think fit.
- (2) Subject to paragraph (3) below, a copy of the relevant financial documents or the summary financial report shall, not less than 21 days before the meeting, be delivered or sent by post to the registered address of every member and debenture holder of the Company, or in the case of a joint holding to that member or debenture holder (as the case may be) whose name stands first in the appropriate Register in respect of the joint holding. No accidental non-compliance with the provisions of this Article shall invalidate the proceedings at the meeting.
- (3) Where a member or debenture holder of the Company has, in accordance with the Statutes and any rules prescribed by any Relevant Exchange from time to time, consented to treat the publication of the relevant financial documents and/or the summary financial report on the Company’s computer network as discharging the Company’s obligation under the Ordinance to send a copy of the relevant financial documents and/or the summary financial report, then subject to compliance with the publication and notification requirements of the Statutes and any rules prescribed by any Relevant Exchange from time to time, publication by the Company on the Company’s computer network of the relevant financial documents and/or the summary financial report at least 21 days before the date of the meeting shall, in relation to each such member or debenture holder of the Company, be deemed to discharge the Company’s obligations under paragraph (2) above.

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(4) For the purposes of this Article, “relevant financial documents” and “summary financial report” shall have the meaning ascribed to them in the Ordinance.”

Shareholders who vote in favour of the special resolution will not be precluded from receiving printed copies of the Annual Report and Accounts if they so wish.

2. CORPORATE COMMUNICATIONS

The existing notice provisions in the Articles of Association contained in Articles 141 to 150 require notices to be given to or by any person pursuant to the Articles of Association to be in writing (except for notices calling a meeting of the Directors), and provide that a notice or other document may be served on or delivered to any Shareholder by means authorised in writing by the Shareholder concerned.

The existing Articles 141, 142, 145 and 146 will be replaced by the following Articles to clarify that corporate communications may also be made in electronic means:

Article 141 – Form of notices

“Except where otherwise expressly stated, any notice to be given to or by any person pursuant to these Articles shall be in writing or, to the extent permitted by the Statutes and any rules prescribed by any Relevant Exchange from time to time and subject to Article 145(2), contained in an electronic communication. A notice calling a meeting of the Directors need not be in writing.”

Article 142 – Service of notices

“(1) A notice or other document (including a share certificate) may be served on or delivered to any member by the Company either personally or by sending it by mail, postage prepaid (and, in any case where the registered address of a member is outside Hong Kong, by prepaid airmail), addressed to such member at his registered address or by leaving it at that address addressed to the member or by any other means authorised in writing by the member concerned or by publishing it by way of advertisement in at least one English language newspaper and one Chinese language newspaper circulating in Hong Kong. Without limiting the generality of the foregoing but subject to the Statutes and any rules prescribed by any Relevant Exchange from time to time, a notice or other document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a computer network and notifying the member concerned, in such manner as he may from time to time authorise, that it has been so published.

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- (2) Any such notice or other document may be served or delivered by the Company by reference to the Register as it stands at any time not more than fifteen days before the date of service or delivery. No change in the Register after that time shall invalidate that service or delivery. Where any notice or other document is served on or delivered to any person in respect of a share in accordance with these Articles, no person deriving any title or interest in that share shall be entitled to any further service or delivery of that notice or document.”

Article 145 – Service on Company

- “(1) Any summons, notice, order or other document required to be sent to or served upon the Company, or upon any officer of the Company, may be sent or served by leaving the same or sending it by mail, postage prepaid (and, if posted outside Hong Kong, by prepaid airmail), addressed to the Company or to such officer at the Office.
- (2) The Directors may from time to time specify the form and manner in which a notice may be given to the Company by electronic means, including one or more addresses for the receipt of an electronic communication, and may prescribe such procedures as they think fit for verifying the authenticity or integrity of any such electronic communication. A notice may be given to the Company by electronic means only if it is given in accordance with the requirements specified by the Directors.”

Article 146 – Proof of postage to be sufficient proof of service

“Any notice or other document, if sent by mail, postage prepaid, shall be deemed to have been served or delivered on the day following that on which the letter, envelope, or wrapper containing the same is put into the post. In proving such service it shall be sufficient to prove that the letter, envelope or wrapper containing the notice or document was properly addressed and put into the post as prepaid mail or prepaid airmail (as the case may be). Any notice or other document not sent by post but left by the Company at a registered address shall be deemed to have been served or delivered on the day it was so left. Any notice or other document, if sent by electronic means (including through any relevant system), shall be deemed to have been given on the day following that on which the electronic communication was sent by or on behalf of the Company. Any notice or other document served or delivered by the Company by any other means authorised in writing by the member concerned shall be deemed to have been served when the Company has carried out the action it has been authorised to take for that purpose. Any notice or other document published by way of advertisement or on a computer network shall be deemed to have been served or delivered on the day it was so published.”

APPENDIX III AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The interpretation provisions in Article 2 of the Articles of Association will also be amended by:

- (a) adding the following new definitions to Article 2(1):

“communication	includes a communication comprising sounds or images or both and a communication effecting a payment
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electronic communication	a communication transmitted (whether from one person to another, from one device to another or from a person to a device or vice versa) by means of a telecommunications system (within the meaning of the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong)) or by other means but while in an electronic form”
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- (b) adding a new Article 2(8) as follows:

“References in these Articles to doing something by electronic means include doing it by an electronic communication.”

3. INDEMNITY OF AUDITOR

Under the existing Article 155 of the Articles of Association, the Auditor is a party entitled to be indemnified by the Company and the existing Article 155 will be amended by deleting the word “Auditor” immediately after the words “every Director” so that the Auditor will no longer be a person entitled to the indemnification as stipulated therein.