
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 advisor.

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)

**APPOINTMENT OF DIRECTORS AT THE 2003
ANNUAL GENERAL MEETING,
GENERAL MANDATES TO ISSUE SHARES AND REPURCHASE SHARES,
PAYMENT OF REMUNERATION TO NON-EXECUTIVE DIRECTORS
AND
AMENDMENTS TO THE MEMORANDUM AND 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 Tuesday, 15 April 2003 at 4:30 p.m. is set out on pages 118 to 128 of the Annual Report 2002 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 Rooms 1901-5, 19/F, Hopewell Centre, 183 Queen's Road East, 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.

18 March 2003

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 Tuesday, 15 April 2003 at 4:30 p.m., notice of which is set out on pages 118 to 128 of the Annual Report 2002 sent together with this circular or, where the context so admits, any adjournment thereof;
“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;
“Board”	the board of Directors of the Company;
“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;
“Latest Practicable Date”	17 March 2003, 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;
“Memorandum”	the memorandum of association of HKEx, as originally adopted, or as from time to time altered in accordance with the Companies Ordinance;
“Merger Ordinance”	the Exchanges and Clearing Houses (Merger) Ordinance (Chapter 555 of the Laws of Hong Kong);
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong);

DEFINITIONS

“SFC”	the Securities and Futures Commission;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholders”	holders of Shares;
“Shares”	shares of HK\$1.00 each in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“Takeover Code”	the Hong Kong Code on Takeovers and Mergers.

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*

18 March 2003

To the Shareholders

Dear Sir or Madam,

**APPOINTMENT OF DIRECTORS AT THE 2003 ANNUAL GENERAL MEETING,
GENERAL MANDATES TO ISSUE SHARES AND REPURCHASE SHARES,
PAYMENT OF REMUNERATION TO NON-EXECUTIVE DIRECTORS
AND
AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION**

1. INTRODUCTION

The purpose of this circular is to give you information on four matters to be dealt with at the forthcoming AGM. They are (i) appointment of Directors; (ii) grant of general mandates to issue Shares and to repurchase Shares; (iii) payment of remuneration to non-executive Directors of the Company; and (iv) amendments to the Memorandum and Articles of Association in anticipation of the coming into effect of the SFO on 1 April 2003.

LETTER FROM THE BOARD OF DIRECTORS

2. APPOINTMENT OF DIRECTORS

The Board currently consists of fifteen Directors, including the following:

- (i) six Directors elected by Shareholders (“Elected Directors”), namely Mr Fan Chor Ho, Paul, Dr Kwok Chi Piu, Bill, Mr Lee Jor Hung, Dannis, Mr Lee Kwan Ho, Vincent Marshall, Mr Seto Gin Chung, John, and Mr Yue Wai Keung;
- (ii) eight Directors appointed by the Financial Secretary (“Public Interest Directors”), namely Mr Lee Yeh Kwong, Charles, Mr Chan Cho Chak, John, Mr Timothy George Freshwater, Mr Leong Ka Chai, Dr Liu Jinbao, Dr Lo Ka Shui, Mr John Estmond Strickland and Mr Rodney Gordon Ward; and
- (iii) the Chief Executive of the Company, Mr Kwong Ki Chi, as an *ex-officio* Director.

The term of office of every Public Interest Director and Elected Director will expire at the conclusion of the AGM.

In addition, the employment contract of Mr Kwong Ki Chi, Chief Executive and executive Director, with HKEx expired on 6 March 2003 but Mr Kwong has agreed to stay on until the conclusion of the AGM.

Shareholders are invited to elect up to six new Elected Directors at the AGM to replace those retiring at the conclusion of the AGM in accordance with Article 90(1) of the Articles of Association. Pursuant to section 20 of the Merger Ordinance (section 77 under the SFO), the number of Public Interest Directors immediately following the AGM cannot be more than the maximum number of Elected Directors (i.e. six). The Board has not been advised by the Financial Secretary of the identity of the Public Interest Directors whom he intends to appoint with effect from the conclusion of the AGM. A press release will be issued once the Financial Secretary has informed HKEx of the identity of those Public Interest Directors.

Article 90(2) of the Articles of Association provides that no person (other than a Director retiring in accordance with the Articles of Association) may be appointed as an Elected Director unless:

- (a) he is recommended by the Board; or
- (b) not less than seven nor more than 28 clear days before the date appointed for the meeting, a Shareholder (who is not the person to be proposed) has given to the Secretary of the Company notice of his intention to propose a resolution for the appointment of that person and a notice executed by that person of his willingness to be appointed.

LETTER FROM THE BOARD OF DIRECTORS

The Board has formed a Nomination Committee comprising three non-executive Directors, namely, Mr Lee Yeh Kwong, Charles, Mr Fan Chor Ho, Paul, and Dr Lo Ka Shui, to nominate suitable candidates for the Board to consider and recommend to Shareholders.

A list of the seven candidates nominated by the Nomination Committee and recommended by the Board together with the individual candidate's brief biography are set out in Appendix I of this circular. In addition, on 17 March 2003, pursuant to Article 90(2)(b) of the Articles of Association, a Shareholder notified the Company of its intention to propose a resolution for the appointment of Mr Webb, David Michael as an Elected Director at the AGM. Accordingly, Appendix I of this circular also contains a copy of the biography of Mr Webb supplied by the relevant Shareholder to the Company for Shareholders' information. Appendix I also contains an explanation of the resolutions and voting procedures in relation to the election of Directors at the AGM.

3. GENERAL MANDATES TO ISSUE SHARES AND TO REPURCHASE SHARES

At the last annual general meeting of HKEx held on 17 April 2002, 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 15 April 2003, 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 15 April 2003, the date of the AGM (the "Repurchase Mandate"). Shareholders are referred to the Notice of AGM, set out on pages 118 to 128 of the Annual Report 2002 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 of 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. PAYMENT OF ORDINARY REMUNERATION TO NON-EXECUTIVE DIRECTORS

Article 88(1) of the Articles of Association of the Company provides that ordinary remuneration to Directors shall from time to time be determined by the Company in general meeting. The Remuneration Committee recommends that the non-executive Directors of the Company should be remunerated to reflect the time and effort which they contribute to the Company. An ordinary resolution will be proposed at the AGM for the Shareholders to consider and if thought fit, approve the payment of HK\$100,000 to each non-executive Director for their services provided to the Company for the ensuing year calculated from the conclusion of the AGM to the conclusion of the next annual general meeting. The proposed remuneration is comparable to the mean of the directors' fees paid among the Main Board listed companies as well as the median paid by HSI constituent listed companies. The Remuneration Committee considered that the proposed remuneration is reasonable. Payment will be made in proportion to the period of service in the case of a Director who has not served the entire period.

5. AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

The SFO was enacted on 13 March 2002 and shall take effect from 1 April 2003. It consolidates and modernises the 10 existing ordinances regulating the securities and futures markets, including, inter alia, the Merger Ordinance, Securities and Futures Commission Ordinance, Securities and Futures (Clearing Houses) Ordinance and SDI Ordinance. References to these ordinances have been made in the Memorandum and Articles of Association. With the commencement of the SFO on 1 April 2003, the Directors consider that for the sake of clarity, references to provisions in these ordinances should be replaced by references to corresponding provisions in the SFO. Accordingly, certain technical amendments to Clause 3(d) of the Memorandum and Articles 2, 55, 90, 106 and 111 of the Articles of Association will be proposed for your consideration and, if thought fit, approval at the AGM.

The Directors consider that the proposed amendments to the Memorandum and Articles of Association are of benefit to the Company and the Shareholders. A special resolution which requires not less than 75 per cent. of the votes cast by the 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 Appendix III of this circular.

As Shareholders may know, the provisions of the Memorandum and Articles of Association may not be amended without the approval in writing of the SFC pursuant to section 10 of the Merger Ordinance (section 67 under the SFO). The proposed amendments to the Memorandum and Articles of Association will be subject to the written approval of the SFC after passing of the special resolution at the AGM by the Shareholders. A press release will be issued after HKEx has received the said approval from the SFC.

LETTER FROM THE BOARD OF DIRECTORS

6. RECOMMENDATIONS

The Directors are pleased to recommend its seven candidates for Elected Directors as set out in Appendix I, six of whom are existing Elected Directors, for the Shareholders' consideration. Pursuant to Article 90(2)(b), a Shareholder has also notified the Company of its intention to propose an additional candidate to stand for election at the AGM. Shareholders may, if thought fit, appoint any six of the candidates as Elected Directors with effect from the conclusion of the AGM (including if proposed at the AGM the additional Shareholder proposed candidate). Shareholders are encouraged to actively participate in the election of Directors at the AGM. The Directors also believe that the granting of the Issue Mandates and the Repurchase Mandate, the payment of remuneration to non-executive Directors and the amendments to the Memorandum and Articles of Association 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

LIST OF CANDIDATES

The seven candidates nominated by the Nomination Committee and recommended by the Board are set out below in alphabetical order. Since six of the candidates are existing Directors, each of them abstained from voting at the Board meeting held on 12 March 2003 in respect of recommending himself as a candidate to stand for election.

1. **Mr FAN Chor Ho, Paul, JP**, aged 61, 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.
2. **Dr KWOK Chi Piu, Bill**, aged 50, 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 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. He was also a member of the Financial Services Advisory Committee of the Hong Kong Trade Development Council from 1996 to 2002. 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 about 20 years of experience in the securities and futures industry.
3. **Mr LEE Jor Hung, Dannis, BBS**, aged 48, 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 Hong Kong Securities Clearing Company Limited (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 about 20 years of experience in the securities industry.

4. **Mr LEE Kwan Ho, Vincent Marshall**, aged 47, 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.
5. **Mr SETO Gin Chung, John**, aged 54, 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 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 Hong Kong Securities Clearing Company Limited. 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 about 30 years of experience in the securities and futures industry.
6. **Mr WONG Sai Hung, Oscar**, aged 47, has been the Chief Executive Officer of BOCI-Prudential Asset Management Limited since 1 January 2001. Mr Wong was the Regional Managing Director of Prudential Portfolio Managers Asia from 1999 to 2000. From 1977 to October 1998, Mr Wong was working with LGT Asset Management Limited, a company which became a subsidiary of AMVESCAP, the parent of INVESCO in June 1998. During his first 10 years with LGT in Hong Kong, Mr Wong was involved in managing equity portfolios with investments in the Japanese and other Asia Pacific markets. From 1987 to 1990, Mr Wong was seconded to run an investment management joint venture in Taipei and assisted in starting of other similar investment management joint ventures of LGT in Thailand, Indonesia

and the Mainland China. From 1994 to 1997, Mr Wong was responsible for LGT's mutual fund marketing operations in Canada, a business which he helped to establish in 1994. Mr Wong was the Deputy Managing Director of LGT from 1990 to 1994 and became the head of its Asian operations in January 1998. From June to October 1998, Mr Wong was the Deputy Chief Executive of INVESCO Asia Limited. Mr Wong studied business at Hong Kong Polytechnic University and was one of its first Marketing graduates in 1977. Mr Wong has more than 25 years of experience in the fund management industry.

7. **Mr YUE Wai Keung**, aged 50, 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 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 Hong Kong Securities Clearing Company Limited 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 has been an Honorary Advisor of the Chamber of Hong Kong Listed Companies Limited since September 2002. He is also a Director of the Hong Kong Stockbrokers Association and has about 30 years of experience in the securities and futures industry.

The candidate proposed by a Shareholder in accordance with Article 90(2)(b) of the Articles of Association, together with the biography of that candidate provided by the Shareholder concerned, is set out below:

8. **Mr WEBB David Michael**, aged 37, is the Editor of Webb-site.com, a non-profit publication he established in 1998 to promote better corporate and economic governance in Hong Kong. He has published wide-ranging articles on the regulatory framework of Hong Kong's securities markets. He is a member of the Shareholders Sub-Committee of the Standing Committee on Company Law Reform, the SFC's Takeovers and Mergers Panel, the Takeover Appeals Committee and the SFC Shareholders Group. Mr Webb has over 16 years' experience of the securities markets, including five years as a corporate financier in London before moving in 1991 to Hong Kong. From 1993 to 1994, he was a director of BZW Asia Limited, and from 1994 to 1998, he was a director of Wheelock Capital Limited, both of which were registered investment advisers. In 2000, he was named by Business Week magazine as a "Star of Asia" in the "Opinion Shapers" category. In 2001 the World Economic Forum named him a "Global Leader for Tomorrow". In 2002 CFO Magazine named him one of the "Global 100" who shape finance. He gained an honours degree in Mathematics from Oxford University in 1986 and prior to that was a best-selling author of games and books for the first generation of home computers. He is a full member of the Hong Kong Securities Institute and was Chairman of Hong Kong Mensa from 1998-2000.

RESOLUTIONS AND VOTING

In order to comply with section 157A of the Companies Ordinance and Article 91 of the Articles of Association of HKEx, there must be a separate resolution for the appointment of each candidate, unless a resolution that a single resolution for the appointment of two or more candidates shall be proposed has been first agreed to by the meeting without any vote being cast against it. In order to select which six candidates will be elected Directors, the resolutions themselves contain a method of determining support for a candidate. Each resolution to be proposed at the AGM will provide as follows:

“**THAT** subject to the number of net votes cast in relation to this resolution (net votes being votes cast in favour minus votes cast against this resolution) being among the six highest number of net votes cast on each of the resolutions for the appointment of a person as a director of the Company at the AGM to be held on 15 April 2003 (“AGM”), [name of candidate] be and is hereby appointed as a director of the Company with effect from the conclusion of the AGM, provided that if any two or more of such resolutions record the same number of net votes (the “tied resolutions”), the ranking of the tied resolutions from highest to lowest number of net votes shall be determined by the drawing of lots by the chairman of the meeting.”

Given the complexity of the resolutions to be considered at the AGM, it is expected that the chairman of the meeting will demand that such resolutions be voted on by way of poll. It is also expected that in order to streamline voting procedures for the convenience of Shareholders, the poll on each of the eight resolutions will be taken at the same time.

On a poll, every Shareholder present in person or by proxy will have one vote for every Share he holds. A Shareholder which is a corporation will be present in person if such Shareholder is present by a duly authorised representative. A Shareholder present in person or by proxy who is entitled to more than one vote does not need to use all his votes (i.e. he can cast less votes than the number of shares he holds or represents) or to cast all his votes the same way (i.e. he can cast some of his votes in favour of the resolution and some of his votes against the resolution). The Directors believe that in most situations, shareholders of companies (other than nominee companies) usually cast all their votes either in favour of a resolution or against a resolution.

If a resolution is passed by a majority of the votes cast on it, the candidate who is the subject of that resolution will be eligible to be elected a Director. On the other hand, if a resolution is not passed, the candidate who is the subject of that resolution will not be eligible to be elected a Director.

Assuming a resolution is passed by a majority of the votes cast on it, the candidate who is the subject of that resolution will only actually be elected to one of the six positions on the Board if the net votes cast in favour of his resolution rank within the top six

resolutions passed in terms of net votes. Net votes are calculated by taking the votes cast in favour of a resolution and subtracting the votes cast against that resolution. In the event there is a tie in the net votes for two or more resolutions, the tie will be resolved by the drawing of lots by the chairman of the meeting.

Therefore, if you wish to support a particular candidate, you should vote in favour of his resolution. If you do not wish to support a candidate, you may vote against his resolution or abstain from voting. If you abstain from voting, you should note that your votes will not count when calculating the net votes in relation to that candidate.

A specimen of the draft voting slip proposed for use at the AGM together with examples of how a Shareholder can vote, which do not form part of this circular or the notice of the AGM, will be despatched to Shareholders for information purposes only by the Company's registrar, Hong Kong Registrars Limited, on or before 10 April 2003.

This appendix serves as an explanatory statement to the 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 a 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 passing of an ordinary resolution by 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 9:00 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 securities 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 1,043,844,846 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 104,384,484 Shares being repurchased by HKEx during the period from 15 April 2003, the 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 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 the 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 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 2002, 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>
2002		
March	12.80	10.85
April	14.00	11.85
May	15.00	13.60
June	14.25	12.40
July	13.50	10.65
August	11.45	9.80
September	10.20	8.90
October	11.00	9.05
November	10.75	9.85
December	10.95	9.70
2003		
January	10.50	9.15
February	9.50	8.60

This appendix sets out the proposed amendments to the Memorandum and Articles of Association in anticipation of the commencement of the SFO on 1 April 2003. References to provisions in the Merger Ordinance, Securities and Futures Commission Ordinance, Securities and Futures (Clearing Houses) Ordinance and SDI Ordinance are proposed to be replaced by corresponding provisions in the SFO.

AMENDMENTS TO THE MEMORANDUM

The definitions of “Exchange Company” and “recognised clearing house” appearing in Clause 3(d) are not used in Clause 3 and will be removed. The existing Clause 3(d) will be deleted in its entirety and replaced by the following:

Clause 3 - The Company's objects

“(d) in this clause:

- (i) “assets” includes property, rights and interests of every description, whether present or future, actual or contingent and wherever situate and, in the case of the Company, its uncalled capital;
- (ii) “charge” includes any mortgage, pledge, lien or other form of security;
- (iii) “dispose of”, in relation to an asset, includes selling or transferring it or surrendering or extinguishing it, and also creating or granting it or any interest or right out of or in respect of it;
- (iv) “liabilities” includes debts and obligations of every description, whether present or future, actual or contingent;
- (v) “person” includes any partnership or other body of persons, whether corporate or unincorporate, and any country, territory, public authority and international organisation; and
- (vi) “subsidiary” has the meaning ascribed to it in the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).”

AMENDMENTS TO ARTICLES OF ASSOCIATION*Article 2 – Interpretation*

The definition of “Merger Ordinance” will be deleted. A new definition of “SFO” will be added and the existing definitions of “clearing house” and “Commission” will be replaced by definitions which contain references to the SFO, as follows:

“clearing house	a recognized clearing house within the meaning of Schedule 1 of the SFO or a clearing house recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted with the permission of the Company on a stock exchange in such jurisdiction;
Commission	the Securities and Futures Commission established under the Securities and Futures Commission Ordinance (now repealed) which continues in existence in its original name under the SFO;
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);”

Article 55 – Limitations on shareholdings

The definition of the SDI Ordinance in Article 55(2)(h) will be deleted. All references to provisions in the Merger Ordinance and the SDI Ordinance appearing in Article 55 will be substituted by references to the corresponding provisions in the SFO. References to “associates” and “shares” will be replaced by “associated persons” and “securities” respectively. The existing Article 55 will be deleted in its entirety and replaced by the following Article:

“(1) Pursuant to section 61 of the SFO, a person, either alone or with any associated person or persons, is not permitted to be entitled to exercise, or control the exercise of, 5 per cent. or more of the voting power at any general meeting of the Company except in certain limited circumstances.

(2) For the purposes of this Article:

- (a) “associated person” shall have the meaning ascribed to it in section 18 of the SFO;
- (b) “minority controller” shall have the meaning ascribed to it in section 61(20) of the SFO in relation to a recognized exchange controller;

- (c) “Permitted Person” means any person or class of persons who is permitted to be a minority controller of the Company pursuant to the SFO;
 - (d) “recognized exchange controller” shall have the meaning ascribed to it in Schedule 1 of the SFO;
 - (e) “Relevant Share Capital” means securities of the Company which carry (or may, according to their terms, in certain circumstances carry) the right to vote on any resolution at any general meeting of the Company (whether or not the right is exercisable in relation to all resolutions at all general meetings);
 - (f) “Restricted Person” means any person who is a minority controller of the Company and is not a Permitted Person; and
 - (g) “Restricted Shares” means the securities to which section 1(9) of Part 6 of Schedule 3 to the SFO applies (with references to “the corporation concerned” in that section being interpreted as references to the Company).
- (3) No person shall become a minority controller of the Company except in accordance with the provisions of the SFO and other applicable law.
- (4) (a) Every person shall forthwith provide written notice to the Company if:
- (i) he/it becomes a minority controller of the Company or a company of which the Company is a subsidiary; or
 - (ii) he/it has been served with a notice (a “Commission Notice”) from the Commission pursuant to section 61(9)(b) of the SFO or section 1(2) of Part 6 of Schedule 3 to the SFO.
- (b) A notice given in relation to paragraph (a)(i) above shall include details of that person’s and his/its associated persons’ interests in the Relevant Share Capital and either the basis on which that person is permitted to be a minority controller under the SFO (a “Permitted Person Notice”) or a statement that the person is not permitted to be such a minority controller (a “Restricted Person Notice”). The Directors may forward any notices to the Commission for further investigation and enforcement.
- (c) A notice given in relation to paragraph (a)(ii) above (also, a “Restricted Person Notice”) shall include a copy of the relevant Commission Notice.

- (d) The Directors may by notice in writing (a “Disclosure Notice”) require any member, or any other person appearing to be interested or appearing to have been interested in the securities of the Company, to disclose to the Company in writing such information (supported if the Directors so require by a statutory declaration and/or by independent evidence) as the Directors shall require relating to the ownership of or interests in the securities in question as lies within the knowledge of such member or other person, including (without prejudice to the generality of the foregoing):
- (i) any information which the Company would be entitled to seek pursuant to section 329 of the SFO;
 - (ii) any information which the Directors shall deem necessary or desirable in order to determine whether any securities or rights to subscribe for, or convert into, securities of the Company are Restricted Shares; and
 - (iii) any information which the Directors shall deem necessary or desirable in order to determine whether any person is or is deemed to be a Restricted Person or otherwise in relation to the application or potential application of this Article.
- (e) A Disclosure Notice pursuant to paragraph (4)(d) of this Article may be given by the Directors at any time. One or more Disclosure Notices may be given in respect of the same securities in the Company to a member and/or any other person appearing to be, or to have been, interested in those securities.
- (f) The Directors may forward any response in respect of a Disclosure Notice to the Commission for further investigation and enforcement. Furthermore, where the holder of any securities or rights to subscribe for, or convert into, securities in the Company, or any person appearing to be interested in such securities or rights, fails to comply within 14 days with a Disclosure Notice, the Directors may notify the Commission of such non-compliance together with such other information as the Directors deem necessary or desirable in this connection.
- (5) If the Directors shall become aware (as a result of having received a Restricted Person Notice or a Commission Notice pursuant to Section 1(10) of Part 6 of Schedule 3 to the SFO or otherwise) that any person has become a Restricted Person, the Directors may serve a written notice on all persons (other than persons referred to in paragraph (9) of this Article) who appear to the Directors to have interests in (and, if different, are the registered holders of) the Restricted Shares. Such notice shall set out the restrictions referred to in paragraph (6) of this Article.

- (6) A holder of a Restricted Share on whom a notice has been served under paragraph (5) above shall not in respect of those securities be entitled, until such time as the relevant person notifies the Company in writing (together with such confirmation from the Commission or other evidence as may be required by the Directors) that such person has ceased to be a Restricted Person, to attend or vote at any general meeting of the Company or meeting of the holders of Relevant Share Capital or of any class thereof, and the rights to attend (whether in person or by proxy), to speak and to demand and vote on a poll which but for the provisions of this paragraph would have attached to the Restricted Share shall vest in the chairman of such meeting. The manner in which the chairman exercises or refrains from exercising any such rights shall be entirely at his discretion. The chairman of any such meeting as aforesaid shall be informed by the Directors of any securities becoming or being deemed to be a Restricted Share or ceasing to be a Restricted Share.
- (7) The Directors may assume without enquiry that a person is a Permitted Person or is not a Restricted Person.
- (8) The Directors may take such action and do such things which they believe to be necessary or desirable in order to ensure that the Company (a) does not assist in or permit the contravention of any restrictions imposed on any person and/or securities by the Commission pursuant to any Commission Notice (including without limitation refusing to register any transfer of any securities), and (b) does not commit an offence under section 2 of Part 6 of Schedule 3 to the SFO or any other applicable law.
- (9) The Directors shall not be obliged to serve any notice required under this Article to be served upon any person if either his identity or his address is not known to them. The absence of service of such notice in such circumstances as aforesaid, and any accidental error in or failure to give any notice to any person upon whom notice is required to be served under this Article, shall not prevent the implementation of or invalidate any procedure under this Article.
- (10) If any Director believes that a person is a Restricted Person he shall inform the other Directors of that fact.
- (11) The provisions of these Articles regarding the giving of notice to members shall apply to the giving to a member of any notice required by this Article. Any notice required by this Article to be given to a person who is not a member, or who is a member whose registered address is not within Hong Kong and who has not given to the Company an address within Hong Kong at which notices may be given to him, shall be deemed validly given if it is sent by mail (or airmail if the address is outside Hong Kong) in a prepaid envelope addressed to that person at the address (or if more than one, at one of the addresses), if any, at which the Directors believe him to be

resident or carrying on business or to his last known address as shown on the register of members. The notice shall in such a case be deemed to have been given on the day following that on which the envelope containing the same is posted, unless it was sent by airmail, in which case it shall be deemed to have been given on the fifth day following that on which it was posted. Proof that the envelope was properly addressed and put into post as prepaid mail or prepaid airmail (as the case may be) shall be conclusive evidence that the notice was given.

- (12) Any resolution or determination of, or decision or exercise of any discretion or power by, the Directors or any Director or the chairman of any meeting under or pursuant to the provisions of this Article shall be final and conclusive; and any act or thing done, by or on behalf of, or on the authority of, the Directors or any Director pursuant to the foregoing provisions of this Article shall be conclusive and binding on all persons concerned and shall not be open to challenge, whether as to its validity or otherwise on any ground whatsoever. The Directors shall not be required to give any reasons for any decision, determination or declaration taken or made in accordance with this Article.
- (13) This Article shall apply notwithstanding any provision in these Articles to the contrary.”

Article 90 – Appointment and Removal of Directors

The reference to section 20 of the Merger Ordinance in Article 90(3) will be substituted by section 77 of the SFO. The existing Article 90(3) will be deleted in its entirety and replaced by the following Article:

- “(3) Subject to the provisions of section 77 of the SFO, the Financial Secretary may at any time:
- (a) appoint any person as a Director representing the public interest; and
 - (b) remove from office any person so appointed (whether or not his term has been completed);

provided that the number of Directors from time to time appointed by the Financial Secretary shall not exceed eight.”

Article 106 – Power to appoint Committees

The reference to section 9 of the Merger Ordinance in Article 106 will be substituted by section 65 of the SFO. The existing Article 106 will be deleted in its entirety and replaced by the following Article:

“The Directors may from time to time appoint committees (including, but without limitation, a Risk Management Committee in compliance with section 65 of the SFO) consisting of such member or members of their body and/or such other person(s) as they think fit, and may delegate any of their powers to any such committee, and from time to time revoke any such delegation and discharge any such committee wholly or in part. Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Directors. Without limiting the generality of this Article 106, any committee so formed may be authorised by the Directors to sub-delegate all or any of the powers, authorities or discretions for the time being vested in it.”

Article 111 – Appointment

The reference to section 11 of the Merger Ordinance appearing in Article 111(2)(b) will be substituted by section 69 of the SFO, and the references to section 12 of the Merger Ordinance appearing in Article 111(3) will be substituted by section 70 of the SFO in subparagraph (ii) and section 73 of the SFO in the last paragraph. The existing Article 111(2) and (3) will be deleted in its entirety and replaced by the following Article:

“(2) Any appointment of a person to the office of Chairman by the Directors shall be subject to (and effective only upon) the written approval of such appointment by the Chief Executive of Hong Kong. The Chairman shall be a non-executive Director and shall be appointed for an initial term coinciding with his term as a non-executive Director and may be re-appointed in accordance with the provisions of this Article for a further period or periods up to a maximum of the longer of six consecutive years or six consecutive annual general meetings (including the initial term as aforesaid but disregarding any annual general meeting held in the year 2000). For greater certainty, a person who has served as Chairman for the maximum consecutive period as aforesaid shall not be eligible for reappointment until the later of one year after he ceases to be Chairman or the next annual general meeting after he ceases to hold such office. A person may only be removed from his office as Chairman by:

- (a) a resolution of the Directors passed by two-thirds in number of the Directors from time to time; or
 - (b) written notice from the Chief Executive of Hong Kong removing him from his office in accordance with section 69 of the SFO.
- (3) Any appointment of a person to the office of Chief Executive or Chief Operating Officer by the Directors shall be subject to (and effective only upon):
- (a) the Chairman providing his prior written recommendation to the appointment of the relevant person to the relevant office; and

- (b) the written approval of the Commission.

A person may only be removed from his office as Chief Executive or Chief Operating Officer by:

- (i) a resolution of the Directors passed by a simple majority in number of the Directors from time to time if such removal has been recommended by the Chairman; or
- (ii) written notice from the Commission removing him from his office in accordance with section 70 of the SFO.

A person removed from office by the Commission pursuant to subparagraph 3(ii) above shall be entitled to appeal his removal to the Chief Executive in Council (having the same meaning as used in section 73 of the SFO) in accordance with the provisions of section 73 of the SFO.”