

CORPORATE GOVERNANCE REPORT 2007

Overview

The corporate governance philosophy of HKE_x

Accountability, Transparency, Fairness and Integrity are the cornerstones on which the Board has formulated its corporate governance policies to steer the Company in discharging its public and corporate responsibilities.

HKE_x believes good governance practices improve the transparency of the company's business and performance, protect shareholders' rights, and help secure investor confidence. As a market regulator, HKE_x is pleased to accept a leadership role in setting and articulating corporate governance standards for our business community to reinforce Hong Kong's position as an international financial centre.

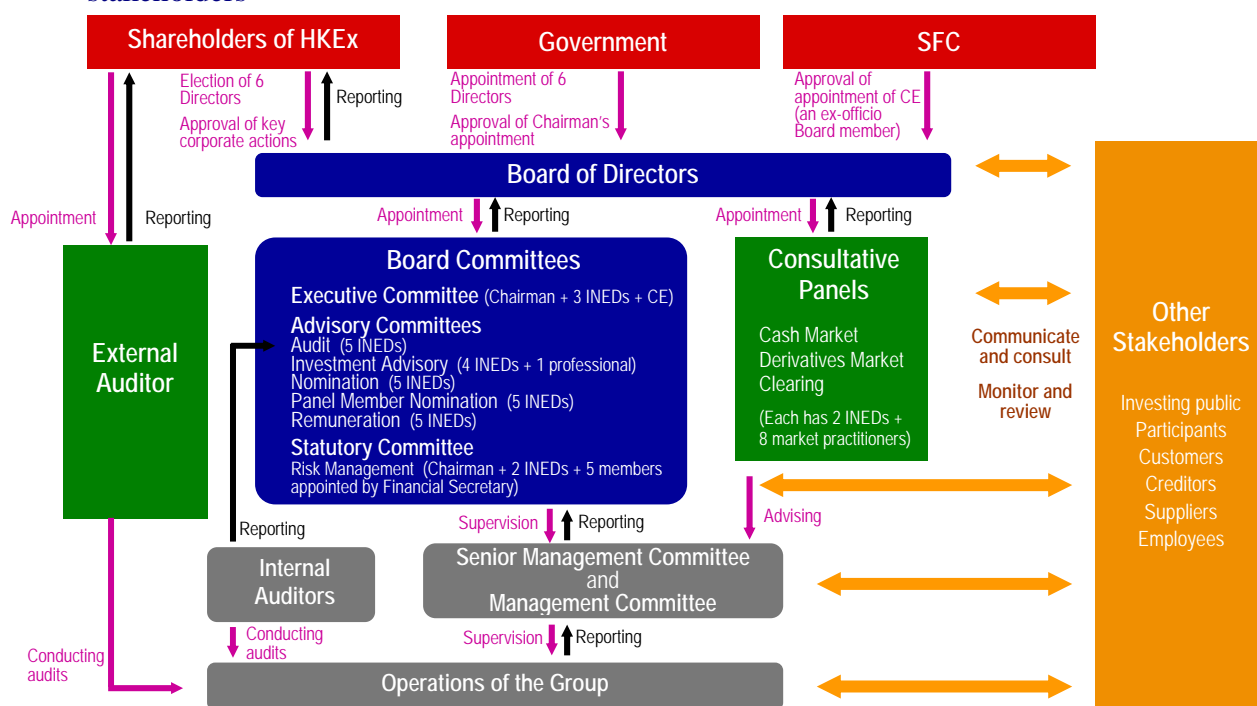
Our city's good corporate governance standards have met with acknowledgment. Hong Kong was ranked at the top in terms of corporate governance among 11 Asian markets, according to the September 2007 survey by CLSA Asia-Pacific Markets and the Asian Corporate Governance Association.

As a listed commercial entity, HKE_x fully complied with all the provisions set out in the CG Code contained in Appendix 14 to the Main Board Listing Rules, and where appropriate, adopted the recommended best practices throughout 2007 save that the Government Appointed Directors, and the Chief Executive in his capacity as a Director, are not subject to election or re-election by Shareholders, and their appointments are governed by Section 77 of the SFO and the Articles of Association respectively.

This Report aims to provide Shareholders with a compendium of HKE_x's governance principles and practices, major work done in the furtherance of corporate governance standards at HKE_x as well as related changes in 2007. Details of our governance measures are available in the Corporate Governance section on HKE_x's corporate website.

Corporate Governance Structure

A comprehensive framework to enhance accountability to our Shareholders and other stakeholders



Notes: INED(s) - Independent non-executive Director(s)
CE - the Chief Executive of HKE_x

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Checks And Balances – The following table sets out some of the measures undertaken to handle conflicts or potential conflicts arising from HKEx’s dual roles as the exchange controller and a listed company:

Specific statutory duties have been imposed on HKEx under the SFO	<ul style="list-style-type: none"> ▪ HKEx is responsible for providing and ensuring an orderly, informed and fair market for securities or futures contracts traded on the stock market or futures market operated by HKEx or through its facilities
Oversight by the SFC	<ul style="list-style-type: none"> ▪ HKEx as a listed issuer is regulated directly by the SFC which can give directions to avoid potential conflicts between HKEx’s public responsibilities and commercial interests ▪ Any rule changes of, or fees imposed by, the Stock Exchange and the Futures Exchange and their related clearing houses require the SFC’s approval
Independent listing function	<ul style="list-style-type: none"> ▪ Independent Listing Committees operating under no influence from the Board are responsible for overseeing the conduct of the Listing Division. The independent Listing Appeals Committee is responsible for reviewing decisions made by the Listing Division and the Listing Committees. An annual Listing Committee Report will be released together with the Annual Report ▪ Procedures and practices for the performance of the Stock Exchange’s listing function were reviewed by the ICAC ▪ SFC conducts annual review of Stock Exchange’s performance in its regulation of listing matters

Details about conflict management are elaborated on in the Corporate Governance section on HKEx’s corporate website.

Key Corporate Governance Principles and Practices

Translating our corporate governance philosophy into practice

The Board

Roles and Responsibilities

The Board assumes the responsibility for leadership and control of HKEx and is collectively responsible for promoting the Group’s success. Each Director is well aware of his/her principal as well as specific roles and responsibilities.

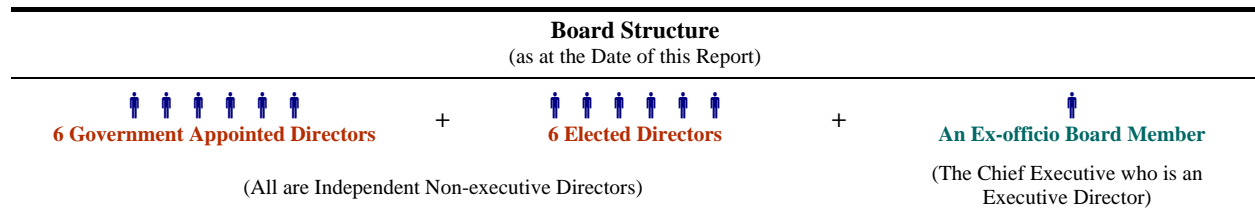
Principal Responsibilities	Specific Role
<ul style="list-style-type: none"> ▪ To lay down the Group’s objectives, strategies, policies and business plan and to monitor implementation ▪ To monitor and control the Group’s operation and financial performance through the determination of the annual budgets, in particular, the capital expenditure budget ▪ To set appropriate policies to manage risks in pursuit of the Group’s strategic objectives ▪ To determine the appropriate systems of control, including systems for risk management, financial and operational control as the foundation for ensuring the integrity of the Company’s accounting and financial reporting system 	<ul style="list-style-type: none"> ▪ To act in the interest of the public, having particular regard to the interest of the investing public. They have to ensure that the interest of the public prevails where it conflicts with any other interest of HKEx

The Board has delegated day-to-day operational responsibilities to the executive management under the instruction/supervision of the Chief Executive and various Board committees.

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Board Composition

The Board structure is governed by Article 90 of the Articles of Association and Section 77 of the SFO. Pursuant to the SFO, the Financial Secretary may appoint any person as a Government Appointed Director but the number of such shall not exceed the number of the Elected Directors, excluding the Chief Executive.



The service term of every Director, except the Chief Executive who is an ex-officio member, is not longer than three years. Retiring Directors are eligible for re-appointment or re-election. The staggered structure enables the Board to change its membership in an orderly manner over time while maintaining leadership stability and continuity, and allows regular evaluation of the mix of skills and experience of the Board.

Details of the rules governing the appointment, re-election and removal of Directors are laid down in the Articles of Association. Biographies of the Directors and their respective terms of office will be set out in the Board of Directors and Senior Management section of the Annual Report.

Chairman and Chief Executive

For the year under review, Mr Ronald J Arculli and Mr Paul M Y Chow continued to hold the positions as the Group's Chairman and Chief Executive, respectively, with segregated responsibilities in order to avoid concentration of power and control. Each plays a distinctive role and complements the other.

	Chairman	Chief Executive
Responsibilities	<ul style="list-style-type: none"> to provide leadership to ensure effective operation of the Board to ensure all key and appropriate issues are discussed by the Board in a timely and constructive manner to lead the Board in establishing good corporate governance practices and procedures for the Group 	<ul style="list-style-type: none"> to lead the management in the daily operation of the Group to ensure the approved strategies are effectively implemented in pursuit of the Group's objectives to implement the adopted corporate governance practices and to monitor and assess performance
Appointment	<ul style="list-style-type: none"> appointed by the Board, subject to the approval of the Chief Executive of the Government 	<ul style="list-style-type: none"> selected by the Selection Committee (an ad hoc committee) and approved by the Board, subject to the approval of the SFC

Changes in 2007

	Changes
Elected Directors	Mr John E Strickland and Mr Oscar S H Wong <ul style="list-style-type: none"> successfully re-elected by Shareholders at the 2007 AGM service term: approximately three years from 26 April 2007 until the conclusion of the AGM to be held in 2010
Government Appointed Directors	Dr Marvin K T Cheung, Mr Henry H L Fan and Mr Fong Hup <ul style="list-style-type: none"> re-appointed by the Financial Secretary on 26 April 2007 service term: approximately two years from 26 April 2007 until the conclusion of the AGM to be held in 2009

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Two Elected Directors, namely, Dr Bill C P Kwok and Mr Vincent K H Lee; and three Government Appointed Directors, namely, Mr Ronald J Arculli, Mrs Laura M Cha and Dr Moses M C Cheng will retire in accordance with their respective term of service at the conclusion of the 2008 AGM. Pursuant to Article 93(5) of the Articles of Association, all retiring Directors are eligible for re-appointment / re-election.

Independence of Directors

Pursuant to the Listing Rules, every non-executive Director has confirmed his/her independence with the SFC upon his/her appointment. All Directors have also confirmed that they are totally unrelated to each other and with the Senior Management in every aspect including financial, business, or family.

On 5 March 2008, the Nomination Committee assessed and reviewed each of the non-executive Directors' annual confirmation of independence pursuant to rule 3.13 of the Main Board Listing Rules. As a good corporate governance practice, every member abstained from assessing his own independence. After taking into consideration that the Government has 5.88 per cent interest in HKEx, the Nomination Committee, by majority, affirmed that all non-executive Directors remain independent in accordance with the evaluation criteria set out in the Listing Rules albeit six of the non-executive Directors were Government appointed and four of them are Executive Councillors.

Nomination of Directors

The Nomination Committee (comprising five INEDs) is mandated to lead the process of identifying and nominating suitable candidates to be considered, and if appropriate, recommended by the Board to stand for election by Shareholders at the annual general meeting, or when necessary, nominating candidates to fill casual vacancies of the Board. The terms of reference of the Nomination Committee are posted on HKEx's corporate website.

In the selection process, the Nomination Committee makes reference to criteria including, inter alia, reputation for integrity, accomplishment and experience in the financial service industry, in particular in the Cash and Derivatives Markets and the clearing business, professional and educational background, and commitment in respect of available time.

During 2007, one meeting was held by the Nomination Committee on 8 March 2007 to review the independence of the 12 non-executive Directors and to nominate the two retiring Board members, namely, Mr John E Strickland and Mr Oscar S H Wong, for the Board's recommendation to Shareholders for election at the 2007 AGM.

Board Process and Effectiveness

The proceedings of the Board are well defined and follow all the recommended best practices of the CG Code. Major board processes are summarised as follows:

- The Board meets regularly, and meeting schedules of each year are normally available to all members before start of the year. The attendance record is shown on page 6 of this report.
- Directors, who have declared a conflict of interest or material interest (ie, an interest of five per cent or more according to the Articles of Association) in a proposed transaction or issue to be discussed, would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution.

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- Minutes of the Board/committee meetings with sufficient details on matters and concerns discussed are kept in safe custody by the Company Secretary, and are open for inspection by Directors.
- Other than regular Board meetings, non-executive Directors also meet periodically without the management to discuss matters of particular interest.
- To discharge their respective functions, the Board and committees are provided with sufficient resources, including retention of outside advisers, if necessary, to provide advice on any specific matter at the cost of HKEx.
- In order to have an effective Board, the management provides appropriate and sufficient information to Directors and committee members in a timely manner to keep them apprised of the latest development of the Group and to enable them to have a thorough consideration of all matters to be discussed at the relevant meetings.
- A comprehensive Director's Handbook is issued to every Director, which sets out the guidelines on conduct by making reference to the applicable laws and the Listing Rules, and reminds Directors of their responsibilities to make disclosure of their interests, potential conflict of interests and changes in personal particulars to HKEx in a timely manner. The Director's Handbook is updated periodically to reflect the relevant changes in the applicable laws and Listing Rules.

Board Committees

The Board is supported by six committees and a statutory committee, each of them has a defined role and responsibilities. The composition of each committee will be set out in the Annual Report, which together with the respective terms of reference are also available on HKEx's corporate website.

Save for the Executive Committee, the Investment Advisory Committee and the Risk Management Committee, all committees comprise solely INEDs. The chairmen of the respective committees report regularly to the Board, and make recommendations, where appropriate, on matters that require the Board's consideration and approval.

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The attendance of individual Directors and committee members in 2007 is set out below.

Meetings in 2007									
	Board	Executive Committee	Audit Committee	Investment Advisory Committee	Nomination Committee	Panel Member Nomination Committee	Remuneration Committee	Risk Management Committee (Statutory)	2007 AGM
Number of Meetings Held during the Year	12	17	5	4	1	1	4	9	1
Independent Non-executive Chairman									
Ronald J Arculli ¹	12/12	17/17			1/1		2/2	9/9	1/1
INEDs									
Laura M Cha ¹	9/12			3/4		1/1	1/2		1/1
Moses M C Cheng	11/12		5/5				3/4		1/1
Marvin K T Cheung ^{1, 2, 3, 5}	8/12		3/5				0/2	5/7	1/1
Henry H L Fan ^{4, 5, 6}	12/12			1/1	0/0			2/2	1/1
Fong Hup ^{1, 6}	12/12	16/17	4/5		1/1	1/1	2/2	7/9	1/1
Bill C P Kwok	12/12	16/17				1/1		9/9	1/1
Vincent K H Lee	12/12	16/17	5/5		1/1	1/1	4/4		1/1
Christine K W Loh	10/12						3/4		1/1
John E Strickland ^{2, 4, 6}	10/12		2/2	3/3	0/0				1/1
David M Webb ²	12/12		3/3	4/4	1/1				1/1
Oscar S H Wong ⁶	12/12			4/4	1/1	1/1			1/1
Executive Director									
Paul M Y Chow (Chief Executive)	11/12	16/17							1/1
Market Professionals									
Chan Ka-lok								8/9	
He Guangbei								7/9	
Edmond Y P Lau ⁵								3/3	
Keith K K Lui								9/9	
David T K Sun				2/4					
Eddie W M Yue ⁵								5/6	
Average Attendance Rate	92%	95%	88%	85%	100%	100%	75%	89%	100%

Notes:

- Mr Ronald J Arculli and Mrs Laura M Cha were appointed respectively as the chairman and a member of the Remuneration Committee effective 27 April 2007. Dr Marvin K T Cheung and Mr Fong Hup retired from the Remuneration Committee on 26 April 2007.
- Dr Marvin K T Cheung was appointed as the chairman of the Audit Committee on 27 April 2007 to succeed Mr John E Strickland. Mr David M Webb was appointed as a member of the Audit Committee effective 27 April 2007.
- Due to his health, Dr Marvin K T Cheung took a special leave of absence from Board meetings and relevant committee meetings. He resumed attending Board and committee meetings effective 27 April 2007.
- Mr John E Strickland was appointed as the chairman of the Investment Advisory Committee effective 27 April 2007 to succeed Mr Henry H L Fan.
- Dr Marvin K T Cheung was appointed as a member of the Risk Management Committee effective 27 April 2007 to succeed Mr Henry H L Fan. Mr Edmond Y P Lau was appointed as a member of the Risk Management Committee effective 1 September 2007 to succeed Mr Eddie W M Yue.
- Mr Henry H L Fan and Mr John E Strickland were appointed as members of the Nomination Committee effective 27 April 2007. Mr Fong Hup and Mr Oscar S H Wong retired from the Nomination Committee on 26 April 2007.

Consultative Panels

To facilitate the decision-making of the Board, three Consultative Panels have been established, namely the **Cash Market Consultative Panel**, **Derivatives Market Consultative Panel** and **Clearing Consultative Panel**.

Consultative Panels	
Composition	2 Directors + 8 representatives of market participants or industry experts The list of members of each Panel is available on HKEx's corporate website
Appointment	The Panel Member Nomination Committee (a Board committee) is mandated to identify and nominate candidates for appointment or re-appointment to the Consultative Panels for the Board's consideration and approval
Major Responsibilities	Provision of market expertise and advice to the Board on international trends, the demand of intermediaries, issuers, investors and other market participants, technological challenges and new product opportunities relating to the Cash and Derivatives Markets and clearing business
Meetings Held in 2007	Cash Market Consultative Panel – one Derivatives Market Consultative Panel – four Clearing Consultative Panel – four

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Remuneration of Directors and Senior Management

The Remuneration Committee has prepared a report which summarises its work in 2007. Such report is available on HKEx's corporate website and will be set out in the Annual Report. It encapsulates the Group's refined remuneration structure and policy, and discloses, on a named basis, the remuneration including the awarded share benefits of every Director and member of the Senior Management for the year ended 31 December 2007.

Accountability and Audit

Reporting

Directors are responsible for overseeing the preparation of the annual accounts which give a true and fair view of the Group's state of affairs, results and cash flow for the year. In preparing the accounts for the year ended 31 December 2007, the Directors:

- adopted all HKFRSs which are in conformity to the International Financial Reporting Standards in all material respects;
- selected suitable accounting policies and applied them consistently; and
- made judgements and estimates that are prudent and reasonable, and ensured that the accounts were prepared on the going concern basis.

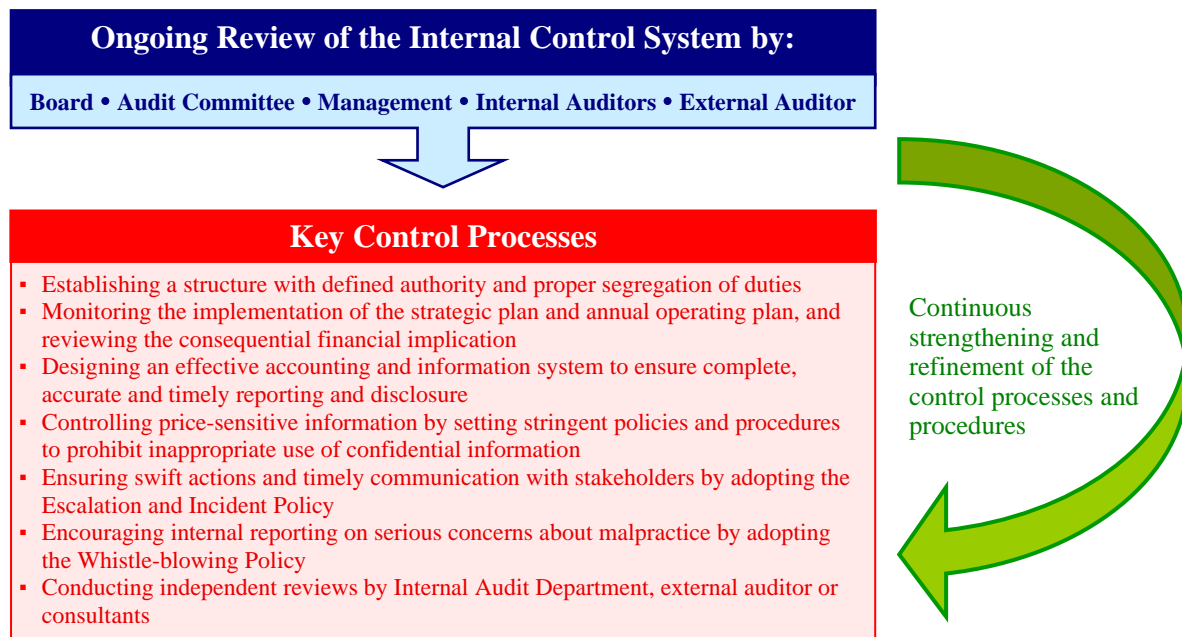
HKEx recognises that high quality, transparent and timely corporate reporting is important to reinforce the confidence of stakeholders in the Company. The annual, interim, and quarterly results of HKEx are published in a timely manner within three months, two months and 45 days respectively after the end of the relevant periods. The reports aim to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

Internal Controls

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained. As the system serves as an integral part of HKEx's management system, the responsibility of day-to-day management of operational risks and implementation of mitigation measures rests with management and individual divisions/departments. The Senior Management Committee which comprises the Head of Risk Management Division as a member, is responsible for monitoring and assessing risks for individual business initiatives as well as providing an oversight of risk management across the Company.

The key processes that the Board established to provide effective internal controls are summarised as follows. Details are available in the Corporate Governance section on HKEx's corporate website.

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The internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and manage rather than eliminate risks of failure to achieve business objectives. The system is under review and is modified from time to time to ensure that it remains efficient and effective. Besides regular management reviews, the internal audit also plays an important role in monitoring and evaluating the internal controls or governance of the Group.

Annual Assessment of Internal Control System

The Group's internal control system is reviewed regularly by management and the Internal Audit Department. The Audit Committee of the Board assesses the effectiveness of the internal control system in detecting fraud and other irregularities by reviewing the work of the Internal Audit Department and its findings. The work of the Internal Audit Department covered all material financial, operational and compliance controls and included an assessment of the Group's internal control structures using the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework to provide confirmation that the system of internal control of the Group is effective in the following respects:

- to provide sufficient explanation and information to enable the Board to make cumulative assessment of the state of controls at HKE_x, including the financial reporting and Listing Rules compliance process, and the effectiveness with which risk is being managed;
- to respond to changes in its business and external environment;
- to timely rectify identified internal control deficiencies or implement recommendations suggested by internal auditors, external auditor or regulator; and
- to take immediate remedial actions in response to any operating errors or failures encountered.

In 2007, no suspected frauds, irregularities or infringement of laws, rules and regulations or material control failures came to the Audit Committee's attention. The Audit Committee is satisfied with the results, and concluded that the Group's internal control system is effective and that the Group had adopted the necessary control mechanisms to monitor and rectify non-compliance.

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A separate report prepared by the Audit Committee, which summarises the terms of reference and works performed in 2007 will be set out in the Annual Report.

As heavy reliance is placed on the integrity, availability and stability of the information technology (“IT”) services and application systems to support the day-to-day operations of HKEx, failure to properly address IT risks would jeopardise its overall business and operation. In order to further strengthen HKEx’s IT management and operations, the Board resolved to the commissioning of an independent review of the overall effectiveness of HKEx’s IT risk management process. The independent review covering HKEx’s IT governance framework and various core mission critical IT application systems will start in early 2008, and is planned to be completed in about two years’ time.

External Auditor

The Board acknowledges that independence of the external auditor is essential to the provision of an objective opinion on the truth and fairness of the financial statements. The Audit Committee is mandated to ensure continuing objectivity and independence of the external auditor whose responsibilities will be set out in the Auditor’s Report of the Annual Report.

In order to ensure their independence, external auditor is prohibited from engaging in non-audit services except for limited tax-related services or specific approved items. The analysis on the right tabulates the external auditor’s fees for audit and non-audit services for the year ended 31 December 2007.

	2007	2006
Audit	\$2,585,000	\$2,323,600
Permissible non-audit services:		
▪ Taxation services fees	\$406,000	\$442,002
▪ Training	\$4,100	\$7,200

Pursuant to the adopted five-year rotation policy, the engagement partner of the external auditor was first rotated in 2005. Moreover, it is the Group’s policy of not hiring employees of external auditor who are or have been involved in the Group’s audit so as to ensure no impairment of the auditor’s judgement or independence in respect of an audit. The policy was strictly complied with in 2007.

Relationship with Shareholders and Stakeholders

As a core corporate governance principle, HKEx is transparent to Shareholders who have the right to participate in, vote and communicate with the Directors and the Senior Management directly at general meetings. Since 2003, HKEx has adopted poll voting at general meetings so that each share is entitled to one vote. Separate resolutions are proposed for each substantive issue, including election of individual Directors. More information about Shareholders’ rights is set out in the Corporate Governance section on HKEx’s corporate website.

To enhance Shareholders’ and other stakeholders’ understanding of HKEx’s business and latest business initiatives, HKEx also makes use of various communication channels, including the publication of quarterly reports, interim reports and annual reports, the provision of a website with comprehensive information and services, the publication of the “Exchange” newsletter on a quarterly basis, and the collection of market comments through consultations in respect of any proposed changes to market rules or regulations.

All members of the Board presented at the 2007 AGM which was an open forum for the exchange of views between Shareholders and the Board. Poll results were published in newspapers and on HKEx’s corporate website. The matters resolved thereat are summarised below.

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Matters Resolved at the 2007 AGM

- Approval of the audited accounts for the year ended 31 December 2006
- Approval of a final dividend of HK\$1.19 per share for the year ended 31 December 2006
- Mr John E Strickland and Mr Oscar S H Wong were re-elected as Directors
- Approval of re-appointment of PricewaterhouseCoopers as external auditor of HKEx and authorising the Directors to fix the remuneration of the external auditor
- Approval of granting a general mandate to the Directors for the repurchase of up to 10 per cent of the total issued shares of HKEx
- Approval of the remuneration of non-executive Directors and members of certain Board committees for service rendered by each of them for the period between annual general meetings of HKEx until Shareholders in the general meeting otherwise determine:-
 - \$450,000 and \$300,000 respectively payable to the Chairman and each of the other non-executive Directors; and
 - \$50,000 be payable to the chairman and every member (excluding executive Director) of the Executive Committee, Audit Committee, Remuneration Committee and Investment Advisory Committee of HKEx

The Financial Calendar with important dates in 2007 will be set out in the Annual Report, which together with the Financial Calendar 2008 (with tentative key dates) are available at the Investor Relation Corner on HKEx's corporate website.

Corporate Governance Initiatives Implemented in 2007

Work done to raise Hong Kong's corporate governance profile – Our Public Responsibility

HKEx has been at the forefront of propelling high corporate governance standards and improving the quality of disclosures in Hong Kong. Initiatives implemented in 2007 are summarised in the Marketplace section of the Corporate Social Responsibility Report which will be set out in the Annual Report.

Resolute commitment to continual corporate governance improvement – Our Corporate Responsibility

Date	Initiatives	Purposes
	Revised the corporate structure with the following major changes:	
February 2007	<ul style="list-style-type: none"> ▪ Set up a new Listing Operation Department for the primary market ▪ Replaced the Exchange Division under the secondary market with two separate departments – the Cash Market Department and the Derivatives Market Department 	<ul style="list-style-type: none"> ▪ To enhance, focus and streamline the structure of the primary market, secondary market and support services and to further strengthen the accountability regime
July 2007	<ul style="list-style-type: none"> ▪ Consolidated the risk management functions in HKEx (which originally resided with different divisions and departments) 	<ul style="list-style-type: none"> ▪ To enhance risk management effectiveness
October 2007	<ul style="list-style-type: none"> ▪ Expanded the Beijing Representative Office to cover services for the primary market and secondary market ▪ Renamed the “Business Development Division” and “Research and Planning Department” as “Issuer Marketing Division” and “Research and Corporate Development Department” respectively to better reflect their roles and responsibilities 	<ul style="list-style-type: none"> ▪ To promote better service, thereby enabling us to be more effective in meeting our business and market needs
March 2007	Launched the Corporate Governance section on HKEx's corporate website	To provide more detailed and timely information about the HKEx's corporate governance framework and practices, thereby improving transparency of the Company and communication with stakeholders
November 2007	Engaged an independent external consultant to conduct a review of the remuneration structure of senior executives	To evaluate the senior executives based on their respective job duties and responsibilities, and align the remuneration packages and structures of the senior executives with those of the market

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Corporate Governance Scores and Ratings

Recognition of our efforts

Organisation	Ratings / Awards / Comments
FTSE4Good Policy Committee	FTSE4Good Index Series HKEx has been included as a constituent of the FTSE4Good Index since September 2005
The Asset Magazine	The Asset Corporate Governance Ranking (Apr 2007) HKEx was named as one of the best companies in Hong Kong in terms of corporate governance in the Corporate Governance Rankings 2007
CLSA Asia-Pacific Markets and Asian Corporate Governance Association	CG Watch 2007 - Corporate Governance in Asia (Sep 2007) Among the over 100 large-cap companies assessed (in 11 Asian markets including Japan), HKEx was ranked third in terms of corporate governance
The Hong Kong Management Association	2007 HKMA Best Annual Reports Awards (Nov 2007) 2006 Annual Report – Gold Award and Winner in the Citation for Achievement in Corporate Governance Disclosure (General Category)
Hong Kong Institute of Certified Public Accountants	Best Corporate Governance Disclosure Awards 2007 (Nov 2007) 2006 Annual Report – Gold Award (HSI Category)
GovernanceMetrics International Inc	Corporate Governance Rating (Feb 2008) Global rating: 8.0 (2006: 7.5) Home market rating: 10.0 (2006: 10.0) out of the full score of 10.0

Interests of Directors and Senior Management in HKEx

Directors' and Chief Executive's Interests in the Shares and Underlying Shares of HKEx

As at 31 December 2007, the interests of the Directors and the Chief Executive of HKEx in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Stock Exchange pursuant to the Model Code are set out below:

Long positions in shares and underlying shares of HKEx

Name of Director	Number of Shares/Underlying Shares Held				Total	Percentage of the Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Paul M Y Chow	3,291,800 (Note 1)	–	–	–	3,291,800	0.31
Vincent K H Lee	–	–	2,334,000 (Note 2)	–	2,334,000	0.22
John E Strickland	18,000 (Note 3)	–	–	–	18,000	0.00
David M Webb	2 (Note 4)	2 (Note 5)	6 (Note 6)	–	10	0.00

Notes:

- The interests included Mr Chow's interest in 11,528 Awarded Shares and 272 further shares acquired by reinvesting the dividends received therefrom according to the Share Award Scheme, and 1,240,000 shares issuable under an option granted to him on 2 May 2003, of which 420,000 shares were vested. Details of the interests of Mr Chow in the share option and Awarded Shares are set out in the Remuneration Committee Report.
- Mr Lee has interest in 2,334,000 underlying shares through listed equity derivatives (physically settled options) held by Pacific Trust Company Limited, in which Mr Lee holds 33.33 per cent beneficial interests.
- The shares were held by Mr Strickland as beneficial owner.
- The shares were held by Mr Webb as beneficial owner.
- The shares were owned by the spouse of Mr Webb.
- The shares were owned by Fundamental Consultants Limited, Member One Limited and Member Two Limited which are under the control of Mr Webb.

Short positions in the shares and underlying shares of HKEx

As at 31 December 2007, Mr Vincent K H Lee was interested in an aggregate short positions of 500,000 underlying shares in HKEx, representing 0.05 per cent of the total issued share capital of HKEx, which arose through certain listed equity derivatives (physically settled options) held by Pacific Trust Company Limited in which Mr Lee holds 33.33 per cent beneficial interests.

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

Save for the disclosed, none of the Directors or the Chief Executive of HKE_x (including their spouses and children under the age of 18) had, during the year ended 31 December 2007, any interest in, or been granted any right to subscribe for the securities of HKE_x and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Restrictions on securities dealings are laid down in the Director's Handbook and Human Resources Manual, which are no less stringent than the requirements in the Model Code. These restrictions shall be closely observed by the Directors, the Chief Executive and the employees at all times. Each of the Directors confirmed, following specific enquiry by HKE_x, that he or she fully complied with the Model Code throughout 2007.

Senior Management's Interests in the Shares and Underlying Shares of HKE_x

As at 31 December 2007, the Senior Management had the following interests in the shares and underlying shares of HKE_x:

Name of Employee	Number of Shares Held	Number of Shares Issuable Under Share Options Granted	Number of Awarded Shares (Note 1)	Derivatives (Number of Underlying Shares)	
Gerald D Greiner	25,664	275,000	44,196	-	
Lawrence K M Fok	824,462	160,000	23,323	-	
Mary M L Kao	746,538	135,000	27,789	-	
Henry M W Law	6,014	130,000	24,868	32,000	(Note 2)
Stewart S C Shing	-	547,000	5,486	-	
Archie T C Tsim	8,589	164,000	34,952	-	
Richard G Williams	23,500	273,500	12,785	-	
Alfred K K Wong	198,431	150,000	34,944	-	

Notes:

1. The number included further shares acquired through reinvesting dividend received.
2. Mr Law held long put warrant position in a cash-settled derivative with 32,000 underlying shares of HKE_x.

Continuing Connected Transactions

During the year ended 31 December 2007, the Group had the following continuing connected transactions, details of which are set out below:

- (A) For the year ended 31 December 2007, transactions between the following connected persons and HKE_x or its subsidiaries arising from or in connection with the use of (i) the facilities provided by HKE_x or its subsidiaries for the trading, clearing and/or settlement of securities and futures products and transactions; and (ii) all services offered by HKE_x or its subsidiaries which are ancillary, incidental or otherwise related to the foregoing:

- (1) Mr Ronald J Arculli, the Chairman, was interested in the transactions entered into by Bokhary Securities Limited ("BSL"), an EP and a Clearing Participant, in which his sister has a 50 per cent interest.

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- (2) Dr Bill C P Kwok, an INED, was interested in the transactions entered into by Wocom Securities Limited (“WSL”) and Wocom Limited, EPs and Clearing Participants, which are associates of Dr Kwok by virtue of the Listing Rules.
- (3) Mr Vincent K H Lee, an INED, was interested in the transactions entered into by Tung Tai Securities Company Limited (“TTS”) and Tung Tai Futures Limited, EPs and Clearing Participants, which are associates of Mr Lee by virtue of the Listing Rules.
- (4) Mr Dannis J H Lee, an ex-INED who retired on 26 April 2006, was interested in the transactions entered into by DL Brokerage Limited (“DL Brokerage”), an EP and a Clearing Participant, which is beneficially wholly-owned by Mr Lee.

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

- (B) For the year ended 31 December 2007, transactions between the following connected persons and HKE_x or its subsidiaries arising from or in connection with the listing of securities on the Stock Exchange and all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:

- (1) Mrs Laura M Cha, an INED, was interested in the transactions entered into by her associates, HKR International Limited and Hanison Construction Holdings Limited. Both of these companies are listed on the Stock Exchange.
- (2) Dr Bill C P Kwok, an INED, was interested in the transactions entered into by his associate, Wing On Company International Limited which is listed on the Stock Exchange.
- (3) Dr Lo Ka Shui, an ex-INED who retired on 26 April 2006, was interested in the transactions entered into by his associates Great Eagle Holdings Limited (“Great Eagle”) and Champion Real Estate Investment Trust (“Champion REIT”), the respective shares and units are listed on the Stock Exchange.

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

- (C) For the year ended 31 December 2007, transactions between the following connected persons and HKE_x or its subsidiaries arising from or in connection with the HKSCC arrangement on behalf of Clearing Participants of Buy-in Transactions:

- (1) Mr Ronald J Arculli, the Chairman, was interested in the Buy-in Transactions entered into by BSL, in which his sister has 50 per cent interests. For the year ended 31 December 2007, the total consideration of such transactions was \$29,074,500.51, comprising an aggregate of buy-in cost of \$29,001,530.56 and related brokerage fee of \$72,969.95 earned by BSL.
- (2) Dr Bill C P Kwok, an INED, was interested in the Buy-in Transactions entered into by WSL which is an associate of Dr Kwok by virtue of the Listing Rules. For the year ended 31 December 2007, the total consideration of such transactions was \$64,561,496.43, comprising an aggregate of buy-in cost of \$64,479,921.55 and related brokerage fee of \$81,574.88 earned by WSL.

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- (3) Mr Vincent K H Lee, an INED, was interested in the Buy-in Transactions entered into by TTS which is an associate of Mr Lee by virtue of the Listing Rules. For the year ended 31 December 2007, the total consideration of such transactions was \$17,299,678.80, comprising an aggregate of buy-in cost of \$17,277,599.84 and related brokerage fee of \$22,078.96 earned by TTS.
- (4) Mr Dannis J H Lee, an ex-INED who was retired on 26 April 2006, was interested in the Buy-in Transactions entered into by DL Brokerage which is beneficially wholly-owned by Mr Lee. For the period from 1 January 2007 to 26 April 2007 (the last date on which he was considered as a connected person under the Listing Rules), the total consideration of such transactions was \$10,501,248.87, comprising an aggregate of buy-in cost of \$10,474,618.59 and related brokerage fee of \$26,630.28 earned by DL Brokerage.

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

(D) Lease of premises between a connected person and HKFE

On 13 December 2006, HKFE, as the tenant, and CP (SH) Limited (“CP(SH)”), as the beneficial owner, entered into an letter of offer to renew the tenancy (“Tenancy”) in respect of the premises of Suites 501-3 and storeroom on 5th Floor and Suites 1101 & 1109-11 on 11th Floor, ICBC Tower, 3 Garden Road, Central, Hong Kong for a two-year term commencing 1 January 2007 at a monthly rental of HK\$745,056, exclusive of management charges, rates and operating expenses. The parties thereafter entered into the formal tenancy agreement on 27 March 2007. Throughout the review period, CP(SH) was owned and controlled by Champion REIT in which Great Eagle owned 48.45 per cent interests as at 31 December 2007. Dr Lo Ka Shui (“Dr Lo”), an ex-INED who retired on 26 April 2006, is a controlling shareholder of Great Eagle. According to the Listing Rules, a person who was a director of a listed issuer within the preceding 12 months is regarded as a connected person. CP(SH), an associate of Dr Lo, was therefore a connected person of HKEx and accordingly, the Tenancy constituted a continuing connected transaction of HKEx. Details of the Tenancy were announced on 13 December 2006. For the period from 1 January 2007 to 26 April 2007 (the last date on which he was considered as a connected person under the Listing Rules), the total rent, exclusive of management charges, rates and operating expenses, in respect of the Tenancy was \$2,880,883.20.

In respect of the above continuing connected transactions, two INEDs who had not entered into any connected transactions with the Group, reviewed the transactions and confirmed that the continuing connected transactions entered into by the Group were in compliance with the conditions of the waiver granted by the SFC and/or with the requirements of the Listing Rules in such a way that:

- (a) the continuing connected transactions disclosed above were entered into in the ordinary and usual course of business of the Group and conducted on an arm’s length basis on normal commercial terms or on terms no more favourable than terms available to independent third parties;
- (b) in respect of transactions other than Buy-in Transactions and the Tenancy, they were in accordance with the rules and regulations of the relevant Group company governing such transactions and where the rules and regulations do not govern those transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;

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- (c) in respect of Buy-in Transactions, they were in accordance with the standard terms and conditions of HKSCC applicable generally to all Buy-in Brokers in such transactions acting for and on behalf of HKSCC and at the agreed commission rate payable by HKSCC in respect of all such Buy-in Transactions; and
- (d) in respect of the Tenancy, it was entered into in accordance with the terms as contained in the formal tenancy agreement dated 27 March 2007, and was on normal commercial terms.

Based on the opinion of the two INEDs, the Board considered and decided that the continuing connected transactions were fair and reasonable and in the interests of Shareholders as a whole.

The external auditor of HKEx also confirmed that:

- (a) the continuing connected transactions disclosed above had been approved by the Board;
- (b) the continuing connected transactions, other than the Tenancy, were in accordance with the rules and regulations of the relevant Group company governing fees for the applicable facilities, services or goods provided by, or to, the Group and where the rules and regulations do not govern the transactions in full, were in accordance with the standard terms and conditions of the relevant Group company relating to the applicable facilities, services or goods provided by, or to, the Group; and
- (c) the Tenancy had been entered into in accordance with the relevant agreement governing the transaction, and the annual rental had not exceeded the cap disclosed in the announcement of HKEx made on 13 December 2006.

Related Party Transactions

The Group also entered into certain transactions with parties regarded as “related parties” under the applicable accounting standards. Details of these transactions will be set out in the consolidated accounts of the Annual Report.

On behalf of the Board
MAU Kam Shing, Joseph
Company Secretary
Hong Kong, 5 March 2008

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Glossary

2007 AGM	Annual general meeting held on 26 April 2007
2008 AGM	Annual general meeting to be held on 24 April 2008
AGM	Annual general meeting of HKE _x
Articles of Association	Articles of Association of HKE _x
Awarded Shares	Shares awarded under the Share Award Scheme
Board	Board of HKE _x
CG Code	Code on Corporate Governance Practices
Director(s)	Director(s) of HKE _x
Elected Directors	Directors elected by the Shareholders at general meetings
EP(s) or Participant(s)	Exchange Participant(s)
Financial Secretary	Financial Secretary of the Government
GEM Listing Rules	Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Government	The Government of the Hong Kong Special Administrative Region of the People's Republic of China
Government Appointed Directors	Directors appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKE _x and its subsidiaries
HKE _x or the Company	Hong Kong Exchanges and Clearing Limited
HKFRS(s)	Hong Kong Financial Reporting Standard(s)
HKFE or Futures Exchange	Hong Kong Futures Exchange Limited
HKSCC	Hong Kong Securities Clearing Company Limited
Hong Kong or HKSAR	Hong Kong Special Administrative Region of the People's Republic of China
HSI	Hang Seng Index
ICAC	Independent Commission Against Corruption
INED(s)	Independent Non-executive Director(s) of HKE _x
Listing Committees	Listing Committee and the GEM Listing Committee
Listing Rules	Main Board Listing Rules and GEM Listing Rules
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
Senior Management	Senior executives of HKE _x as referred to in the section "Senior Management" to be set out in the Annual Report
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	Shareholders of HKE _x
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended by the Board on 16 August 2006
Stock Exchange	The Stock Exchange of Hong Kong Limited
\$/HKD	Hong Kong Dollar