

(Financial figures in this report are expressed in Hong Kong Dollar)

THE REMUNERATION COMMITTEE

Terms of Reference

The Remuneration Committee is mandated to formulate the Group's remuneration policy for approval by the Board. Other key functions include, inter alia, setting the guidelines for the recruitment of the Chief Executive and the Senior Management, determining their remuneration packages and making recommendations to the Board on the Group's annual salary adjustment, the annual performance bonus and share award. The terms of reference which lay down the role of the Remuneration Committee, are posted on HKE_x's corporate website.

Summary of major work done in 2006

During 2006, the Remuneration Committee held five meetings. The attendance record is set out in the Corporate Governance Report. The following is a summary of the major tasks completed by the Remuneration Committee in 2006, which had been approved by the Board:

- amended and restated the rules and trust deed of the Share Award Scheme;
- proposed refinement to the remuneration policy and structure based on recommendations of an independent global consulting company specialising in human resources and compensation;
- recommended pay adjustments for 2006/2007 based on the refined remuneration policy structure;
- recommended the performance bonus to be awarded to staff, including the Chief Executive and the Senior Management;
- recommended the amount for the purchase of shares to be awarded to eligible employees under the Share Award Scheme; and
- recommended the revised remuneration of non-executive Directors for approval by Shareholders.

REMUNERATION POLICY

Non-executive Directors

The objective of remunerating non-executive Directors is to ensure that they are remunerated sufficiently but not excessively for their efforts and time dedicated to HKE_x. Their remuneration is reviewed annually with reference to companies of comparable business or scale, and subject to the approval of Shareholders.

The current remuneration of \$240,000 per annum approved by Shareholders at the 2005 AGM became effective starting from the conclusion of the 2005 AGM in April 2005. At the 2006 AGM, Shareholders approved the proposal that the non-executive Directors' remuneration remain unchanged until the conclusion of the 2007 AGM. Based on a recent survey of the average annual remuneration of non-executive directors conducted on HSI constituent companies as well as overseas exchanges with publicly traded shares, the Remuneration Committee recommended raising the remuneration of the Chairman and each of the other non-executive Directors from the existing \$240,000 per annum to \$450,000 and \$300,000 respectively per annum, and paying an additional remuneration of \$50,000 per annum to a non-

REMUNERATION COMMITTEE REPORT 2006

executive Director for each committee membership held on the Executive Committee, Audit Committee, Remuneration Committee and Investment Advisory Committee. The proposed remuneration is set to reflect the heavy workload and significant responsibilities of the Chairman and to align with the practice adopted by other major listed companies in differentiating the remuneration for the chairman and other board members, and paying additional compensation for non-executive directors' time spent on various committees, and it will bring the total remuneration of non-executive Directors in line with the market. The recommendation of the Remuneration Committee has been endorsed by the Board and it will be put forward for Shareholders' approval at the 2007 AGM.

General Employees

Quality and dedicated staff are valuable assets contributing to the Group's performance. HKE_x's remuneration policy is built upon the principles of providing an equitable, motivating and market-competitive remuneration package that is able to stimulate and drive staff at all levels to work towards achieving the Group's strategic objectives and to ensure that HKE_x is able to retain high-calibre employees. In February 2006, HKE_x commissioned an independent global consulting company specialising in human resources and compensation to conduct an overall review of HKE_x's remuneration policy and structure with the objective of introducing refinements to better support achievement of the Group's strategic objectives. Details of the refined remuneration policy and structure are set out in the Corporate Governance section on HKE_x's corporate website.

In summary, employees' remuneration packages comprise fixed and variable components benchmarked against companies in the financial services sector:

Fixed component – base salary

Variable component – annual performance bonus and share award

Other benefits include the provident fund (contribution to the provident fund is set out in note 9 to the consolidated accounts), medical insurance, dental insurance, life and personal accident insurance, employee compensation and business travel insurance.

PAY REVIEW 2006/2007

For the 2006/2007 pay review, the Remuneration Committee recommended, and the Board approved, an average salary increase of four per cent comprising two per cent for cost of living adjustment, and another average of two per cent for market catch-up and promotions.

In determining the performance bonus and share awards, the refined remuneration structure and assessment system recommended by the independent consultant was adopted. The performance bonus and share awards recommended by the Remuneration Committee and approved by the Board were determined based on the Company's performance taking into account both financial and non-financial factors including profit, business development, market & regulatory development, organisational development and market availability. The Board approved an amount equivalent to 3.3 months' salary as performance bonus to award employees for their contributions in 2006 and an amount of HK\$19,673,160 for the purchase of HKE_x shares to be awarded to senior staff who would be contributing to the long-term development of the Group and for retention purpose. The share awards would vest in five years, subject to the employees remaining in employment.

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For 2006, the mix of fixed and variable compensation for different levels of staff was as follows:

	Fixed	Variable (Performance-related)	
Senior staff	67%	21%	12%
Middle-level staff <i>(note)</i>	75%	25%	
General staff	82%	18%	

☐ Base compensation – salary
 ☐ Annual incentive – cash bonus
 ☐ Long-term incentive – share award

Note: Share awards were also granted to a limited number of middle-level employees with exemplary performance for retention purpose.

None of the staff participated in the Remuneration Committee's discussion on his/her pay review and performance award.

EMOLUMENTS FOR 2006
Non-executive Directors

A fee of HK\$240,000 was paid to each non-executive Director, as approved by Shareholders at the 2006 AGM. The fee is payable in proportion to the period of service during the period from the conclusion of the 2006 AGM to the conclusion of the 2007 AGM. Non-executive Directors are, however not entitled to participate in the Share Option Schemes and the Share Award Scheme, or other fringe benefits.

Name	Director's Fee (\$)	Director's Fee (\$)
	2006	2005
Ronald J Arculli <i>(appointment effective 26 April 2006)</i>	180,000	-
Charles Y K Lee <i>(retired on 26 April 2006)</i>	60,000	205,000
Laura M Cha <i>(appointment effective 26 April 2006)</i>	180,000	-
Moses M C Cheng <i>(appointment effective 26 April 2006)</i>	180,000	-
Marvin K T Cheung	240,000	180,000
Henry H L Fan	240,000	205,000
Fong Hup	240,000	205,000
Tim Freshwater <i>(retired on 26 April 2006)</i>	60,000	205,000
Bill C P Kwok	240,000	205,000
Dannis J H Lee <i>(retired on 26 April 2006)</i>	60,000	205,000
Vincent K H Lee	240,000	205,000
Leong Ka Chai <i>(retired on 12 April 2005)</i>	-	25,000
Lo Ka Shui <i>(retired on 26 April 2006)</i>	60,000	205,000
Christine K W Loh <i>(appointment effective 26 April 2006)</i>	180,000	-
John E Strickland	240,000	205,000
David M Webb	240,000	205,000
Oscar S H Wong	240,000	205,000
Total	2,880,000	2,460,000

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Executive Directors

Chief Executive	Salary (\$)	Performance Bonus (\$)	Other Benefits (\$) (note 1)	Retirement Benefits Cost (\$) (note 2)	Director's Fee (\$)	2006 Total (\$)	2005 Total (\$)	Share Option Benefits (\$) (note 3)	Share Awards Benefits (\$) (note 3)
Paul M Y Chow	7,344,000	2,754,000	58,540	918,000	–	11,074,540	9,361,576	1,197,639	11,866

Senior Management

Name	Salary (\$)	Performance Bonus (\$)	Other Benefits (\$) (note 1)	Retirement Benefits Cost (\$) (note 2)	Compensation for Loss of Office (\$)	2006 Total (\$)	2005 Total (\$)	Share Options Benefits (\$) (note 3)	Share Awards Benefits (\$) (note 3)
Patrick K Conroy ^(note 4)	5,514,600	2,297,750	118,914	689,326	–	8,620,590	6,986,948	(1,083,845)	–
Gerald D Greiner	3,794,400	1,422,900	71,538	474,300	–	5,763,138	4,903,035	506,906	359,004
Lawrence K M Fok	3,672,000	1,009,800	80,747	459,000	–	5,221,547	5,279,613	248,164	214,051
Mary M L Kao	3,574,080	1,206,260	64,143	446,760	–	5,291,243	4,522,844	248,164	250,308
Henry M W Law	2,448,000	795,600	29,349	306,000	–	3,578,949	2,987,106	202,742	202,432
Stewart S C Shing	3,794,400	1,280,610	70,441	474,300	–	5,619,751	4,851,646	1,246,543	5,517
Archie T C Tsim	3,060,000	1,071,000	64,172	382,500	–	4,577,672	3,851,549	199,818	288,502
Richard G Williams ^(note 5)	3,978,000	1,491,750	113,224	497,250	–	6,080,224	5,391,575	772,677	12,856
Alfred K K Wong	3,000,000	1,125,000	61,809	375,000	–	4,561,809	3,721,208	227,110	283,843

Notes:

- Other benefits include leave pay, insurance premium, and club membership.
- An employee who retires before normal retirement age is eligible to 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of seven years of service.
- Apart from the performance bonus, the Chief Executive and the respective members of the Senior Management were awarded shares according to the Share Award Scheme on 15 January 2007 with the sum for buying the Shares being approved by the Board on 13 December 2006. Details of the awards are set out on pages 5 and 6 of this report.

The share option benefits and the share award benefits represent the aggregate of the amortised fair value of the share options granted and shares awarded to the Chief Executive and the respective members of the Senior Management under the Post-Listing Scheme and the Share Award Scheme respectively that were charged to the profit and loss account for the year ended 31 December 2006. (Under HKFRS2, amortisation of the fair value of the options granted under the Pre-Listing Scheme is not required.)

- Mr Patrick K Conroy resigned as the Chief Operating Officer on 9 February 2007, the performance bonus for 2006 included a gratuity bonus of \$1,378,650 paid to Mr Conroy in January 2007.
Due to Mr Conroy's resignation, the actual number of share options vested was lower than previously expected. Under HKFRS 2 – share based payment, his cumulative total share-based compensation should be revised to reflect the number of share options actually vested. The negative charge in 2006 was due to the reversal of part of the expenses charged in prior years which were based on a higher number of share options expected to vest.
- Mr Richard G Williams is a member of a pension scheme operating in the United Kingdom, and he is exempted under Section 4(3) of the Mandatory Provident Fund Schemes Ordinance from participating in HKE_x's provident fund scheme. The vesting scale of retirement benefits is not applicable to Mr Williams.

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CHIEF EXECUTIVE AND THE SENIOR MANAGEMENT'S INTERESTS IN HKEX'S SECURITIES UNDER LONG-TERM INCENTIVE SCHEMES

Share Options

Name	Date of grant	Exercise price (\$)	Number of shares issuable under the options				Exercise period	
			As at 1 Jan 2006	Granted during the year	Subscribed during the year	Lapsed during the year		As at 31 Dec 2006
Chief Executive								
Paul M Y Chow	2 May 2003	8.28	2,460,000	—	—	—	2,460,000	2 May 2005 – 1 May 2013
Senior Management								
Patrick K Conroy (note 1)	18 Aug 2003	12.49	1,476,000	—	—	—	1,476,000	18 Aug 2005 – 17 Aug 2013
Gerald D Greiner	17 May 2004	15.91	200,000	—	50,000	—	150,000	17 May 2006 – 16 May 2014
	26 Jan 2005	19.25	200,000	—	—	—	200,000	26 Jan 2007 – 25 Jan 2015
Lawrence K M Fok	20 Jun 2000	6.88	258,000	—	200,000	—	58,000	6 Mar 2002 – 30 May 2010
	31 Mar 2004	16.96	120,000	—	—	—	120,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	100,000	—	—	—	100,000	26 Jan 2007 – 25 Jan 2015
Mary M L Kao	31 Mar 2004	16.96	120,000	—	—	—	120,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	100,000	—	—	—	100,000	26 Jan 2007 – 25 Jan 2015
Henry M W Law	31 Mar 2004	16.96	100,000	—	—	—	100,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	80,000	—	—	—	80,000	26 Jan 2007 – 25 Jan 2015
Stewart S C Shing	15 Jan 2004	17.30	1,094,000	—	272,000	—	822,000	15 Jan 2006 – 14 Jan 2014
Archie T C Tsim	26 Jan 2005	19.25	164,000	—	—	—	164,000	26 Jan 2007 – 25 Jan 2015
Richard G Williams	14 Aug 2003	12.45	844,000	—	297,000	—	547,000	14 Aug 2005 – 13 Aug 2013
Alfred K K Wong	31 Mar 2004	16.96	100,000	—	—	—	100,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	100,000	—	—	—	100,000	26 Jan 2007 – 25 Jan 2015

Awarded Shares

Name	Date of award <i>(note 2)</i>	Number of awarded shares	Average fair value per share (\$)	Number of shares				As at 31 Dec 2006	Vesting period <i>(note 3)</i>
				As at 1 Jan 2006	Further shares acquired during the year through reinvesting dividends received	Vested during the year	Lapsed during the year		
Chief Executive									
Paul M Y Chow	15 Jan 2007	11,528	72.28	–	–	–	–	–	13 Dec 2008 – 13 Dec 2011
Senior Management									
Gerald D Greiner	19 Dec 2005	40,600	31.20	40,600	1,077	–	–	41,677	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	11,911	72.28	–	–	–	–	–	13 Dec 2008 – 13 Dec 2011
Lawrence K M Fok	19 Dec 2005	24,600	31.20	24,600	653	–	–	25,253	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	3,842	72.28	–	–	–	–	-	13 Dec 2008 – 13 Dec 2011
Mary M L Kao	19 Dec 2005	28,700	31.20	28,700	761	–	–	29,461	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	5,048	72.28	–	–	–	–	–	13 Dec 2008 – 13 Dec 2011

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Name	Date of award (note 2)	Number of awarded shares	Average fair value per share (\$)	Number of shares			Vested during the year	Lapsed during the year	As at 31 Dec 2006	Vesting period (note 3)
				As at 1 Jan 2006	Further shares acquired during the year through reinvesting dividends received					
Henry M W Law	19 Dec 2005	22,900	31.20	22,900	607	–	–	–	23,507	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	6,660	72.28	–	–	–	–	–	–	13 Dec 2008 – 13 Dec 2011
Stewart S C Shing	15 Jan 2007	5,360	72.28	–	–	–	–	–	–	13 Dec 2008 – 13 Dec 2011
Archie T C Tsim	19 Dec 2005	32,700	31.20	32,700	867	–	–	–	33,567	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	8,965	72.28	–	–	–	–	–	–	13 Dec 2008 – 13 Dec 2011
Richard G Williams	15 Jan 2007	12,490	72.28	–	–	–	–	–	–	13 Dec 2008 – 13 Dec 2011
Alfred K K Wong	19 Dec 2005	32,100	31.20	32,100	852	–	–	–	32,952	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	9,417	72.28	–	–	–	–	–	–	13 Dec 2008 – 13 Dec 2011

Notes:

1. Subsequent to the year end, Mr Conroy exercised his option to subscribe for 492,000 Shares on 3 January 2007. Due to his resignation, the remaining 984,000 Shares issuable under the option granted to him were thereafter lapsed pursuant to the terms of the Post-Listing Scheme.
2. Prior to 16 August 2006, the date of award refers to the date on which the Board determined such number of shares awarded to the selected employees. Following the amendments to the rules of the Share Award Scheme which took effect from 16 August 2006, the date of award refers to the date on which the trustee allocated such number of Awarded Shares to the selected employees from the total number of shares purchased with the sum determined by the Board.

During the year, with the sum approved by Board on 13 December 2006, the trustee purchased the Awarded Shares according to the Share Award Scheme and the relevant awarded shares were allocated by the trustee to the eligible employees on 15 January 2007.
3. The shares awarded are vested in tranches of 25 per cent per annum starting from the second anniversary until the fifth anniversary of the date of approval of the award by the Board.

LONG-TERM INCENTIVE PLANS

Share Option Schemes (replaced by the Share Award Scheme in September 2005)

HKEx operates two share option schemes, the Pre-Listing Scheme and the Post-Listing Scheme, under which the Board may, at its discretion, offer any employee (including any executive director) of HKEx or its subsidiaries, options to subscribe for shares in HKEx, for the purpose of attracting and retaining high calibre employees. Both schemes were approved by Shareholders on 31 May 2000 and have a life of 10 years until 30 May 2010. Amendments to the Post-Listing Scheme, including, inter alia, the abolition of granting options at a discounted price, were approved by Shareholders on 17 April 2002 so as to comply with the new requirements of Chapter 17 of the Main Board Listing Rules which came into effect on 1 September 2001.

A non-refundable sum of \$1 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the granted option. The maximum number of shares in respect of which options may be granted under these schemes shall not in aggregate exceed 10 per cent of the Shares in issue as at the date of approval of the schemes, ie a total of 104,066,484 shares. The key terms of these two schemes are summarised below.

Pre-Listing Scheme

Options for the subscription of 34,890,262 Shares were granted to employees of HKE_x or its subsidiaries on 20 June 2000. The options granted were exercisable subject to a vesting scale which commenced on 6 March 2002 in tranches of 25 per cent per annum and reaching 100 per cent from 6 March 2005, and in any event shall end not later than 30 May 2010, subject to the provisions for early exercise and/or termination contained in the Pre-Listing Scheme. No further options can be, or have been, issued under the Pre-Listing Scheme from 27 June 2000, the date of listing of HKE_x on the Stock Exchange.

The maximum entitlement of each participant, when aggregated with shares issued and issuable under all options granted to him, must not exceed 25 per cent of the aggregated number of shares for the time being issued and issuable under the Pre-Listing Scheme.

The subscription price for a share in HKE_x in respect of any particular option granted was determined based on a formula: $P = 80 \text{ per cent } (A \times B)$, where “P” was the subscription price; “A” was 18.81, a price/earnings multiple determined by reference to the price/earnings multiples of various financial companies listed on the Stock Exchange and/or overseas; and “B” was the earnings per share of the Group based on its audited combined results for the year ended 31 December 1999 as if the then group structure of HKE_x had been in existence throughout the year divided by 1,040,664,846 Shares in issue. Based on this formula, the subscription price of the option granted was \$7.52 per share, which was subsequently adjusted by Shareholders at the 2004 AGM, to \$6.88 per share as the result of the payment of a special dividend of \$1.68 per share in 2004.

Post-Listing Scheme

Unless approved by Shareholders in general meeting, no employee shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to such employee in any 12-month period up to the date of the latest grant would exceed 1 per cent of the issued share capital of HKE_x in issue at the relevant time.

The subscription price of shares in respect of any particular option granted shall be at least the higher of (i) the closing price of HKE_x shares on the Stock Exchange, as stated in the Stock Exchange’s daily quotations sheet on the relevant offer date in respect of such option; or (ii) the average of the closing prices of HKE_x shares on the Stock Exchange, as stated in the Stock Exchange’s daily quotations sheet for the five trading days immediately preceding the relevant offer date in respect of such option; or (iii) the nominal value of a share in HKE_x.

An option may be exercised in accordance with the terms of the Post-Listing Scheme at any time during a period to be notified by the Board to each grantee. Such period may commence on the second anniversary of the date on which the option is offered in tranches of 25 per cent and reaching 100 per cent from the fifth anniversary of the date on which the option is offered, and in any event shall end not later than 10 years from the date upon which the option is granted and accepted, subject to the provisions for early exercise and/or termination as contained in the Post-Listing Scheme.

The total number of shares available for issue, save for those granted but yet to be exercised, under the Pre-Listing Scheme and the Post-Listing Scheme aggregated to [63,901,484] Shares, which represented [5.99] per cent of the issued share capital of HKE_x as at 8 March 2007. However, following the adoption of the Share Award Scheme by the Board in September 2005, no further options will be granted under the Post-Listing Scheme.

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Details of the share options granted under the two schemes and which remained outstanding as at 31 December 2006 were as follows:

Pre-Listing Scheme

	Date of grant	Exercise price	Number of shares issuable under the options				Exercise period
			As at 1 Jan 2006	Issued upon subscription during the year	Lapsed during the year	As at 31 Dec 2006	
Aggregate total for employees (note 1)	20 June 2000	\$6.88	2,126,000	1,338,000 (note 2)	–	788,000	6 Mar 2002 – 30 May 2010 (note 3)

Post-Listing Scheme

Date of Grant	Exercise price	Number of shares issuable under the options					Exercise period (note 6)
		As at 1 Jan 2006	Granted during the year	Issued upon subscription during the year	Lapsed during the year	As at 31 Dec 2006	
				(note 5)			
Director (note 4)							
2 May 2003	\$8.28	2,460,000	–	–	–	2,460,000	2 May 2005 – 1 May 2013
Employees (note 1)							
14 Aug 2003	\$12.45	844,000	–	297,000	–	547,000	14 Aug 2005 – 13 Aug 2013
18 Aug 2003	\$12.49	1,476,000	–	–	–	1,476,000	18 Aug 2005 – 17 Aug 2013
15 Jan 2004	\$17.30	1,094,000	–	272,000	–	822,000	15 Jan 2006 – 14 Jan 2014
31 Mar 2004	\$16.96	5,074,000	–	736,500	253,000	4,084,500	31 Mar 2006 – 30 Mar 2014
17 May 2004	\$15.91	200,000	–	50,000	–	150,000	17 May 2006 – 16 May 2014
26 Jan 2005	\$19.25	5,426,000	–	–	372,000	5,054,000	26 Jan 2007 – 25 Jan 2015

Notes:

1. Employees working under employment contracts that were regarded as “continuous contracts” for the purpose of the Employment Ordinance of Hong Kong.
2. The weighted average closing price immediately before the dates on which the options were exercised was \$46.02.
3. Options granted are subject to a vesting scale in tranches of 25 per cent each per annum reaching 100 per cent as from 6 March 2005.
4. The option was granted to Mr Paul M Y Chow, a Director and the Chief Executive of HKE_x.
5. The weighted average closing price immediately before the dates on which the options were exercised was \$55.91.
6. Options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of grant.
7. HKE_x adopts the Binomial Option Pricing Model for estimating the fair value of options issued under the Post-Listing Scheme. The assumptions used in the model for the following factors are:
 - Risk-free rate of return – the yield of 10-year Exchange Fund Notes
 - Expected volatility of share price – annualised volatility for one year immediately preceding the grant date
 - Expected dividend yields – annual dividend (excluding special dividend) of the most recent financial year and the closing price on grant date

The amortised fair value of the share options charged to the profit and loss account for the year ended 31 December 2006 was \$15,553,000 (2005: 22,663,000).

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

Share Award Scheme

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

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

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

During the year, the Board awarded an amount of \$19,673,160 on 13 December 2006 for the purchase of Shares to be awarded to 67 eligible employees. The trustee of the Share Award Scheme purchased an aggregate of 272,500 Shares, representing 0.026 per cent of the issued share capital as at the Adoption Date, and allocated 272,465 Shares to the eligible employees on 15 January 2007 according to their respective proportionate awarded sums so determined for him/her against the aggregate of the total amount awarded. The total payout of the purchase of the awarded shares including the related expenses, amounted to \$19,696,000.

Since its adoption, the Board has awarded a total of 1,232,465 Shares to the selected employees. Details of the award are set out below:

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

Notes:

1. The fair value of the awarded shares was based on the market value at the date of award.
2. As a result of the amendments to the rules of the Share Award Scheme which took effect from 16 August 2006, the fair value of the awarded shares was based on the average purchase cost per share.
3. The amortised fair value of the awarded shares charged to the profit and loss account for the year ended 31 December 2006 was \$8,480,000 (2005: \$292,000).

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As at 31 December 2006, taking into account the further shares acquired by reinvesting the dividend income, there were a total of 1,258,000 Shares held upon trust by the trustee under the Share Award Scheme, with an aggregate of 272,500 unallocated shares and 29,594 shares as returned shares (ie shares were not vested and/or forfeited in accordance with the terms of the Share Award Scheme). The trustee shall hold these returned shares and future related income for the benefit of one or more employees of the Group as it determines at its discretion, after taking into consideration the recommendations of the Board. During the period, 28,700 awarded shares under the Share Award Scheme lapsed and no shares were vested.

DIRECTORS' SERVICE CONTRACT

Mr Paul M Y Chow is employed as the Chief Executive under a contract term of four years from 1 May 2003 to 30 April 2007. Mr Chow has agreed with HKEx on the renewal of his employment contract as the Chief Executive for a further two-year term from 1 May 2007 to 30 April 2009. Save as the aforesaid, no Director has any existing or proposed service contract with any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

Members of the Remuneration Committee

CHEUNG Kin Tung, Marvin (*Chairman*)

CHENG Mo Chi, Moses

FONG Hup

LEE Kwun Ho, Vincent Marshall

LOH Kung Wai, Christine

Hong Kong, 8 March 2007

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GLOSSARY

2004 AGM	Annual general meeting held on 31 March 2004
2005 AGM	Annual general meeting held on 12 April 2005
2006 AGM	Annual general meeting held on 26 April 2006
2007 AGM	Annual general meeting to be held on 26 April 2007
Board	Board of HKEx
Director(s)	Director(s) of HKEx
Group	HKEx and its subsidiaries
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HSI	Hang Seng Index
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Post-Listing Scheme	Post-Listing Share Option Scheme approved by Shareholders on 31 May 2000 which was subsequently amended by Shareholders on 17 April 2002
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by Shareholders on 31 May 2000
SEHK or the Stock Exchange or the Exchange	The Stock Exchange of Hong Kong Limited
Senior Management	Senior executives of HKEx as referred to in the section “Senior Management” as set out in the Annual Report
Share(s)	Share(s) of HK\$1.00 each in the capital of HKEx
Shareholders	Shareholders of HKEx
Share Award Scheme	The Employees’ Share Award Scheme adopted by the Board on 14 September 2005
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme