



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)

2003 First Quarter Results

The Directors of Hong Kong Exchanges and Clearing Limited (HKEx) submit the unaudited results of HKEx and its subsidiaries (the Group) for the three months ended 31 March 2003 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Financial figures are expressed in Hong Kong dollars)

	Note	Unaudited Three months ended 31 Mar 2003 \$'000	Unaudited Three months ended 31 Mar 2002 \$'000
INCOME			
Trading fees and trading tariff	2	83,569	78,618
Stock Exchange listing fees		79,083	90,371
Clearing and settlement fees		40,823	45,296
Depository, custody and nominee services fees		27,645	31,721
Income from sale of information		64,218	76,386
Investment income	3	68,467	48,292
Other income	4	39,466	40,668
		<u>403,271</u>	<u>411,352</u>
OPERATING EXPENSES			
Staff costs and related expenses		129,043	131,655
Information technology and computer maintenance expenses		72,859	64,240
Premises expenses		22,175	24,530
Product marketing and promotion expenses		2,131	2,031
Legal and professional fees		7,758	3,328
Depreciation and amortisation		46,929	35,742
Other operating expenses		19,594	19,626
		<u>300,489</u>	<u>281,152</u>
		102,782	130,200
OPERATING PROFIT			
SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES			
		<u>1,695</u>	<u>-</u>
PROFIT BEFORE TAXATION			
		104,477	130,200
TAXATION			
	5	<u>(15,801)</u>	<u>(11,742)</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS			
		<u>88,676</u>	<u>118,458</u>
Earnings per share	6	<u>\$0.08</u>	<u>\$0.11</u>

CONDENSED CONSOLIDATED BALANCE SHEET

(Financial figures are expressed in Hong Kong dollars)

	Note	Unaudited at 31 Mar 2003 \$'000	Audited and restated at 31 Dec 2002 \$'000
NON-CURRENT ASSETS			
Fixed assets		713,041	748,108
Investments in associated companies		34,846	35,536
Clearing House Funds		1,035,214	980,748
Compensation Fund Reserve Account		36,133	35,827
Cash and Derivatives Market Development Fund		912	914
Non-trading securities maturing over one year		87,540	87,604
Deferred tax assets	1	137	–
		<u>1,907,823</u>	<u>1,888,737</u>
CURRENT ASSETS			
Margin funds on derivatives contracts		4,386,113	4,551,601
Accounts receivable, prepayments and deposits		2,130,200	3,118,199
Taxation recoverable		2,681	1,774
Trading securities		3,484,735	3,490,046
Bank balances and time deposits		1,323,565	985,114
		<u>11,327,294</u>	<u>12,146,734</u>
CURRENT LIABILITIES			
Bank loans		48,605	49,456
Margin deposits and securities received from Clearing Participants on derivatives contracts		4,386,113	4,551,601
Accounts payable, accruals and other liabilities		2,283,328	3,007,392
Participants' admission fees received		1,600	3,350
Deferred revenue		221,947	269,774
Taxation payable		23,608	29,051
Provisions		28,782	28,863
		<u>6,993,983</u>	<u>7,939,487</u>
NET CURRENT ASSETS		<u>4,333,311</u>	<u>4,207,247</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,241,134</u>	<u>6,095,984</u>
NON-CURRENT LIABILITIES			
Participants' admission fees received		85,950	86,800
Participants' contributions to Clearing House Funds		475,613	425,440
Deferred tax liabilities	1	77,031	73,281
Provisions		20,040	20,099
		<u>658,634</u>	<u>605,620</u>
NET ASSETS		<u>5,582,500</u>	<u>5,490,364</u>
CAPITAL AND RESERVES			
Share capital		1,044,367	1,043,581
Share premium		24,137	19,012
Revaluation reserves		29,346	31,797
Designated reserves		691,745	727,811
Retained earnings	7	3,344,165	3,219,423
Proposed and declared dividend	7	448,740	448,740
SHAREHOLDERS' FUNDS		<u>5,582,500</u>	<u>5,490,364</u>

Notes:

- These unaudited condensed consolidated accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2002 except that the Group has adopted the new Hong Kong Statement of Standard Accounting Practice (SSAP) 12: Income Taxes, issued by the Hong Kong Society of Accountants (HKSA), which is effective for accounting periods commencing on or after 1 January 2003. The effects of the change to the Group's accounting policy are set out below.

Hong Kong Exchanges and Clearing Limited

Under the new SSAP 12, tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax assets and liabilities. Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. As a result, deferred tax assets and liabilities in 2002 are computed using a tax rate of 16 per cent and deferred tax assets and liabilities in 2003 using the higher tax rate of 17.5 per cent announced in the March 2003 Hong Kong Budget. As outstanding deferred tax liabilities carried forward from 2002 have to be recomputed at the higher tax rate in 2003, the change in tax rate has resulted in an increase in deferred tax liabilities of which \$6,218,000 was absorbed as an additional deferred tax charge in the first quarter of 2003.

The new SSAP 12 has been applied retrospectively and comparatives presented have been restated to conform to the changed policy. As a result, total deferred tax liabilities as at 31 December 2001 and 2002 increased by \$2,853,000 (with a corresponding reduction of \$3,556,000 in revaluation reserves and an increase of \$703,000 in retained earnings) and \$6,028,000 (with a corresponding reduction of \$2,183,000 in revaluation reserves and reduction of \$3,845,000 in retained earnings) respectively. Therefore, as detailed in note 7 to the accounts, opening retained earnings at 1 January 2002 and 2003 have increased by \$703,000 and decreased by \$3,845,000 respectively. The change has reduced the profit for the year ended 31 December 2002 by \$4,548,000 (from \$592,968,000 to \$588,420,000).

2. The Group's turnover comprises trading fees and trading tariff from securities and options traded on The Stock Exchange of Hong Kong Limited (Stock Exchange) and derivatives contracts traded on Hong Kong Futures Exchange Limited (Futures Exchange), Stock Exchange listing fees, clearing and settlement fees, depository, custody and nominee services fees, income from sale of information, investment income (including investment income net of interest expenses of Clearing House Funds) and other income, which are **disclosed as Income** in the condensed consolidated profit and loss account.

3. Investment income

	Unaudited Three months ended 31 Mar 2003 \$'000	Unaudited Three months ended 31 Mar 2002 \$'000
Interest income	59,703	70,846
Interest expenses	(340)	(1,515)
Net interest income	<u>59,363</u>	<u>69,331</u>
Non-interest investment income		
Dividends, net realised and unrealised gains/(losses) and exchange differences on investments	<u>9,104</u>	<u>(21,039)</u>
Total investment income	<u><u>68,467</u></u>	<u><u>48,292</u></u>

4. Other income

	Unaudited Three months ended 31 Mar 2003 \$'000	Unaudited Three months ended 31 Mar 2002 \$'000
Stock Exchange network and terminal user fees	24,110	14,182
Participants' subscription and application fees	9,732	10,050
Share registration services fees	593	8,429
Miscellaneous income	5,031	8,007
	<u><u>39,466</u></u>	<u><u>40,668</u></u>

5. Taxation in the condensed consolidated profit and loss account represents:

	Unaudited Three months ended 31 Mar 2003 \$'000	Unaudited Three months ended 31 Mar 2002 \$'000
Provision for Hong Kong Profits Tax (note a)	11,986	15,903
Overprovision in respect of prior years	-	(3,846)
	<u>11,986</u>	<u>12,057</u>
Deferred taxation (note b)	3,430	(315)
	<u>15,416</u>	<u>11,742</u>
Share of taxation of associated companies	385	-
	<u><u>15,801</u></u>	<u><u>11,742</u></u>

- (a) Hong Kong Profits Tax has been provided for at 17.5 per cent (2002: 16 per cent) on the estimated assessable profit for the period.
- (b) As explained in note 1, under the new SSAP 12, deferred tax assets and liabilities in 2002 are computed using a tax rate of 16 per cent and deferred tax assets and liabilities in 2003 using the higher tax rate of 17.5 per cent announced in the March 2003 Hong Kong Budget. Deferred taxation for 2003 includes a one-off deferred tax charge of \$6,218,000, which arose from recomputing outstanding deferred tax liabilities carried forward from 2002 using the higher tax rate of 17.5 per cent.
6. The calculation of basic earnings per share is based on the profit attributable to shareholders of \$88,676,000 (2002: \$118,458,000) and the weighted average of 1,043,676,335 shares (2002: 1,040,971,424) in issue during the three-month period. The employee share options outstanding did not have a material dilutive effect on the basic earnings per share.

7. Retained earnings

	Note	Unaudited at 31 Mar 2003 \$'000	Audited and restated at 31 Dec 2002 \$'000
At 1 Jan			
Retained earnings, as previously reported		3,223,268	3,198,763
Effect of adopting SSAP 12	1	(3,845)	703
Retained earnings, as restated		3,219,423	3,199,466
Proposed and declared dividend		448,740	260,166
Profit for the period/year		88,676	588,420
Investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves		(3,111)	(35,114)
Investment income net of expenses of Compensation Fund Reserve Account for the period/year transferred to Compensation Fund Reserve Account reserve		(186)	(681)
Transfer from Development reserve		39,363	-
Dividends paid:			
2002 interim dividend		-	(83,480)
2001 final dividend		-	(260,614)
At 31 Mar/31 Dec		<u>3,792,905</u>	<u>3,668,163</u>
Representing:			
Retained earnings		3,344,165	3,219,423
Proposed and declared dividend		448,740	448,740
At 31 Mar/31 Dec		<u>3,792,905</u>	<u>3,668,163</u>

8. Significant post-balance sheet events

The dual filing regime for new listings under the Securities and Futures (Stock Market Listing) Rules became effective on 1 April 2003. To defray the costs of the Securities and Futures Commission (SFC) of administering the filing requirements, the Group has agreed to pay the SFC \$20 million per year from April 2003 for three years.

In March 2003, the Expert Group appointed by the Government to review the operation of the securities and futures market regulatory structure recommended various market reform measures, including the transfer of the Listing Function on a bottom-line neutral basis from HKEx to the SFC. The Government has subsequently announced that it will perform further research and conduct public consultation on the recommendations. In the meantime, the Listing Function will remain with HKEx for 12 to 18 months. As the final decision on this issue is uncertain, and the ramifications on the securities markets are difficult to quantify, the impact on HKEx's future performance is also uncertain.

FINANCIAL HIGHLIGHTS

(Financial figures are expressed in Hong Kong dollars)

	Unaudited for the three months ended 31 Mar		Change
	2003	2002	
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	\$6.1 billion	\$7.1 billion	(14%)
Average daily number of derivatives contracts traded on the Futures Exchange	35,952	27,801	29%
Average daily number of stock options contracts traded on the Stock Exchange	15,847	13,588	17%
	\$ million	\$ million	
RESULTS			
Income	403	411	(2%)
Operating expenses	300	281	7%
Operating profit	103	130	(21%)
Share of profits less losses of associated companies	2	-	-
Profit before taxation	105	130	(20%)
Taxation	(16)	(12)	35%
Profit attributable to shareholders	89	118	(25%)
Shareholders' funds	5,583	5,490 #	2%
Total assets *	13,235	14,035 φ	(6%)
Earnings per share	\$0.08	\$0.11	(27%)

* The Group's total assets include the margin funds received from Participants on futures and options contracts.

Audited and restated (down by \$6 million) as at 31 December 2002 due to the implementation of the new SSAP 12: Income Taxes

φ Audited as at 31 December 2002

OVERALL PERFORMANCE

The Group recorded a profit attributable to shareholders of \$89 million for the period, compared with \$118 million for the same period in 2002.

Market sentiment during the period was significantly affected by political and economic uncertainties, largely due to the war in Iraq and the onset of the Severe Acute Respiratory Syndrome (SARS). Average daily turnover on the Stock Exchange dropped by 14 per cent compared with that in the same period last year.

Trading fees and trading tariff rose by \$5 million from \$79 million to \$84 million as a result of an increase in the volume of derivatives contracts and stock options traded by 29 per cent and 17 per cent respectively, which has more than offset the reduction in trading fees from cash market activities.

Listing fees fell by 12 per cent to \$79 million (2002: \$90 million) primarily due to a drop in the number of new listings of derivative warrants from 281 to 111. New listings in the first quarter of 2002 were exceptionally high, as investment banks were competing to issue new derivative warrants to meet pent up demand since there were virtually no new issues for six months before the Listing Rules for derivative warrants were amended to streamline the listing procedures towards the end of 2001. New listings on the Main Board and the Growth Enterprise Market declined by 50 per cent and 71 per cent respectively due to poor market sentiment.

In line with the fall in stock market activities and poor investment appetite, clearing and settlement fees, depository, custody and nominee services fees and income from sale of information decreased by 10 per cent, 13 per cent and 16 per cent respectively.

Despite a lower interest rate environment, total investment income for the period was \$68 million, 42 per cent higher than the \$48 million reported for the same period last year. The increase was primarily due to realised and mark-to-market gains on the corporate investment portfolio.

Total operating expenses increased by 7 per cent to \$300 million (2002: \$281 million). This was primarily due to a \$9 million (13 per cent) increase in information technology and computer maintenance expenses to further enhance the capability and resilience of the Group's trading and settlement systems, and the increase in depreciation charge by \$11 million (31 per cent) arising mainly from the rollout of the first and second phases of the upgraded Central Clearing and Settlement System (CCASS/3) in 2002.

Taxation increased significantly to \$16 million (2002: \$12 million) mainly as a result of a \$6 million increase in deferred tax charge arising from the increase in profits tax rate from 16 per cent to 17.5 per cent announced in the March 2003 Hong Kong Budget. In addition, under the new SSAP 12: Income Taxes, effective from 1 January 2003, outstanding deferred tax liabilities carried forward from 2002 (calculated at the 16 per cent tax rate in 2002) have to be recomputed in 2003 by using the higher rate of 17.5 per cent.

It is the Group's plan to declare dividend only at the half-year and year end. Therefore, no dividend will be proposed for the quarter (first quarter of 2002: \$Nil).

There were no other significant changes in the financial position or from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2002.

Due to fluctuations in market conditions and changes in operating environment, certain categories of income and operating expenses may vary from quarter to quarter. Therefore, quarterly results should not be extrapolated to project the full-year performance of the Group.

PROSPECTS

HKEx's results depend heavily on market sentiments, which are invariably impacted by domestic and global economic conditions. The prevailing economic weaknesses in the United States, Europe and Japan are still deterring investors from actively participating in the stock market. Coupled with the outbreak of SARS and the poor economic performance domestically, activities on the stock market are likely to remain subdued in the foreseeable future, and HKEx's revenue will continue to come under pressure. Appropriate precautionary measures against SARS have been undertaken to ensure that operations of the Group will not be interrupted.

HKEx will continue its strategy to improve the quality of its markets to attract more investors and issuers to Hong Kong, introduce new products and services to diversify revenue sources, and keep costs under stringent control. HKEx will also further pursue opportunities for co-operation with exchanges and clearing houses in Mainland China and overseas.

OTHER INFORMATION

Corporate Governance

The Audit Committee has reviewed the unaudited condensed consolidated accounts for the three months ended 31 March 2003.

Management has appointed the external auditors to carry out certain agreed upon procedures in accordance with Statement of Auditing Standards 710 "Engagements to perform agreed upon procedures regarding financial information" issued by the HKSA on the unaudited condensed consolidated accounts for the three months ended 31 March 2003.

Purchase, Sale or Redemption of HKEx's Listed Securities

During the three months ended 31 March 2003, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold any of HKEx's listed securities.

Hong Kong, 14 May 2003

This results announcement is published on the Stock Exchange's website (<http://www.hkex.com.hk>) and the quarterly report will be available from the same website on or before 15 May 2003.

By Order of the Board
Hong Kong Exchanges and Clearing Limited
Lee Yeh Kwong, Charles
Chairman

Please also refer to the published version of this announcement in South China Morning Post dated on 15-5-2003.