



香港交易所

12 May 2004

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)

2004 First Quarter Results

Non-executive Directors:
LEE Yeh Kwong, Charles, *Chairman*
FAN Hung Ling, Henry
FONG Hup
FRESHWATER, Timothy George
KWOK Chi Piu, Bill
LEE Jor Hung, Dannis
LEE Kwan Ho, Vincent Marshall
LEONG Ka Chai
LO Ka Shui
STRICKLAND, John Estmond
WEBB, David Michael
WONG Sai Hung, Oscar

Executive Director:
CHOW Man Yiu, Paul, *Chief Executive*

HKEX 香港交易所

The Directors of Hong Kong Exchanges and Clearing Limited (HKEx) submit the unaudited consolidated results of HKEx and its subsidiaries (the Group) for the three months ended 31 March 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Financial figures are expressed in Hong Kong dollars)

| | Note | Unaudited Three months ended 31 Mar 2004 \$'000 | Unaudited Three months ended 31 Mar 2003 \$'000 |
|--|------|---|---|
| INCOME | 2 | | |
| Trading fees and trading tariff | | 192,784 | 83,569 |
| Stock Exchange listing fees | | 90,691 | 79,083 |
| Clearing and settlement fees | | 106,634 | 40,823 |
| Depository, custody and nominee services fees | | 37,826 | 27,645 |
| Income from sale of information | | 80,555 | 64,218 |
| Investment income | 3 | 92,966 | 68,467 |
| Other income | 4 | 46,793 | 39,466 |
| | 2 | <u>648,249</u> | <u>403,271</u> |
| OPERATING EXPENSES | | | |
| Staff costs and related expenses | | 130,585 | 129,043 |
| Information technology and computer maintenance expenses | | 54,614 | 72,859 |
| Premises expenses | | 19,393 | 22,175 |
| Product marketing and promotion expenses | | 3,168 | 2,131 |
| Legal and professional fees | | 3,881 | 7,758 |
| Depreciation and amortisation | | 45,352 | 46,929 |
| Payment to SFC under dual filing regime | | 5,000 | - |
| Other operating expenses | 5 | 21,146 | 19,594 |
| | 2 | <u>283,139</u> | <u>300,489</u> |
| OPERATING PROFIT | 2 | 365,110 | 102,782 |
| SHARE OF PROFITS OF ASSOCIATED COMPANIES | 2 | 2,928 | 1,695 |
| PROFIT BEFORE TAXATION | 2 | 368,038 | 104,477 |
| TAXATION | 2/6 | (54,519) | (15,801) |
| PROFIT ATTRIBUTABLE TO SHAREHOLDERS | 2 | 313,519 | 88,676 |
| Earnings per share | 7 | \$0.30 | \$0.08 |

CONDENSED CONSOLIDATED BALANCE SHEET

(Financial figures are expressed in Hong Kong dollars)

| | Note | Unaudited at 31 Mar 2004 \$'000 | Audited at 31 Dec 2003 \$'000 |
|--|------|--|--|
| NON-CURRENT ASSETS | | | |
| Fixed assets | | 546,373 | 585,627 |
| Investments in associated companies | | 33,920 | 34,002 |
| Clearing House Funds | | 1,687,226 | 1,551,330 |
| Compensation Fund Reserve Account | | 37,081 | 36,859 |
| Cash and Derivatives Market Development Fund | | 930 | 925 |
| Non-trading securities | | 77,156 | 77,258 |
| Other assets | | 3,639 | 4,814 |
| | | <u>2,386,325</u> | <u>2,290,815</u> |
| CURRENT ASSETS | | | |
| Margin funds on derivatives contracts | | 8,877,056 | 7,874,510 |
| Accounts receivable, prepayments and deposits | 8 | 3,746,824 | 4,644,680 |
| Taxation recoverable | | 1,257 | 1,558 |
| Trading securities | | 2,522,231 | 3,212,998 |
| Bank balances and time deposits | | 3,042,276 | 1,777,703 |
| | | <u>18,189,644</u> | <u>17,511,449</u> |
| CURRENT LIABILITIES | | | |
| Bank loans | | - | 50,286 |
| Margin deposits and securities received from Clearing Participants on derivatives contracts | | 8,877,056 | 7,874,510 |
| Accounts payable, accruals and other liabilities | 8 | 4,081,286 | 4,779,904 |
| Dividends payable | | 2,218,559 | - |
| Participants' admission fees received | | 1,500 | 4,100 |
| Deferred revenue | | 219,057 | 257,068 |
| Taxation payable | | 118,299 | 57,370 |
| Provisions | | 25,745 | 25,011 |
| | | <u>15,541,502</u> | <u>13,048,249</u> |
| NET CURRENT ASSETS | | <u>2,648,142</u> | <u>4,463,200</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>5,034,467</u> | <u>6,754,015</u> |
| NON-CURRENT LIABILITIES | | | |
| Participants' admission fees received | | 84,850 | 84,950 |
| Participants' contributions to Clearing House Funds | | 1,118,591 | 984,045 |
| Deferred tax liabilities | | 52,085 | 58,665 |
| Provisions | | 22,598 | 23,092 |
| | | <u>1,278,124</u> | <u>1,150,752</u> |
| NET ASSETS | | <u>3,756,343</u> | <u>5,603,263</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | | 1,056,457 | 1,048,999 |
| Share premium | | 102,964 | 54,338 |
| Revaluation reserves | | 48,467 | 46,431 |
| Designated reserves | | 690,360 | 689,657 |
| Retained earnings | 9 | 1,858,095 | 1,560,940 |
| Proposed and declared dividends | 9 | - | 2,202,898 |
| | | <u>3,756,343</u> | <u>5,603,263</u> |
| SHAREHOLDERS' FUNDS | | <u>3,756,343</u> | <u>5,603,263</u> |

Notes:

1. These unaudited condensed consolidated accounts should be read in conjunction with the 2003 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 2003.
2. The Group's turnover comprises trading fees and trading tariff from securities and options traded on The Stock Exchange of Hong Kong Limited (the Stock Exchange) and derivatives contracts traded on Hong Kong Futures Exchange Limited (the 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.

The Group's income is derived solely from business activities in Hong Kong. An analysis of the Group's income and results for the period by business segments is as follows:

| | Unaudited | | | | Group |
|---|---------------------------------------|-------------------------------|------------------------------|---------------------------------|-----------------------|
| | Three months ended 31 Mar 2004 | | | | |
| | Cash Market | Derivatives Market | Clearing Business | Information Services | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Income | 302,666 | 82,238 | 181,745 | 81,600 | 648,249 |
| Costs | <u>134,921</u> | <u>36,232</u> | <u>93,009</u> | <u>18,977</u> | <u>283,139</u> |
| Segment results | 167,745 | 46,006 | 88,736 | 62,623 | 365,110 |
| Share of profits of associated companies | <u>-</u> | <u>-</u> | <u>2,928</u> | <u>-</u> | <u>2,928</u> |
| Segment profits before taxation | 167,745 | 46,006 | 91,664 | 62,623 | 368,038 |
| Taxation | | | | | <u>(54,519)</u> |
| Profit attributable to shareholders | | | | | <u><u>313,519</u></u> |

| | Unaudited | | | | Group \$'000 |
|---|--------------------------------|---------------------------------|--------------------------------|-----------------------------------|-----------------|
| | Three months ended 31 Mar 2003 | | | | |
| | Cash Market \$'000 | Derivatives Market \$'000 | Clearing Business \$'000 | Information Services \$'000 | |
| Income | 169,637 | 73,938 | 94,567 | 65,129 | 403,271 |
| Costs | 143,860 | 41,510 | 87,797 | 27,322 | 300,489 |
| Segment results | 25,777 | 32,428 | 6,770 | 37,807 | 102,782 |
| Share of profits of associated companies | 38 | - | 1,657 | - | 1,695 |
| Segment profits before taxation | 25,815 | 32,428 | 8,427 | 37,807 | 104,477 |
| Taxation | | | | | (15,801) |
| Profit attributable to shareholders | | | | | 88,676 |

- (a) The **Cash Market** business refers to the operations of the Stock Exchange, which covers all products traded on the cash market platforms, such as equities, debt securities, unit trusts, warrants and rights. Currently, the Group operates two cash market platforms, the Main Board and the Growth Enterprise Market (GEM). The major sources of income of the business are trading fees, trading tariff and listing fees. Direct costs of the Listing Function are included under the Cash Market Segment.

The **Derivatives Market** business refers to the derivatives products traded on the Futures Exchange and stock options traded on the Stock Exchange, which includes the provision and maintenance of trading platforms for a range of derivatives products, such as equity and interest rate futures and options. Its income mainly comprises trading fees and net interest income on the margin funds received.

The **Clearing Business** refers to the operations of the three Clearing Houses, namely Hong Kong Securities Clearing Company Limited (HKSCC), The SEHK Options Clearing House Limited (SEOCH) and HKFE Clearing Corporation Limited (HKCC), which are responsible for clearing, settlement and custodian activities and the related risk management of the cash and derivatives markets operated by the Group. Its income is derived primarily from interest earned on the Clearing House Funds and fees from providing clearing, settlement, depository and nominee services.

The **Information Services Segment** is responsible for developing and promoting e-commerce products, compiling and developing index and statistical data, and sales and business development of market data. Its income comprises primarily income from sale of Cash Market and Derivatives Market information.

In addition to the above, central income (mainly investment income of Corporate Funds) and central costs (mainly costs of the support functions that centrally provide services to all of the business segments) are allocated to the business segments and included in the segment income and costs.

3. Investment income

| | Unaudited Three months ended 31 Mar 2004 \$'000 | Unaudited Three months ended 31 Mar 2003 \$'000 |
|--|--|---|
| Interest income | | |
| - bank deposits | 5,721 | 14,763 |
| - listed securities | 9,578 | 11,656 |
| - unlisted securities | <u>24,473</u> | <u>28,803</u> |
| | 39,772 | 55,222 |
| Interest expenses | <u>(104)</u> | <u>(340)</u> |
| Net interest income | 39,668 | 54,882 |
| Accommodation income on cash margin deposits and securities deposited by Participants as alternatives to cash deposits of the margin funds | <u>2,323</u> | <u>4,481</u> |
| Non-interest investment income | | |
| Net realised gain/(loss) on investments including realisation of change in fair value of non-trading securities on maturity or disposal | | |
| - listed trading and non-trading securities | 14,463 | 587 |
| - unlisted trading and non-trading securities | 12,632 | 6,669 |
| - exchange difference | <u>(2,952)</u> | <u>7,485</u> |
| | 24,143 | 14,741 |
| Net unrealised gain/(loss) on investments | | |
| - listed trading securities | 20,968 | (8,692) |
| - unlisted trading securities | (3,584) | 984 |
| - exchange difference | <u>7,241</u> | <u>275</u> |
| | 24,625 | (7,433) |
| Dividend income | | |
| - non-trading securities | 1,070 | 1,049 |
| - trading securities | <u>1,137</u> | <u>747</u> |
| | 2,207 | 1,796 |
| Total non-interest investment income | <u>50,975</u> | <u>9,104</u> |
| Total investment income | 92,966 | 68,467 |
| Total investment income is derived from: | | |
| Corporate Funds (note a) | 74,973 | 40,365 |
| Margin funds | 15,635 | 22,322 |
| Clearing House Funds | <u>2,358</u> | <u>5,780</u> |
| | 92,966 | 68,467 |

- (a) Corporate Funds include investment income of Compensation Fund Reserve Account of \$131,000 (2003: \$186,000) and Cash and Derivatives Market Development Fund (CDMD Fund) of \$6,000 (2003: \$38,000).

4. Other income

| | Unaudited Three months ended 31 Mar 2004 \$'000 | Unaudited Three months ended 31 Mar 2003 \$'000 |
|---|--|---|
| Exchange network, terminal user, dataline and software sub-license fees | 29,089 | 27,384 |
| Participants' subscription and application fees | 8,676 | 9,732 |
| Share registration services fees | 606 | 593 |
| Brokerage on direct IPO applications | 6,365 | 44 |
| Miscellaneous income | 2,057 | 1,713 |
| | <u>46,793</u> | <u>39,466</u> |

5. Other operating expenses

| | Unaudited Three months ended 31 Mar 2004 \$'000 | Unaudited Three months ended 31 Mar 2003 \$'000 |
|--|--|---|
| (Reversal of provision for)/provision for doubtful debts | (503) | 61 |
| Insurance | 4,290 | 2,991 |
| Financial data subscription fees | 2,032 | 2,203 |
| Custodian and fund management fees | 2,097 | 2,137 |
| Bank charges | 2,118 | 1,556 |
| Repair and maintenance | 1,573 | 1,296 |
| Other miscellaneous expenses | 9,539 | 9,350 |
| | <u>21,146</u> | <u>19,594</u> |

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

| | Unaudited Three months ended 31 Mar 2004 \$'000 | Unaudited Three months ended 31 Mar 2003 \$'000 |
|--|--|---|
| Provision for Hong Kong Profits Tax (note a) | 61,266 | 11,986 |
| Deferred taxation (note b) | (7,357) | 3,430 |
| | <u>53,909</u> | <u>15,416</u> |
| Share of taxation of associated companies | 610 | 385 |
| | <u>54,519</u> | <u>15,801</u> |

(a) Hong Kong Profits Tax has been provided for at 17.5 per cent (2003: 17.5 per cent) on the estimated assessable profit for the period.

(b) 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 and the adoption of Hong Kong Statement of Standard Accounting Practice (SSAP) 12: Income Taxes in 2003.

7. The calculation of basic earnings per share is based on the profit attributable to shareholders of \$313,519,000 (2003:\$88,676,000) and the weighted average of 1,050,318,758 shares (2003: 1,043,676,335) 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.
8. The Group's accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities amounted to \$3,746,824,000 (31 December 2003: \$4,644,680,000) and \$4,081,286,000 (31 December 2003: \$4,779,904,000) respectively. These mainly represent the Group's Continuous Net Settlement (CNS) money obligations under the T+2 settlement cycle. The Group's CNS money obligations receivable represent 90 per cent (31 December 2003: 87 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations payable represent 82 per cent (31 December 2003: 84 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within two days as they are due for settlement two days after the trade date. The majority of the remaining accounts receivable, prepayments, deposits, accounts payable, accruals and other liabilities will mature within three months.
9. Retained earnings

| | Unaudited at 31 Mar 2004 \$'000 | Audited at 31 Dec 2003 \$'000 |
|--|--|--|
| At 1 Jan | | |
| Retained earnings | 1,560,940 | 3,221,321 |
| Proposed and declared dividends | 2,202,898 | 448,740 |
| Profit for the period/year (note a) | 313,519 | 691,765 |
| Investment income net of expenses of Clearing House | | |
| Funds for the period/year transferred to Clearing House | | |
| Funds reserves | (572) | (8,430) |
| Investment income net of expenses of Compensation Fund | | |
| Reserve Account for the period/year transferred to | | |
| Compensation Fund Reserve Account reserve | (131) | (714) |
| Transfer from Development reserve | - | 49,226 |
| Dividends: | | |
| 2003 interim dividend paid | - | (188,452) |
| 2003/2002 special and final dividends declared/paid | (2,202,898) | (448,740) |
| Dividends on shares issued for employee share options exercised after declaration of 2003/2002 special and final dividends | (15,661) | (647) |
| Dividend on shares issued for employee share options exercised after declaration of 2003 interim dividend | - | (231) |
| At 31 Mar/31 Dec | <u>1,858,095</u> | <u>3,763,838</u> |
| Representing: | | |
| Retained earnings | 1,858,095 | 1,560,940 |
| Proposed and declared dividends | - | 2,202,898 |
| At 31 Mar/31 Dec | <u>1,858,095</u> | <u>3,763,838</u> |

- (a) The Group's profit for the period/year includes a net deficit attributable to investment income net of expenses of the Clearing House Funds, Compensation Fund Reserve Account and CDMD Fund for an aggregate amount of \$820,000 (year ended 31 December 2003: surplus of \$6,938,000).

10. Events after balance sheet date

The 2003 special and final dividends of \$2,219 million were paid on 14 April 2004. As the amount of Corporate Funds available for investment thereafter has been reduced by this amount, the Group's investment income in future is unlikely to be sustainable at the level achieved in the first quarter of 2004.

FINANCIAL HIGHLIGHTS

(Financial figures are expressed in Hong Kong dollars)

| | Unaudited for the three months ended 31 Mar | | Change |
|---|--|-------------------|--------|
| | 2004 | 2003 | |
| KEY MARKET STATISTICS | | | |
| Average daily turnover value on the Stock Exchange | \$19.7 billion | \$6.1 billion | 223% |
| Average daily number of derivatives contracts traded on the Futures Exchange | 53,087 | 35,952 | 48% |
| Average daily number of stock options contracts traded on the Stock Exchange | 25,723 | 15,847 | 62% |
| | \$'000 | \$'000 | |
| RESULTS | | | |
| Income | 648,249 | 403,271 | 61% |
| Operating expenses | 283,139 | 300,489 | (6%) |
| Operating profit | 365,110 | 102,782 | 255% |
| Share of profits of associated companies | 2,928 | 1,695 | 73% |
| Profit before taxation | 368,038 | 104,477 | 252% |
| Taxation | (54,519) | (15,801) | 245% |
| Profit attributable to shareholders | 313,519 | 88,676 | 254% |
| Shareholders' funds | 3,756,343 | 5,603,263 Φ | (33%) |
| Total assets * | 20,575,969 | 19,802,264 Φ | 4% |
| Net assets per share # | \$3.56 | \$5.34 Φ | (33%) |
| Earnings per share | \$0.30 | \$0.08 | 275% |

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

Φ Audited as at 31 December 2003

Based on 1,056,456,846 shares issued and fully paid as at 31 March 2004 (31 December 2003: 1,048,998,846 shares)

BUSINESS REVIEW AND PROSPECTS

BUSINESS AND MARKET DEVELOPMENTS

Market Activity

Average daily turnover value on the Stock Exchange during the period under review was \$19.7 billion, compared with \$6.1 billion during the same period in 2003. There were eight new equity listings on the Main Board, including one by a company formerly listed on GEM, and eight new equity listings on GEM. In the first quarter of 2003, there were nine new equity listings on the Main Board, including three by companies formerly listed on GEM, and five on GEM. Equity capital formation through initial public offering (IPO) and post-IPO fund-raising totalled \$36.0 billion on the Main Board and \$2.8 billion on GEM, compared with a total of \$125.2 billion on the Main Board and \$522.7 million on GEM in the first quarter of 2003. The Main Board total figure for 2003 includes \$107.4 billion raised by HSBC Holdings in connection with its acquisition of Household International. Excluding this HSBC Holdings transaction, fund raising on the Main Board for the first quarter of 2003 was \$17.8 billion.

The average daily number of derivatives contracts traded on the Futures Exchange and stock options traded on the Stock Exchange during the first three months of 2004 was 78,810, up from 51,799 in the first three months of 2003. Total open interest at the end of March 2004 was 857,062 contracts, compared with 533,290 contracts at the end of March 2003.

Chairman and Board of Directors

On 31 March 2004, HKEx held its Annual General Meeting (AGM) and shareholders elected Mr John Strickland and re-elected Mr Oscar Wong to the Board of Directors. Mr Strickland, a former Public Interest Director, was appointed by the Board last year to fill a casual vacancy on the Board, while Mr Wong was elected to the Board at last year's AGM. Both terms expired at the end of this year's AGM in accordance with HKEx's Articles of Association. On the same day, the Financial Secretary reappointed Mr Charles Lee, Mr Tim Freshwater and Dr Lo Ka Shui as Public Interest Directors for a term of two years until the conclusion of the AGM in 2006.

Mr Lee was reappointed the Chairman of the Board at the Board Meeting held on 1 April 2004 for a term to be co-terminous with his term of directorship, and his appointment was subsequently approved by the Chief Executive of the Hong Kong Special Administrative Region in accordance with the Securities and Futures Ordinance.

Listing Function

On 26 March 2004, the Government published its Consultation Conclusions on Proposals to Enhance the Regulation of Listing. The Government's recommendations include giving statutory backing to certain more important listing requirements, such as those covering financial reporting and other periodic disclosure, disclosure of price-sensitive information and shareholders' approval for notifiable transactions, and expanding the dual filing system. As for the regulatory structure, the Stock Exchange will continue to receive initial public offer applications and no securities will be listed on the Stock Exchange unless they are approved by the Listing Committee/GEM Listing Committee. The Stock Exchange will remain responsible for administering the listing process, and will continue to be the primary point of contact for listing applicants and their advisers. As for ongoing compliance of listed companies, the Stock Exchange will continue to enforce the non-statutory requirements in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Listing Rules).

HKEx will work closely with the Government and the Securities and Futures Commission (SFC) on implementing the recommendations, which are aimed at raising the quality of Hong Kong's financial markets.

Enhancement of Corporate Governance and Market Quality

Amendments to the Listing Rules designed to enhance corporate governance and market quality came into effect on 31 March 2004. They include new chapters of the Main Board Rules on notifiable transactions and connected transactions, revised classifications of notifiable transactions and connected transactions, revised definitions of the terms *reverse takeover*, *connected person* and *associate of a connected person*, revised requirements for refreshment of general mandate and revised requirements on the disclosure of directors' remuneration in annual reports. In addition, there have been changes in the initial listing eligibility criteria, listed issuers' continuing obligations and the disclosure requirements at the time of listing.

The rule amendments, along with the Code on Corporate Governance Practices and the disclosure requirements relating to the Report on Corporate Governance Practices that will be published later this year, represent the most comprehensive overhaul of the rules in over a decade. The new Code provisions and the related disclosure obligations will be effective for accounting periods commencing on or after 1 January 2005, except those on internal controls, which will be effective for accounting periods commencing on or after 1 July 2005.

Regulation of Sponsors and Independent Financial Advisers

On 4 May 2004, the Stock Exchange invited Hong Kong sponsor and financial advisory firms to comment on draft amendments to the Listing Rules on the regulation of sponsors and independent financial advisers (IFAs). The draft amendments reflect policy developed by the Stock Exchange and the SFC after extensive public consultation in conjunction with the release in May 2003 of the joint Consultation Paper on the Regulation of Sponsors and Independent Financial Advisers.

The Stock Exchange and the SFC have agreed to proceed with reforms to the regulation of sponsors and IFAs in two stages. The first stage involves amendments to the Listing Rules and the introduction of a revised statement on conduct to clarify the Stock Exchange's expectations with regard to due diligence. The second stage involves modification of the SFC licensing regime to create specific licensing requirements for sponsors. The Stock Exchange expects its rule amendments to become effective around 1 October 2004.

Products and Services

HKEx began disseminating real-time odd lot market information to information vendors on 8 March 2004 to increase market transparency. Six vendors have been offering the information to the public since the end of March and more are expected to offer the service in the coming months.

Trading in MSCI China Free Index Futures was discontinued after the market closed on 26 March 2004, due to low market demand. The decision was based on reviews conducted from time to time to ensure that products meet the needs and demands of the market in a cost efficient manner.

A revamped version of the HKEx website was rolled out on 29 March 2004. It has a new look and streamlined navigation path along with additional content and functionality. The new features include a news alert service, information for potential issuers interested in listing in Hong Kong and a simplified Chinese character version of the website. As a result, users now have three choices of language: simplified Chinese characters, traditional Chinese characters or English.

The implementation of the Derivatives Clearing and Settlement System (DCASS) was completed on 6 April 2004. It replaced two separate clearing systems that were introduced by HKCC and SEOCH before they became part of HKEx in 2000. DCASS provides a common platform for the clearing and settlement of all futures and options contracts traded on the HKEx markets. The integration of the new system with the derivatives trading system helps reduce Participants' operating costs as hardware, equipment and network facilities can be shared between trading and clearing and settlement operations. PRiME (Portfolio Risk Margining System of HKEx), the new margining sub-system rolled out with DCASS for use with all futures and options contracts, provides a prudent and equitable assessment of the risks and margin requirements of derivatives market participants, supporting better risk management for the derivatives market. The stabilisation period for DCASS ended on schedule on 21 April 2004.

The H-shares Index Futures introduced on 8 December 2003 were among the derivatives market's five most actively traded products in the three months to 31 March 2004. In addition, they set a one-day volume record of 23,670 contracts on 27 April 2004 and a one-day open interest record of 27,092 contracts on 28 April 2004.

HKEx reached a milestone at the end of March 2004 when each of its major market systems had a 100 per cent uptime record for at least 12 consecutive months. The major systems comprise the trading platforms for the securities and derivatives markets, the corresponding clearing and settlement systems, the securities market's Market Data Feed System and the derivatives market's Price Reporting System.

A trial run of SIMart, HKEx's simulated investment market, began on 21 April 2004. The online educational platform's investment games allow investors to learn about HKEx's investment products through buying and selling them with notional capital in a trading environment based on delayed market data.

Treasury

The Treasury Division supervises the investment of funds which can be divided into three main categories: Corporate Funds (accumulated operating profits), Clearing House Funds and margin funds received (excludes contributions receivable from Participants and securities deposited by Participants as alternatives to cash deposits of margin funds). During the period under review, the average amount of funds available for investment increased by 63 per cent or \$5.87 billion to \$15.17 billion (2003: \$9.30 billion), mainly due to a rise in margin funds received from Participants as a result of increased open interest in futures and options contracts.

As at 31 March 2004, details of the asset allocation were as follows:

| | Fund size \$ billion | Bonds | Cash or bank deposits | Global equities |
|----------------------|---------------------------------|--------------|----------------------------------|------------------------|
| Corporate Funds | 5.61 | 39% | 55% | 6% |
| Margin funds | 8.17 | 39% | 61% | 0% |
| Clearing House Funds | 1.59 | 8% | 92% | 0% |
| Total | 15.37 | 36% | 62% | 2% |

Investments of the three funds are kept sufficiently liquid to meet HKE_x's operating needs and possible liquidity requirements of the Clearing House Funds and margin funds. Excluding equities held under the Corporate Funds (\$0.32 billion), which do not have a maturity date, the maturity profile of the remaining \$15.05 billion of investments as at 31 March 2004 was as follows:

| | Fund size \$ billion | Overnight | >Overnight to 1 month | >1 month to 1 year | >1 year to 3 years | > 3 years |
|----------------------|---------------------------------|------------------|-------------------------------------|----------------------------------|----------------------------------|---------------------|
| Corporate Funds | 5.29 | 27% | 30% | 13% | 22% | 8% |
| Margin funds | 8.17 | 54% | 4% | 7% | 35% | 0% |
| Clearing House Funds | 1.59 | 72% | 11% | 7% | 10% | 0% |
| Total | 15.05 | 46% | 14% | 9% | 28% | 3% |

Following the payment of the 2003 special and final dividends of \$2,219 million on 14 April 2004, the amount of Corporate Funds available for investment has been reduced by this amount.

Risk management techniques, such as Value-at-Risk (VaR) and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by HKE_x) at a given confidence level (95 per cent confidence level is adopted by HKE_x) based on historical data (one year is used by HKE_x). The overall risk, as measured by the VaR methodology, during the first quarter of 2004 was as follows:

| | Average VaR \$ million | Maximum VaR \$ million | Minimum VaR \$ million |
|----------------------|----------------------------------|----------------------------------|----------------------------------|
| Corporate Funds | 16.65 | 18.33 | 15.47 |
| Margin funds | 14.00 | 16.93 | 10.27 |
| Clearing House Funds | 1.15 | 1.22 | 1.03 |

Credit exposure was well diversified. As at 31 March 2004, all bonds held were of investment grade and had a weighted average credit rating of Aa2 and a weighted average maturity of 1.7 years. Deposits were placed only with the note-issuing banks in Hong Kong and licensed banks and restricted licence banks with a minimum credit rating of A3 by Moody's or equivalent approved by the Board from time to time.

China Development

Staff from HKEx's Beijing Representative Office and the Hong Kong office will be stationed in the Mainland cities of Guangzhou and Shanghai later this year to conduct market research and introduce the services and markets of HKEx to listed and potential issuers on the Mainland.

OVERALL PERFORMANCE

The Group recorded a profit attributable to shareholders of \$314 million in the first quarter of 2004, compared with \$89 million for the same period in 2003. The \$225 million or 254 per cent increase in profit was mainly attributable to the increase in cash and derivatives market activities in 2004, which has resulted in an increase in trading fees and trading tariff, and clearing and settlement fees.

Total operating expenses for the first quarter decreased by \$17 million or 6 per cent to \$283 million (2003: \$300 million), mainly due to a decrease in information technology and computer maintenance expenses.

Income

Total income (including share of profits of associated companies) for the first quarter increased by \$246 million or 61 per cent to \$651 million (2003: \$405 million).

Improved investment sentiment since the second half of 2003 continued, and the increase in cash and derivatives market activities gathered more momentum in the first quarter of 2004. Average daily turnover on the Stock Exchange for the period increased by 223 per cent to \$19.7 billion, compared with \$6.1 billion in the first quarter of 2003. Average daily number of stock options contracts traded on the Stock Exchange increased by 62 per cent in 2004 compared with that in 2003. Average daily number of derivatives contracts traded on the Futures Exchange increased by 48 per cent, mainly on account of an increase in the trading of Hang Seng Index (HSI) Futures contracts. Consequently, trading fees and trading tariff rose by \$109 million or 131 per cent to \$193 million (2003: \$84 million).

Listing fee income for the first quarter rose by \$12 million or 15 per cent to \$91 million (2003: \$79 million), largely because of an increase in initial listing fees mainly arising from an increase in the number of newly listed warrants to 314 in 2004 (2003: 112), and a rise in annual listing fees due to a higher number of listed securities. 8 (2003: 9) new companies joined the Main Board and 8 (2003: 5) joined the GEM during the first quarter. As at 31 March 2004, 7 Main Board and 4 GEM (31 December 2003: 3 Main Board and 5 GEM) IPO applications had obtained approval in principle from the Listing Committee for listing, and 24 Main Board and 23 GEM applications were under processing (31 December 2003: 19 Main Board and 32 GEM). As at 31 March 2004, there were 856 companies listed on the Main Board and 192 on GEM (31 December 2003: 852 and 185 respectively).

In line with the increase in cash market activities, clearing and settlement fee income increased by \$66 million or 161 per cent to \$107 million in the first quarter (2003: \$41 million) and depository, custody and nominee services fee income increased by \$10 million or 37 per cent to \$38 million in the first quarter (2003: \$28 million).

Income from sale of information for the first quarter increased by \$16 million or 25 per cent to \$80 million (2003: \$64 million), as demand for information increased, in line with the increase in the activities of cash and derivatives markets.

Investment income comprises income from investments supervised by the Treasury Division, investment in Singapore Exchange Limited and accommodation income from Participants. Total investment income for the Group for the first quarter increased by \$25 million or 36 per cent to \$93 million (2003: \$68 million).

For investments supervised by the Treasury Division, income for the first quarter amounted to \$90 million, 42 per cent or \$27 million higher than the \$63 million reported for the same period in 2003. The increase was due to higher net realised gain at \$24 million (2003: \$15 million), net unrealised mark-to-market gain at \$25 million (2003: loss of \$7 million) on the investment portfolio, and dividends at \$1 million (2003: \$1 million), but partly offset by lower net interest income at \$40 million (2003: \$54 million) due to lower interest rates. As the valuation of the investments in bonds and equities is highly influenced by movements in their market prices, unrealised gains or losses may fluctuate or reverse unless the investments are sold.

During the quarter under review, the average 6-month Hong Kong Exchange Fund Bill rate dropped from 1.20 per cent in the first quarter of 2003 to 0.08 per cent in the same period in 2004, and the average 90-day US Treasury Bill rate declined from 1.16 per cent to 0.92 per cent.

For the quarter ended 31 March 2004, the Treasury Division achieved a positive return on investments of 2.37 per cent (2003: 2.72 per cent). The Corporate Funds returned 5.66 per cent (2003: 3.32 per cent), the margin funds 0.64 per cent (2003: 2.01 per cent), and the Clearing House Funds 0.60 per cent (2003: 2.40 per cent). Therefore, the overall portfolio recorded a spread of 229 basis points (2003: 152 basis points) with the Corporate Funds registering a spread of 558 basis points (2003: 212 basis points), the margin funds 56 basis points (2003: 81 basis points), and the Clearing House Funds 52 basis points (2003: 120 basis points) above the 6-month Hong Kong Exchange Fund Bill yield.

The average amount of funds available for investment in the first quarter increased by \$5.9 billion or 63 per cent to \$15.2 billion (2003: \$9.3 billion), mainly due to a rise in margin funds received from Clearing Participants as a result of increased open interest in futures and options contracts. As at 31 March 2004, 62 per cent (31 December 2003: 59 per cent) of the funds were invested in cash or bank deposits, 36 per cent (31 December 2003: 39 per cent) in high-grade bonds with an average credit rating of Aa2, and 2 per cent (31 December 2003: 2 per cent) in global equities.

Income from the Group's investment in Singapore Exchange Limited for the first quarter remained at the same level as 2003 at \$0.8 million (2004: dividend of \$1 million less foreign exchange loss and interest expense of \$0.2 million for funding the investment; 2003: dividend of \$1 million less interest expense of \$0.2 million). Accommodation income (i.e. retention interest charged on cash margin deposits and securities deposited by Participants as alternatives to cash deposits of the margin funds) decreased by 48 per cent or \$2.2 million to \$2.3 million (2003: \$4.5 million).

Following the payment of the 2003 special and final dividends of \$2,219 million on 14 April 2004, the amount of Corporate Funds available for investment has been reduced by this amount. As a result, the Group's investment income is unlikely to be sustainable at the level achieved in the first quarter of 2004.

Other income for the first quarter increased by \$7 million or 19 per cent to \$46 million (2003: \$39 million), mainly due to a \$6 million increase in brokerage on direct IPO applications.

Operating Expenses

Total operating expenses for the first quarter decreased by \$17 million or 6 per cent to \$283 million (2003: \$300 million).

Staff costs and related expenses for the first quarter rose by \$2 million or 1 per cent to \$131 million (2003: \$129 million), mainly due to an accrual for performance bonus on account of the Group's improved performance in 2004 which was partly offset by savings in salaries as a result of reduced headcount following the streamlining of the Group's operations in May 2003.

Information technology and computer maintenance expenses for the first quarter fell by \$18 million or 25 per cent to \$55 million in 2004 (2003: \$73 million), mainly attributable to lower hardware and software rental. During the period under review, capital expenditures on computer systems, hardware and software amounted to \$6 million (2003: \$9 million).

Premises expenses for the first quarter fell by \$3 million or 13 per cent to \$19 million (2003: \$22 million) on account of lower rental negotiated upon the renewal of certain leases and savings from reduced floor area leased during the first quarter of 2004.

Legal and professional fees for the first quarter decreased by \$4 million or 50 per cent to \$4 million (2003: \$8 million), primarily as a result of professional fees incurred for several one-off consulting projects in 2003.

Depreciation and amortisation costs for the first quarter decreased by \$2 million or 3 per cent to \$45 million (2003: \$47 million), as a result of revising the estimated useful life of the hardware of trading and clearing systems from 3 years to 5 years to better reflect the useful life of the equipment.

Payment to the SFC was \$5 million for the first quarter 2004 (2003: \$Nil) under the dual filing regime, which started from 1 April 2003.

Other operating expenses for the first quarter rose by \$1 million or 8 per cent to \$21 million (2003: \$20 million), mainly attributable to higher insurance cost.

The Group's taxation charge rose by \$39 million or 245 per cent to \$55 million for the first quarter (2003: \$16 million), mainly on account of a \$45 million rise in tax charge arising from an increase in net profit in 2004, but partly offset by a one-off deferred tax charge of \$6 million recognised in 2003 due to an increase in tax rate from 16 per cent in 2002 to 17.5 per cent in 2003 and the first time adoption of SSAP 12: Income Taxes, effective from 1 January 2003.

Working Capital

Working capital fell by \$1,815 million or 41 per cent to \$2,648 million (31 December 2003: \$4,463 million) mainly due to the 2003 special and final dividends of \$2,219 million that were payable in April 2004. In preparation for the dividend payment, certain trading securities were liquidated, which has in turn pushed the bank balances and time deposits up by \$1,264 million or 71 per cent to \$3,042 million (31 December 2003: \$1,778 million).

Exposure to fluctuations in exchange rates and related hedges

When seeking to optimise returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. During the period, the Singapore dollar credit facility (31 December 2003: S\$11 million or HK\$50 million) used to hedge the currency exposure of the Group's investment in shares of Singapore Exchange Limited was fully repaid. Thereafter, only forward foreign exchange contracts are used to hedge the currency exposure of the Group's non-HKD investments to mitigate risks arising from fluctuations in exchange rates. As at 31 March 2004, aggregate net open foreign currency positions amounted to HK\$1,625 million, of which HK\$289 million were non-USD exposures (31 December 2003: HK\$1,663 million, of which HK\$204 million were non-USD exposures). The Group's foreign currency liabilities, mainly in the form of margin deposits or collateral received, are hedged by investments in the same currencies.

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 2003.

It is the Group's plan to declare dividends only at the half-year and year-end. Therefore, no dividend will be proposed for the quarter ended 31 March 2004 (first quarter of 2003: \$Nil).

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

A substantial part of HKEx's income is tied to the activity on its exchanges, which is driven by a variety of domestic and external factors. While the Hong Kong economy appears poised for solid growth this year, market sentiment appears likely to remain mixed. Investors are concerned about the macro economic measures implemented for adjusting the Mainland economy, and the likelihood of interest rate rises in the United States. In addition, further volatility in the currency and commodity markets could affect sentiment.

HKEx will continue its efforts to improve the quality of its markets and services to attract more issuers and investors to Hong Kong. Further development of the China dimension of HKEx's business is also a top priority, and stringent cost controls remain in place.

CORPORATE GOVERNANCE

The Audit Committee has reviewed the unaudited condensed consolidated accounts for the three months ended 31 March 2004.

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 Hong Kong Society of Accountants on the unaudited condensed consolidated accounts for the three months ended 31 March 2004.

None of the Directors of HKEx is aware of information that would reasonably indicate that HKEx is not, or was not at any time during the three months ended 31 March 2004, in compliance with Appendix 14 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF HKEx'S LISTED SECURITIES

During the three months ended 31 March 2004, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold any of HKEx's listed securities.

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

Hong Kong, 12 May 2004

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 14 May 2004.

Please also refer to the published version of this announcement in South China Morning Post on 13 May 2004.