

QUARTERLY REPORT
FOR THE FIRST QUARTER ENDED 31 MARCH 2003



Hong Kong Exchanges and Clearing Limited

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FINANCIAL HIGHLIGHTS

(Financial figures are expressed in Hong Kong dollars)			
	Unaudited for the three months ended 31 Mar		
	2003	2002	Change
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

BUSINESS REVIEW

REVIEW OF BUSINESS AND MARKET DEVELOPMENTS

To provide more up-to-date information on its performance, Hong Kong Exchanges and Clearing Limited (HKEx) is commencing the publishing of quarterly results with this report.

In the three months to 31 March 2003, HKEx continued to focus on improving the quality of its markets, increasing the efficiency of its operations, and providing products and services that meet the needs of market participants.

Market Activity

Average daily turnover value on the Stock Exchange during the period under review was \$6.1 billion, compared with \$7.1 billion during the same period in 2002. A total of nine new equity issues were listed on the Main Board, including three by companies formerly listed on the Growth Enterprise Market (GEM), and five were listed on GEM. In the first quarter of 2002, there were 18 new equity listings on the Main Board, including one by a company formerly listed on GEM, and 17 on GEM. Capital formation through initial public offering (IPO) and post issue fund raising totalled \$17.2 billion on the Main Board and \$521.8 million on GEM, compared with a total of \$7.4 billion on the Main Board and \$2.2 billion on GEM in the first quarter of 2002.

The average daily number of futures and options contracts traded on the Futures Exchange and the Stock Exchange during the first three months of 2003 was 51,799 contracts, up from 41,389 in the first three months of 2002. Total open interest at the end of March 2003 was 533,290 contracts, compared with 459,288 at the end of March 2002.

Precautionary measures and contingency arrangements in relation to SARS

The Stock Exchange introduced a series of precautionary measures and contingency arrangements in its Trading Hall in March and April 2003 in relation to Severe Acute Respiratory Syndrome (SARS). The Stock Exchange would activate its Exchange Participants' off-floor backup trading terminals if the Trading Hall had to be closed for disinfecting. Exchange Participants' other off-floor trading terminals would operate as normal. Transactions in the Trading Hall currently account for less than 5 per cent of the Stock Exchange's turnover.

Chairman, Board of Directors and Chief Executive

Mr Charles Lee was re-appointed the Chairman of the Board of HKEx at its board meeting on 16 April 2003. Mr Lee's appointment was subsequently approved by the Chief Executive of the Hong Kong Special Administrative Region. Mr Lee is one of the six Public Interest Directors appointed by the Financial Secretary on 15 April 2003. The other Public Interest Directors are Mr Fong Hup, Mr Tim Freshwater, Mr Leong Ka Chai, Dr Liu Jinbao, and Dr Lo Ka Shui. Five Directors were elected by shareholders at the annual general meeting (AGM) held on 15 April 2003, namely, Dr Bill Kwok, Mr Dannis Lee, Mr Vincent Lee, Mr David Webb, and Mr Oscar Wong. Mr John Strickland was appointed a Director on 16 April 2003 in accordance with HKEx's Articles of Association to fill a casual vacancy arising from only five out of the six vacancies having been filled at the AGM.

Mr Paul Chow joined HKEx on 1 May 2003 as its Chief Executive. Mr Chow is an ex-officio member of the Board. He has over 33 years of business and management experience. Before joining HKEx, Mr Chow was the regional chief executive, Asia-Pacific ex-Japan, of HSBC Asset Management (Hong Kong). He was formerly the chief executive of The Stock Exchange of Hong Kong Limited from November 1991 to January 1997 and before that, he was the chief executive of Hong Kong Securities Clearing Company Limited for two years. From January 2000 to September 2001, Mr Chow was the chairman of the Hong Kong Investment Funds Association.

Listing Function

The Expert Group to Review the Operation of the Securities and Futures Market Regulatory Structure, which was established in 2002 by the Financial Secretary, published its report on 21 March 2003. It recommended that the listing function be removed from HKEx and performed by a new division of the Securities and Futures Commission (SFC) to be known as the Hong Kong Listing Authority (HKLA). The Expert Group also recommended that the HKLA be accountable for both regulation and market development.

The Board of HKEx expressed the view that it would be in the best interest of Hong Kong for HKEx to retain the listing function. HKEx welcomed the Financial Secretary's announcement on 10 April 2003 that public consultation would be conducted on the regulation of listing matters. The announcement said the Government would do more research and the Listing Division would stay with HKEx in the coming 12 to 18 months. The Listing Division continues to focus on implementing the initiatives described in detail in HKEx's annual report for 2002.

HKEx and the SFC plan to jointly publish a consultation paper in the second quarter of 2003 to seek the views of market participants on proposals to reinforce the regulatory regime for intermediaries involved in the IPO process, including sponsors, underwriters, and financial advisers. The proposals are part of HKEx's and the SFC's efforts to improve market quality.

Amendments to Rules and Procedures

In March 2003, the Stock Exchange, the Futures Exchange, and their associated clearing houses circulated the amendments to their respective rules and procedures made in anticipation of the taking effect of the Securities and Futures Ordinance (SFO). The amendments came into effect on 1 April 2003, the same day the SFO became effective.

Rationalisation of Regulatory Requirements and Associated Fees

In March 2003, HKEx announced measures to facilitate the business operations of Stock Exchange Participants. With effect from 1 April 2003, the requirements for registration of Sales Representatives, approval of Branch Offices, appointment of Branch Office Managers, and issue of Branch Certificates have been abolished along with the fees and charges related to the requirements. Also, the requirement for prior written approval of the Stock Exchange for any change in the share capital structure of a Stock Exchange Participant and payment of the related fees has been replaced by a notification requirement with no related fees or charges.

In addition to the above, with effect from 2 May 2003, fees for the following have been removed:

- Inspection of Registers of Stock Exchange Participants, Stock Exchange Trading Rights, Authorised Clerks, Registered Users, Responsible Officers, and others, and provision of copies of extracts from such Registers;
- Registration of an Authorised Clerk;
- Registration of Options Officers and Options Representatives;
- Registration of a Responsible Officer;
- Application for change of control except change in directors; and
- Application for appointment of directors.

HKEx will further discuss its fees and charges with the SFC as part of an ongoing review aimed at rationalising the Group's fee structure and maintaining its competitiveness, with due regard to shareholders' interests. The review's impact on HKEx is expected to be broadly revenue neutral based on the current level of market activities.

Development of New Products and Services

The Working Group on the Business Environment of the Stockbroking Industry was established in January 2003 by the Secretary for Financial Services and the Treasury to examine with the local stockbroking industry ways to strengthen the competitiveness of small and medium-sized brokerage firms. It comprised representatives from the Financial Services and the Treasury Bureau, the SFC and HKEx. The Working Group's report was published on 16 April 2003. HKEx is working on the recommendations of the report, including that of developing a user-friendly and cost-effective version of the Central Clearing and Settlement System's Investor Participant (IP) account with straight-through processing (STP) capability. HKEx is working with the SFC and the brokerage industry on the proposed STP IP account. Setting up an STP IP account system would require heavy capital investment and the system's operations would incur substantial recurrent costs. HKEx will explore with the SFC possible means of funding both the initial investment and the subsequent operations of the proposed project.

HKEx has been meeting with regulators and market participants to discuss the proposed listing of Capital Protected Instruments (CPI) on the Stock Exchange. CPI offer investors capital protection along with potential gains based on the performance of a designated benchmark. HKEx is also studying the possible introduction of new derivatives market products, including cash-settled Hong Kong Exchange Fund Note futures and Interest Rate Swap futures. In addition, HKEx and the Shanghai Futures Exchange (SHFE) entered into a Memorandum of Understanding on 11 April 2003 to signify the intention to jointly develop an energy derivatives market in Asia. An HKEx-SHFE working group will develop a business model.

HKEx plans to publish a consultation paper in the second quarter of 2003 to seek the market's views on proposals to narrow the Stock Exchange's trading spreads, revise its trading unit system, and relax related trading parameters. The proposals are aimed at increasing competitiveness, attracting more investors' participation, and boosting market liquidity and turnover.

Real-time calculation of the S&P/HKEx LargeCap and GEM indices began on 3 March 2003. The LargeCap index tracks the performance of 25 stocks listed on the Main Board and covers about 75 per cent of the Main Board's market capitalisation. The GEM index, being float capitalisation weighed, currently tracks 46 stocks, and is designed to represent the GEM market. The remaining three indices in the series, the MidCap, SmallCap and, Composite indices, will be introduced later.

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 SARS. Average daily turnover on The Stock Exchange of Hong Kong Limited (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 GEM 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 Hong Kong Statement of Standard Accounting Practice (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.

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	2		
Trading fees and trading tariff		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
		403,271	411,352
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
		300,489	281,152
OPERATING PROFIT		102,782	130,200
SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES		1,695	-
PROFIT BEFORE TAXATION		104,477	130,200
TAXATION	5	(15,801)	(11,742)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		88,676	118,458
Earnings per share	6	\$0.08	\$0.11

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(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
Total equity at 1 Jan, as previously reported		5,496,392	5,235,407
Effect of adopting SSAP 12	1	<u>(6,028)</u>	<u>(2,853)</u>
Total equity at 1 Jan, as restated		5,490,364	5,232,554
Change in fair value of non-trading securities		397	3,565
Deferred tax arising from change in valuation of other properties	1	(612)	(65)
Deferred tax arising from change in fair value of non-trading securities	1	<u>429</u>	<u>(195)</u>
Net surplus not recognised in the condensed consolidated profit and loss account		214	3,305
Profit attributable to shareholders		88,676	118,458
Realisation of change in fair value of non-trading securities on maturity and disposal		(2,665)	358
Proceeds from issue of shares under employee share option scheme	7	<u>5,911</u>	<u>10,122</u>
Total equity at 31 Mar		<u>5,582,500</u>	<u>5,364,797</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>

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

(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 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	7	1,044,367	1,043,581
Share premium	7	24,137	19,012
Revaluation reserves		29,346	31,797
Designated reserves		691,745	727,811
Retained earnings	8	3,344,165	3,219,423
Proposed and declared dividend	8	448,740	448,740
SHAREHOLDERS' FUNDS		<u>5,582,500</u>	<u>5,490,364</u>

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

(Financial figures are expressed in Hong Kong dollars)

1. Basis of Preparation and Accounting Policies

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 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.

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 8 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).

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

2. Turnover

Turnover comprises trading fees and trading tariff from securities and options traded on the 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	<u>(340)</u>	<u>(1,515)</u>
Net interest income	59,363	69,331
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	<u>5,031</u>	<u>8,007</u>
	<u><u>39,466</u></u>	<u><u>40,668</u></u>

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

5. Taxation

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	<u>-</u>	<u>(3,846)</u>
	11,986	12,057
Deferred taxation (note b)	<u>3,430</u>	<u>(315)</u>
	15,416	11,742
Share of taxation of associated companies	<u>385</u>	<u>-</u>
	<u>15,801</u>	<u>11,742</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. Earnings Per Share

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.

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

7. Share Capital and Share Premium

		Unaudited at 31 Mar 2003 \$'000	Audited at 31 Dec 2002 \$'000	
Authorised:				
2,000,000,000 shares of \$1 each		<u>2,000,000</u>	<u>2,000,000</u>	
Issued and fully paid:				
	No. of shares of \$1 each	Share capital \$'000	Share premium \$'000	Total \$'000
At 1 Jan 2002	1,040,664,846	1,040,665	-	1,040,665
Shares issued under employee share option scheme	<u>2,916,000</u>	<u>2,916</u>	<u>19,012</u>	<u>21,928</u>
At 31 Dec 2002	1,043,580,846	1,043,581	19,012	1,062,593
Shares issued under employee share option scheme	<u>786,000</u>	<u>786</u>	<u>5,125</u>	<u>5,911</u>
At 31 Mar 2003	<u><u>1,044,366,846</u></u>	<u><u>1,044,367</u></u>	<u><u>24,137</u></u>	<u><u>1,068,504</u></u>

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

8. 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	<u>(3,845)</u>	<u>703</u>
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		-	<u>(260,614)</u>
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		<u>448,740</u>	<u>448,740</u>
At 31 Mar/31 Dec		<u>3,792,905</u>	<u>3,668,163</u>

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

9. 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.

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.

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

Hong Kong, 14 May 2003