



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)

2002 Final Results

The Directors of Hong Kong Exchanges and Clearing Limited (HKEx) submit the audited results of HKEx and its subsidiaries (the Group) for the year ended 31 December 2002 as follows:

(Financial figures are expressed in Hong Kong dollars)

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002

	2002 \$'000	2001 \$'000
INCOME (Note 2)		
Trading fees, transaction levy and trading tariff	331,729	351,408
Stock Exchange listing fees	320,033	275,266
Clearing and settlement fees	181,424	214,015
Depository, custody and nominee services fees	211,413	227,970
Income from sale of information	293,735	337,189
Interest income	266,612	451,395
Interest expenses	(5,797)	(69,445)
Net interest income	260,815	381,950
Other income (Note 4)	208,941	211,015
	1,808,090	1,998,813
OPERATING EXPENSES		
Staff costs and related expenses	492,549	527,994
Information technology and computer maintenance expenses	262,700	231,064
Premises expenses	101,234	100,452
Product marketing and promotion expenses	14,728	15,516
Legal and professional fees	39,613	61,800
Depreciation and amortisation	163,139	152,669
Other operating expenses	90,694	86,872
	1,164,657	1,176,367
SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES	6,141	–
PROFIT BEFORE TAXATION	649,574	822,446
TAXATION (Note 5)	(56,606)	(82,020)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	592,968	740,426
DIVIDENDS	532,220	343,419
Earnings per share (Note 6)	\$ 0.57	\$ 0.71
Dividends per share		
Interim dividend paid	\$ 0.08	\$ 0.08
Final dividend declared	\$ 0.43	\$ 0.25
	\$ 0.51	\$ 0.33
Dividend payout ratio	90%	46%

Notes:

- The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounting policies and methods of computation used in the preparation of these consolidated accounts are consistent with those used in the annual accounts for the year ended 31 December 2001 except for the inclusion of the accounting policies for associated companies, goodwill and equity compensation benefits as set out in the annual report.

2. The Group's turnover comprises trading fees, transaction levy 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, net interest income (including interest income net of interest expenses of Clearing House Funds) and other income, which are **disclosed as Income** in the 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 year by business segments is as follows:

	Cash Market 2002	Derivatives Market 2002	Clearing Business 2002	Others 2002	Elimination 2002	Group 2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Income						
External	915,612	158,308	423,690	–	–	1,497,610
Inter-segment	6,571	–	137	–	(6,708)	–
Net interest and other income						
– segment	22,304	83,005	26,382	–	–	131,691
– unallocated	–	–	–	178,789	–	178,789
	<u>944,487</u>	<u>241,313</u>	<u>450,209</u>	<u>178,789</u>	<u>(6,708)</u>	<u>1,808,090</u>
Costs	<u>409,734</u>	<u>119,111</u>	<u>261,696</u>	<u>–</u>	<u>(2,833)</u>	<u>787,708</u>
Segment results	<u>534,753</u>	<u>122,202</u>	<u>188,513</u>	<u>178,789</u>	<u>(3,875)</u>	<u>1,020,382</u>
Unallocated costs						376,949
						<u>643,433</u>
Share of (losses)/profits of associated companies	(103)	–	6,244	–		6,141
Profit before taxation						649,574
Taxation						(56,606)
Profit attributable to shareholders						<u>592,968</u>

	Cash Market 2001	Derivatives Market 2001	Clearing Business 2001	Others 2001	Elimination 2001	Group 2001
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Income						
External	927,601	147,620	469,397	–	–	1,544,618
Inter-segment	8,287	–	228	–	(8,515)	–
Net interest and other income						
– segment	7,786	123,227	50,678	–	–	181,691
– unallocated	–	–	–	272,504	–	272,504
	<u>943,674</u>	<u>270,847</u>	<u>520,303</u>	<u>272,504</u>	<u>(8,515)</u>	<u>1,998,813</u>
Costs	<u>380,344</u>	<u>155,186</u>	<u>235,661</u>	<u>–</u>	<u>(2,410)</u>	<u>768,781</u>
Segment results	<u>563,330</u>	<u>115,661</u>	<u>284,642</u>	<u>272,504</u>	<u>(6,105)</u>	<u>1,230,032</u>
Unallocated costs						407,586
						<u>822,446</u>
Profit before taxation						822,446
Taxation						(82,020)
Profit attributable to shareholders						<u>740,426</u>

The **Cash Market** business mainly 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. The major sources of income of the business are trading fees, transaction levy, trading tariff, listing fees and income from sale of information.

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

The **Clearing Business** refers mainly to the operations of Hong Kong Securities Clearing Company Limited (HKSCC), which is responsible for clearing, settlement and custodian activities and the related risk management of cash market activities. Its income is derived primarily from the fees charged on providing clearing, settlement, depository and nominee services.

Net interest and other income under the **Others Segment** represents mainly net interest income derived from corporate funds, which is not directly attributable to any of the three business segments and is therefore not allocated to the business segments. Unallocated costs represent overheads which are not directly attributable to the above-mentioned business segments.

Inter-segment transactions are conducted at arm's length.

3. Investment income

	2002 \$'000	2001 \$'000
<u>Interest income from</u>		
– Bank deposits	96,372	189,073
– Listed securities	41,013	52,725
– Unlisted securities	129,227	209,597
	<u>266,612</u>	<u>451,395</u>
Interest expenses	(5,797)	(69,445)
Net interest income	<u>260,815</u>	<u>381,950</u>
<u>Non-interest investment income (included in Other income in note 4)</u>		
Realised and unrealised (loss)/gain on investments		
– listed trading securities	(18,625)	15,945
– unlisted trading securities	16,092	18,555
– exchange difference	21,725	(4,775)
Dividend income		
– listed securities	4,977	2,516
– unlisted securities	–	113
	<u>24,169</u>	<u>32,354</u>
Total investment income	<u><u>284,984</u></u>	<u><u>414,304</u></u>

4. Other income

	2002 \$'000	2001 \$'000
Stock Exchange network and terminal user fees	84,158	59,681
Participants' subscription and application fees	40,767	42,436
Share registration services fees	18,500	25,155
Income received from former clearing house	–	15,960
Non-interest investment income	24,169	32,354
Miscellaneous income	41,347	35,429
	<u>208,941</u>	<u>211,015</u>

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

	2002 \$'000	2001 \$'000
Provision for Hong Kong Profits Tax for the year	68,741	73,614
Overprovision in respect of prior years	(5,422)	(1,131)
	<u>63,319</u>	<u>72,483</u>
Deferred taxation	(8,022)	9,537
	<u>55,297</u>	<u>82,020</u>
Share of taxation of associated companies	1,309	–
	<u>56,606</u>	<u>82,020</u>

Hong Kong Profits Tax has been provided for at 16 per cent (2001: 16 per cent) on the estimated assessable profits for the year.

6. The calculation of basic earnings per share is based on the profit attributable to shareholders of \$592,968,000 (2001: \$740,426,000) and the weighted average of 1,042,665,487 shares (2001: 1,040,664,846) in issue during the year. The outstanding share options did not have a material dilutive effect on the basic earnings per share.

RETAINED EARNINGS

	2002	2001
	\$'000	\$'000
At 1 Jan		
Retained earnings	3,198,763	2,851,834
Proposed and declared dividend	260,166	260,166
Profit for the year	592,968	740,426
Investment income net of expenses of Clearing House Funds transferred to Clearing House Funds reserves	(35,114)	(46,039)
Investment income net of expenses of Compensation Fund Reserve Account transferred to Compensation Fund Reserve Account reserve	(681)	(4,039)
Dividends paid:		
Interim dividend	(83,450)	(83,253)
2001/2000 final dividend	(260,166)	(260,166)
Dividend on shares issued for share options exercised after declaration of 2001 final dividend	(448)	–
Dividend on shares issued for share options exercised after declaration of 2002 interim dividend	(30)	–
At 31 Dec	3,672,008	3,458,929
Representing:		
Retained earnings at 31 Dec	3,223,268	3,198,763
Proposed and declared dividend	448,740	260,166
At 31 Dec	3,672,008	3,458,929

FINAL DIVIDEND

The Board of Directors recommends a final dividend of \$0.43 per share (2001: \$0.25) to shareholders. Together with the interim dividend of \$0.08 per share, this will bring the total dividend distribution for the year to \$0.51 per share.

The share register will be closed from Thursday, 10 April 2003 to Tuesday, 15 April 2003, both dates inclusive, during which period, no transfer of shares will be registered. Dividend warrants will be despatched to shareholders on or about Friday, 25 April 2003. In order to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with HKEx's registrar, Hong Kong Registrars Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 9 April 2003.

DIVIDEND POLICY

The Directors have adopted a dividend policy of providing shareholders with regular dividends at a target payout ratio of 90%. The Group will continue to actively and regularly review and manage its capital structure to ensure optimal capital structure and shareholder returns, considering:

- the future capital requirements of the Group and capital efficiency;
- the need to retain capital to support the Group's stability, growth and maintain prudent risk management;
- prevailing and projected profitability;
- prevailing market dividend yields;
- projected operating cash flow and the extent to which this will be sufficient to meet projected capital expenditure; and projected strategic investment opportunities.

FINANCIAL HIGHLIGHTS

(Financial figures are expressed in Hong Kong dollars)			
	2002	2001	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	\$6.7 billion	\$8.2 billion	(18%)
Average daily number of derivatives contracts traded on the Futures Exchange	30,038	27,192	10%
Average daily number of stock options contracts traded on the Stock Exchange	15,203	16,567	(8%)
	\$ million	\$ million	
RESULTS			
Income	1,808	1,998	(10%)
Operating expenses	1,164	1,176	(1%)
	644	822	
Share of profits less losses of associated companies	6	–	–
Profit before taxation	650	822	(21%)
Taxation	(57)	(82)	(31%)
Profit attributable to shareholders	593	740	(20%)
Shareholders' funds	5,496	5,235	5%
Total assets *	14,035	13,745	2%
Earnings per share	\$0.57	\$0.71	(20%)
Interim dividend per share	\$0.08	\$0.08	0%
Final dividend declared per share	\$0.43	\$0.25	72%

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

OVERALL PERFORMANCE

The Group recorded a profit attributable to shareholders of \$593 million for the year, compared with \$740 million for 2001. The 20 per cent drop in profit was mainly attributable to the continued decline in stock market activities and low level of interest rates, which have caused a significant drop in income from sale of information, clearing and settlement fees and net interest income.

Income

Total income (including share of profits less losses of associated companies) for the year decreased by 9 per cent to \$1,814 million (2001: \$1,998 million).

The slow growth in the global economy, decline in consumer confidence, the accounting and corporate governance scandals affecting major corporations in the US, and the risk of war against Iraq kept investors away from the market in 2002. Closer to home, prolonged high unemployment, deflation and decline in property prices in Hong Kong have caused investor sentiment to deteriorate further, leading to a 18 per cent drop in the average daily turnover on the Stock Exchange to \$6.7 billion in 2002 (2001: \$8.2 billion). Although the average daily number of derivatives contracts traded on the Futures Exchange increased by 10 per cent, the decline in cash market activities and the 8 per cent reduction in the average daily number of stock options contracts traded have caused total trading fees, transaction levy and trading tariff to drop by 6 per cent to \$332 million (2001: \$351 million).

Despite the poor market conditions, 60 new companies joined the Main Board and 57 the Growth Enterprise Market (GEM) during the year, raising \$52 billion of new capital. Listing fee income rose by 16 per cent to \$320 million (2001: \$275 million), as a result of higher number of listed securities and new listings of derivatives warrants. As at 31 December 2002, there were 812 companies listed on the Main Board and 166 on GEM (31 December 2001: 756 and 111 respectively).

In line with the 18 per cent decline in cash market activities, clearing and settlement fee income dropped by 15 per cent to \$181 million (2001: \$214 million). Depository, custody and nominee services fee income also fell by 7 per cent to \$211 million (2001: \$228 million) mainly due to lower scrip fee income for the year. Similarly, income from sale of information declined by 13 per cent to \$294 million (2001: \$337 million) as the demand for stock information decreased.

Investment income decreased by 31 per cent to \$285 million (2001: \$414 million), primarily due to a decline of 32 per cent in net interest income to \$261 million (2001: \$382 million), as the full-year impact of the successive interest rate cuts in 2001 was felt which led to mark-to-market and realised losses on our investment portfolio. Interest rates fell further in the fourth quarter of 2002 as Hong Kong followed suit after the US Federal Reserve reduced the Fed Funds Rate to a 41-year low. During the two years under review, the average 6-month Hong Kong Exchange Fund Bill rate dropped from 3.41 per cent in 2001 to 1.70 per cent in 2002, and the average 90-day US Treasury Bill rate declined from 3.47 per cent to 1.62 per cent.

For the year ended 31 December 2002, the Group achieved a positive return on investments of 3.10 per cent (2001: 5.09 per cent). The portfolio recorded a spread of 140 basis points above the 6-month Hong Kong Exchange Fund Bill yield (2001: 168 basis points).

The average amount of funds available for investment shrank by 1 per cent to \$9.1 billion, primarily due to a drop in margin funds received as margin requirements for various derivative products were reduced in line with volatility movements during the year. As at 31 December 2002, 44 per cent of the funds were invested in cash or bank deposits, 55 per cent in high-grade bonds with an average credit rating of Aa2, and 1 per cent in global equities.

Operating Expenses

Total operating expenses decreased by 1 per cent to \$1,164 million (2001: \$1,176 million).

Staff costs and related expenses were further reduced by \$35 million to \$493 million (2001: \$528 million), principally due to a 7 per cent cut in salary and benefit costs.

Due to the Group's commitment to constantly enhance the capability and resilience of its trading and settlement systems, information technology and computer maintenance expenses rose by 14 per cent from \$231 million to \$263 million, mainly attributable to expenditures incurred on the upgraded Central Clearing and Settlement System (CCASS/3) during the year.

Legal and professional fees for the year decreased by 36 per cent from \$62 million to \$39 million, primarily owing to professional fees incurred for several one-off consulting projects in 2001.

Depreciation and amortisation costs increased by 7 per cent to \$163 million (2001: \$153 million), mostly due to the additional depreciation charge arising from the rollout of the first and second phases of CCASS/3 during 2002.

Other operating expenses rose by 4 per cent from \$87 million to \$91 million largely on account of restructuring costs incurred.

Taxation

The Group's taxation charge in 2002 declined by 31 per cent to \$57 million (2001: \$82 million), predominantly caused by the lower profit reported for the year.

Liquidity, Financial Resources, Gearing and Capital Commitments

Working capital increased by 4 per cent to \$4,207 million at 31 December 2002 (2001: \$4,037 million) mainly due to current year profit retained. Bank balances and time deposits of corporate funds fell by \$615 million primarily due to the settlement of other payables and accruals.

Although the Group has consistently been in a very liquid position, credit facilities have nevertheless been put in place for contingency purposes. As at 31 December 2002, the Group's total available credit facilities amounted to \$2,763 million (2001: \$2,875 million), of which \$1,500 million were repurchase facilities to augment the liquidity of the margin funds and \$1,100 million were for meeting obligations of HKSCC in the Central Clearing and Settlement System (CCASS) in circumstances where CCASS Participants default on their payment obligations. Borrowings of the Group have been very rare and, if required, are mostly event driven, with little seasonality. As at 31 December 2002, the only facility drawn down was a fixed rate bank loan of SGD11 million (equivalent to HK\$49 million) with a maturity of less than one year which was used for the purpose of hedging the currency exposure of the Group's investment in Singapore (2001: SGD11 million, equivalent to HK\$46 million). The loan will be renewed annually.

As at 31 December 2002, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was less than 1 per cent (2001: less than 1 per cent).

The Group's capital expenditure commitments, largely in respect of its ongoing investments in facilities and technology, amounted to \$94 million as at 31 December 2002 (2001: \$317 million). The Group has adequate financial resources to fund its commitments on capital expenditures from its existing cash resources and cash flows generated from its operations.

As at 31 December 2002, 99.8 per cent of the Group's cash and cash equivalents (comprise cash on hand, bank balances and time deposits within three months of maturity when acquired) were denominated in Hong Kong dollars (HKD) and United States dollars (USD).

Charges on Assets

As at 31 December 2001, the Group had a \$10 million overdraft facility with a bank in Hong Kong, which was secured by a pledge of the Group's time deposits of an equivalent amount at that bank. This overdraft facility was not utilised and was terminated in 2002. The Group did not have any charges on assets as at 31 December 2002.

Significant Investments Held and Material Acquisitions and Disposals of Subsidiaries

The Group has been holding 1 per cent (10 million shares) of the issued ordinary share capital of Singapore Exchange Limited since November 2000.

On 2 April 2002, the Group acquired 3.6 million shares (14.47 per cent as at 31 December 2002) of the issued ordinary share capital of BondsInAsia Limited, an unlisted company incorporated in Hong Kong which provides an electronic trading platform for bond markets in Asia.

On 15 May 2002, the Group and Wilco International Limited, a wholly-owned subsidiary of Automatic Data Processing, Inc., formed a new joint venture, Wilco International Processing Services Limited, to provide Brokers' Electronic Support Services to Stock Exchange Participants.

On 31 May 2002, the share registration operations of the Group's clearing business, Hong Kong Registrars Limited (HKRL), a wholly-owned subsidiary, were sold and merged with those of Central Registration Hong Kong Limited, which has been renamed as Computershare Hong Kong Investor Services Limited (CHIS). The Group received 18 per cent of the issued share capital of CHIS as consideration for the sale of HKRL. On the same date, the Group increased its holding in CHIS to 24 per cent by acquiring a further 6 per cent of the issued share capital of CHIS by cash.

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. Forward foreign exchange contracts or foreign currency credit facilities may be 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 December 2002, aggregate net open foreign currency positions amounted to HK\$1,924 million, of which HK\$200 million were non-USD exposures (2001: HK\$1,947 million, of which HK\$72 million were non-USD exposures). The Group's foreign currency liabilities, in the form of margin deposits or collateral received, are hedged by investments in the same currencies.

Contingent Liabilities

The Unified Exchange Compensation Fund (Compensation Fund) is a fund set up under the Securities Ordinance (SO) for the purpose of compensating any person dealing with a Stock Exchange Participant (other than another Stock Exchange Participant) for any pecuniary losses suffered as a result of a default of the Stock Exchange Participant. According to section 109(3) of the SO, the maximum compensation amount is \$8 million for each Stock Exchange Participant's default. Under section 113(5A) of the SO, the Stock Exchange may, upon satisfying certain conditions, with the approval of the Securities and Futures Commission (SFC), allow an additional payment to the successful claimants before apportionment. Under section 107(1) of the SO, the Stock Exchange has contingent liabilities to the Compensation Fund as it shall replenish the Compensation Fund upon the SFC's request to do so. The amounts to be replenished should be equal to the amount paid in connection with the satisfaction of the claims, including any legal and other expenses paid or incurred in relation to the claims but capped at \$8 million per default. As at 31 December 2002, there were outstanding claims received in respect of 14 defaulted Stock Exchange Participants (2001: 15).

Under the new compensation arrangements to be implemented on 1 April 2003 under the Securities and Futures Ordinance (SFO), a new Investor Compensation Fund would replace the existing Compensation Fund, the Commodity Exchange Compensation Fund and the Dealers' Deposit Schemes for non-exchange participant dealers. The new arrangements would not require Exchange Participants to make deposits to the Investor Compensation Fund. Existing deposits would be returned to the Stock Exchange and the Futures Exchange in accordance with the provisions of the SFO. The arrangements would remove the requirement for the Stock Exchange to replenish the Investor Compensation Fund.

The Stock Exchange has undertaken to indemnify the Collector of Stamp Revenue against any loss of revenue resulting from any underpayment or default or delay in payment of stamp duty by its Participants, up to \$200,000 in respect of default of any one Participant. In the unlikely event that all of its 471 trading Participants as at 31 December 2002 (2001: 492) default, the maximum contingent liability of the Stock Exchange under the indemnity will amount to \$94 million (2001: \$98 million).

Pursuant to Section 21 of the Exchanges and Clearing Houses (Merger) Ordinance, HKEx gave an undertaking on 6 March 2000 in favour of HKSCC to contribute an amount not exceeding \$50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the debts and liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs, charges and expenses of winding up.

HKEx has given a guarantee to secure banking facilities granted to HKSCC since 13 December 2000. These facilities, on a committed basis of an aggregate amount of \$1.1 billion, were granted to HKSCC by five banks to provide stand-by liquidity to meet the obligations of HKSCC in CCASS in circumstances where the CCASS Participants default on their payment obligations. As at 31 December 2002 and 31 December 2001, none of these banking facilities was utilised.

HKEx has given a guarantee to secure banking facilities of SGD12 million to HKEx (Singapore) Limited for financing its investments since 16 April 2001. As at 31 December 2002, SGD11 million (equivalent to HK\$49 million) of the facility was drawn down (2001: SGD11 million, equivalent to HK\$46 million). The loan will mature within one year and has a fixed rate of interest.

Employees

HKEx has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system.

Share options may be granted to Executive Directors and employees of the Group to subscribe for shares in HKEx in accordance with the terms and conditions of the Share Option Schemes approved by the shareholders of HKEx at an extraordinary general meeting held on 31 May 2000.

Following the merger of the businesses of the Stock Exchange Group, the Futures Exchange Group and the HKSCC Group in 2000, HKEx has succeeded in streamlining its workforce and the number of employees fell from 1,052 prior to the merger to 797 as at 31 December 2002. Total employees' cost was reduced by \$106 million or 18 per cent from \$599 million in 2000 to \$493 million in 2002.

Prospects

As a substantial part of HKEx's income is derived from trading fees, clearing and settlement fees, listing fees and interest income, the performance of the Group is heavily influenced by external factors including, in particular, market sentiment, the level of activities on the Stock Exchange and Futures Exchange, as well as movements in interest rates.

Given the importance of external factors to HKEx's performance, the year ahead is likely to remain challenging, not least because of the risk of war in the Middle East, fear of terrorist activities worldwide, and uncertainties over the economic performance in the United States, Europe and Japan.

The uncertain external environment, coupled with the likely continuation of high unemployment, deflation, and weak property prices domestically would suggest that activity on the securities and derivatives markets is likely to remain subdued, at least in the first half of 2003, and this could have an adverse impact on revenues.

To meet the challenges ahead, HKEx will seek to further raise the quality of its markets and ensure that its services remain competitive. It will pursue initiatives to attract more investors and capital raising companies to Hong Kong. To develop a more diverse income base, the Group will further introduce new financial products. It will seek additional opportunities for business co-operation and alliances with exchanges and clearing houses on the Mainland China and overseas. Stringent cost control will be maintained over the Group's operating costs.

Following China's accession to the World Trade Organisation, the pressure on both public and private enterprises to upgrade themselves in the face of market liberalisation would increase. Thus, it can be anticipated that these private enterprises from the Mainland would be contemplating raising capital in the securities market, including listing in Hong Kong. By virtue of its unrivalled geographic proximity and ties with the Mainland, Hong Kong is well positioned to benefit from this. In forging closer economic co-operation with the Mainland, the Hong Kong Government and the private sector are taking initiatives to expedite the economic integration with the rapidly growing economy of the Pearl River Delta. Discussions on a Closer Economic Partnership Arrangement between the Mainland and Hong Kong are expected to come to fruition with agreement on the main parts by June 2003. These are expected to boost capital formation activities in Hong Kong. The Group will closely monitor economic and capital market developments on the Mainland. It will continue to focus its marketing efforts in the Mainland and strive to strengthen Hong Kong's position as the primary international capital raising centre for Mainland companies.

CHAIRMAN'S STATEMENT

HKEx's integrated organisation structure is firmly in place, enabling the Group to focus on improvements for long-term growth. Trading and clearing systems are being upgraded. New products and services are being introduced, and other improvements to the market infrastructure are under consideration and development. Business development activities are continuing in Hong Kong, Mainland China, and overseas, and there are frequent discussions on mutually beneficial business co-operation with other exchanges.

HKEx has developed a profitable business model with diversified income sources. In 2002, increases in listing and derivatives income helped to offset income decreases in clearing and other areas. Operating expenses are tightly controlled. Continued investments in the market infrastructure are made to ensure that it remains robust, reliable and competitive.

With unmatched ties to Mainland China, Hong Kong and its financial markets are well positioned to benefit from the continued growth of the Mainland economy.

The Expert Group to Review the Operation of the Securities and Futures Market Regulatory Structure, appointed by the Government in September 2002, is expected to submit its report to the Government in March 2003. We look forward to discussing with the Government the findings and recommendations of the Expert Group in due course.

QUARTERLY REPORTING

To provide more up-to-date information on our performance, the Group will commence publishing quarterly results from the first quarter of 2003.

By Order of the Board
LEE Yeh Kwong, Charles
Chairman

Hong Kong, 12 March 2003

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong will be published on the HKEx website (<http://www.hkex.com.hk>) on or before Friday, 21 March 2003.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the shareholders of Hong Kong Exchanges and Clearing Limited (HKEx) will be held at the Trading Hall of The Stock Exchange of Hong Kong Limited (Stock Exchange) at 1st Floor, One and Two Exchange Square, Central, Hong Kong on Tuesday, 15 April 2003 at 4:30 p.m. for the following purposes:

1. To receive and consider the Audited Accounts for the year ended 31 December 2002 together with the Reports of the Directors and Auditors thereon.
2. To declare a Final Dividend.
3. To elect Directors.
4. To re-appoint Auditors and to authorise the Directors to fix their remuneration.
5. To consider as special business and, if thought fit, pass with or without modification the following resolutions as Ordinary Resolutions and a Special Resolution respectively:

Ordinary Resolutions

(I) **“THAT:**

- (a) subject to paragraph (c) below and pursuant to section 57B of the Companies Ordinance, the exercise by the Directors of HKEx during the Relevant Period (as hereinafter defined) of all the powers of HKEx to allot, issue and deal with additional shares of HK\$1.00 each in the capital of HKEx and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of HKEx) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors of HKEx during the Relevant Period to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of HKEx) which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors of HKEx pursuant to the approval in paragraph (a) above, otherwise than pursuant to:
 - (i) a Rights Issue (as hereinafter defined),
 - (ii) an issue of shares as scrip dividends pursuant to the articles of association of HKEx from time to time,
 - (iii) an issue of shares under any option scheme or similar arrangement for the time being adopted and approved by the shareholders of HKEx for the grant or issue to employees of HKEx and/or any of its subsidiaries of shares or rights to acquire shares of HKEx,
 - (iv) an issue of shares in HKEx upon the exercise of the subscription rights attaching to any warrants which may be issued by HKEx provided that the issue of such warrants (and the consequent obligation to issue such shares) has been approved by the shareholders of HKEx, either by specific resolution or as part of a general approval, or
 - (v) any adjustment, after the date of grant or issue of any options, rights to subscribe or other securities referred to in (iii) or (iv) above, in the price at which shares in HKEx shall be subscribed, and/or in the number of shares in HKEx which shall be subscribed, on exercise of relevant rights under such options, warrants or other securities, such adjustment being made in accordance with, or as contemplated by, the terms of such options, rights to subscribe or other securities,

shall not exceed 20 per cent of the aggregate nominal amount of the issued share capital of HKEx at the date of passing this Resolution, and the said approval shall be limited accordingly; and

- (d) for the purpose of this Resolution,

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of HKEx;
- (ii) the expiration of the period within which the next annual general meeting of HKEx is required by law to be held; or
- (iii) the passing of an ordinary resolution by shareholders of HKEx in general meeting revoking or varying the authority given to the Directors of HKEx by this Resolution.

“Rights Issue” means an offer of shares in HKEx, or an offer of warrants, options or other securities giving rights to subscribe for shares, open for a period fixed by the Directors of HKEx to the holders of shares of HKEx on the register of members of HKEx on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors of HKEx may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations, or the expense and delay in determining the extent of any restrictions or obligations, under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong which are applicable to HKEx).”

(II) **“THAT:**

- (a) subject to paragraph (b) below, the exercise by the Directors of HKEx during the Relevant Period (as hereinafter defined) of all powers of HKEx to repurchase shares of HKEx on the Stock Exchange or on any other stock exchange on which the shares of HKEx may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares which HKEx is authorised to repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of HKEx at the date of passing this Resolution, and the said approval shall be limited accordingly; and
- (c) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

 - (i) the conclusion of the next annual general meeting of HKEx;
 - (ii) the expiration of the period within which the next annual general meeting of HKEx is required by law to be held; or
 - (iii) the passing of an ordinary resolution by shareholders of HKEx in general meeting revoking or varying the authority given to the Directors of HKEx by this Resolution.”

- (III) **“THAT** conditional upon the passing of Resolutions 5(I) and 5(II) set out in the notice convening this meeting, the general mandate granted to the Directors of HKEx and for the time being in force to exercise the powers of HKEx to allot, issue and deal with additional shares pursuant to Resolution 5(I) set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares in the capital of HKEx repurchased by HKEx under the authority granted pursuant to Resolution 5(II) set out in the notice convening this meeting, provided that such amount of shares so repurchased shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of HKEx at the date of the said Resolution.”

- (IV) **“THAT** a remuneration of HK\$100,000 be paid to each of the non-executive Directors of HKEx at the conclusion of the next annual general meeting of HKEx for the period from the conclusion of this meeting to the conclusion of the next annual general meeting of HKEx, provided that such remuneration will be paid in proportion to the period of service in the case of a Director who has not served the entire period.”

Special Resolution

(V) “**THAT** subject to the written approval of the Securities and Futures Commission pursuant to section 67 of the Securities and Futures Ordinance:

(a) Clause 3(d) of the Memorandum of Association of HKEx be deleted in its entirety and replaced by the following:

“(d) in this clause:

- (i) “assets” includes property, rights and interests of every description, whether present or future, actual or contingent and wherever situate and, in the case of the Company, its uncalled capital;
- (ii) “charge” includes any mortgage, pledge, lien or other form of security;
- (iii) “dispose of”, in relation to an asset, includes selling or transferring it or surrendering or extinguishing it, and also creating or granting it or any interest or right out of or in respect of it;
- (iv) “liabilities” includes debts and obligations of every description, whether present or future, actual or contingent;
- (v) “person” includes any partnership or other body of persons, whether corporate or unincorporate, and any country, territory, public authority and international organisation; and
- (vi) “subsidiary” has the meaning ascribed to it in the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).”

(b) Article 2 of the Articles of Association of HKEx be amended by:

(i) deleting the definitions of “clearing house” and “Commission” in Article 2(1) and replacing with the following:

“clearing house	a recognized clearing house within the meaning of Schedule 1 of the SFO or a clearing house recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted with the permission of the Company on a stock exchange in such jurisdiction;
Commission	the Securities and Futures Commission established under the Securities and Futures Commission Ordinance (now repealed) which continues in existence in its original name under the SFO;”

(ii) adding a new definition to Article 2(1):

“SFO the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);”

(iii) deleting the definition of “Merger Ordinance” from Article 2(1).

(c) Article 55 of the Articles of Association of HKEx be deleted in its entirety and replaced by the following:

“(1) Pursuant to section 61 of the SFO, a person, either alone or with any associated person or persons, is not permitted to be entitled to exercise, or control the exercise of, 5 per cent. or more of the voting power at any general meeting of the Company except in certain limited circumstances.

(2) For the purposes of this Article:

- (a) “associated person” shall have the meaning ascribed to it in section 18 of the SFO;
- (b) “minority controller” shall have the meaning ascribed to it in section 61(20) of the SFO in relation to a recognized exchange controller;
- (c) “Permitted Person” means any person or class of persons who is permitted to be a minority controller of the Company pursuant to the SFO;
- (d) “recognized exchange controller” shall have the meaning ascribed to it in Schedule 1 of the SFO;
- (e) “Relevant Share Capital” means securities of the Company which carry (or may, according to their terms, in certain circumstances carry) the right to vote on any resolution at any general meeting of the Company (whether or not the right is exercisable in relation to all resolutions at all general meetings);
- (f) “Restricted Person” means any person who is a minority controller of the Company and is not a Permitted Person; and
- (g) “Restricted Shares” means the securities to which section 1(9) of Part 6 of Schedule 3 to the SFO applies (with references to “the corporation concerned” in that section being interpreted as references to the Company).

(3) No person shall become a minority controller of the Company except in accordance with the provisions of the SFO and other applicable law.

(4) Every person shall forthwith provide written notice to the Company if:

- (i) he/it becomes a minority controller of the Company or a company of which the Company is a subsidiary; or
 - (ii) he/it has been served with a notice (a “Commission Notice”) from the Commission pursuant to section 61(9)(b) of the SFO or section 1(2) of Part 6 of Schedule 3 to the SFO.
- (b) A notice given in relation to paragraph (a)(i) above shall include details of that person’s and his/its associated persons’ interests in the Relevant Share Capital and either the basis on which that person is permitted to be a minority controller under the SFO (a “Permitted Person Notice”) or a statement that the person is not permitted to be such a minority controller (a “Restricted Person Notice”). The Directors may forward any notices to the Commission for further investigation and enforcement.
- (c) A notice given in relation to paragraph (a)(ii) above (also, a “Restricted Person Notice”) shall include a copy of the relevant Commission Notice.
- (d) The Directors may by notice in writing (a “Disclosure Notice”) require any member, or any other person appearing to be interested or appearing to have been interested in the securities of the Company, to disclose to the Company in writing such information (supported if the Directors so require by a statutory declaration and/or by independent evidence) as the Directors shall require relating to the ownership of or interests in the securities in question as lies within the knowledge of such member or other person, including (without prejudice to the generality of the foregoing):
- (i) any information which the Company would be entitled to seek pursuant to section 329 of the SFO;
 - (ii) any information which the Directors shall deem necessary or desirable in order to determine whether any securities or rights to subscribe for, or convert into, securities of the Company are Restricted Shares; and
 - (iii) any information which the Directors shall deem necessary or desirable in order to determine whether any person is or is deemed to be a Restricted Person or otherwise in relation to the application or potential application of this Article.
- (e) A Disclosure Notice pursuant to paragraph (4)(d) of this Article may be given by the Directors at any time. One or more Disclosure Notices may be given in respect of the same securities in the Company to a member and/or any other person appearing to be, or to have been, interested in those securities.
- (f) The Directors may forward any response in respect of a Disclosure Notice to the Commission for further investigation and enforcement. Furthermore, where the holder of any securities or rights to subscribe for, or convert into, securities in the Company, or any person appearing to be interested in such securities or rights, fails to comply within 14 days with a Disclosure Notice, the Directors may notify the Commission of such non-compliance together with such other information as the Directors deem necessary or desirable in this connection.
- (5) If the Directors shall become aware (as a result of having received a Restricted Person Notice or a Commission Notice pursuant to Section 1(10) of Part 6 of Schedule 3 to the SFO or otherwise) that any person has become a Restricted Person, the Directors may serve a written notice on all persons (other than persons referred to in paragraph (9) of this Article) who appear to the Directors to have interests in (and, if different, are the registered holders of) the Restricted Shares. Such notice shall set out the restrictions referred to in paragraph (6) of this Article.
- (6) A holder of a Restricted Share on whom a notice has been served under paragraph (5) above shall not in respect of those securities be entitled, until such time as the relevant person notifies the Company in writing (together with such confirmation from the Commission or other evidence as may be required by the Directors) that such person has ceased to be a Restricted Person, to attend or vote at any general meeting of the Company or meeting of the holders of Relevant Share Capital or of any class thereof, and the rights to attend (whether in person or by proxy), to speak and to demand and vote on a poll which but for the provisions of this paragraph would have attached to the Restricted Share shall vest in the chairman of such meeting. The manner in which the chairman exercises or refrains from exercising any such rights shall be entirely at his discretion. The chairman of any such meeting as aforesaid shall be informed by the Directors of any securities becoming or being deemed to be a Restricted Share or ceasing to be a Restricted Share.
- (7) The Directors may assume without enquiry that a person is a Permitted Person or is not a Restricted Person.
- (8) The Directors may take such action and do such things which they believe to be necessary or desirable in order to ensure that the Company (a) does not assist in or permit the contravention of any restrictions imposed on any person and/or securities by the Commission pursuant to any Commission Notice (including without limitation refusing to register any transfer of any securities), and (b) does not commit an offence under section 2 of Part 6 of Schedule 3 to the SFO or any other applicable law.

- (9) The Directors shall not be obliged to serve any notice required under this Article to be served upon any person if either his identity or his address is not known to them. The absence of service of such notice in such circumstances as aforesaid, and any accidental error in or failure to give any notice to any person upon whom notice is required to be served under this Article, shall not prevent the implementation of or invalidate any procedure under this Article.
- (10) If any Director believes that a person is a Restricted Person he shall inform the other Directors of that fact.
- (11) The provisions of these Articles regarding the giving of notice to members shall apply to the giving to a member of any notice required by this Article. Any notice required by this Article to be given to a person who is not a member, or who is a member whose registered address is not within Hong Kong and who has not given to the Company an address within Hong Kong at which notices may be given to him, shall be deemed validly given if it is sent by mail (or airmail if the address is outside Hong Kong) in a prepaid envelope addressed to that person at the address (or if more than one, at one of the addresses), if any, at which the Directors believe him to be resident or carrying on business or to his last known address as shown on the register of members. The notice shall in such a case be deemed to have been given on the day following that on which the envelope containing the same is posted, unless it was sent by airmail, in which case it shall be deemed to have been given on the fifth day following that on which it was posted. Proof that the envelope was properly addressed and put into post as prepaid mail or prepaid airmail (as the case may be) shall be conclusive evidence that the notice was given.
- (12) Any resolution or determination of, or decision or exercise of any discretion or power by, the Directors or any Director or the chairman of any meeting under or pursuant to the provisions of this Article shall be final and conclusive; and any act or thing done, by or on behalf of, or on the authority of, the Directors or any Director pursuant to the foregoing provisions of this Article shall be conclusive and binding on all persons concerned and shall not be open to challenge, whether as to its validity or otherwise on any ground whatsoever. The Directors shall not be required to give any reasons for any decision, determination or declaration taken or made in accordance with this Article.
- (13) This Article shall apply notwithstanding any provision in these Articles to the contrary.”
- (d) Article 90(3) of the Articles of Association of HKEx be deleted in its entirety and replaced by the following:
“(3) Subject to the provisions of section 77 of the SFO, the Financial Secretary may at any time:
(a) appoint any person as a Director representing the public interest; and
(b) remove from office any person so appointed (whether or not his term has been completed);
provided that the number of Directors from time to time appointed by the Financial Secretary shall not exceed eight.”
- (e) Article 106 of the Articles of Association of HKEx be deleted in its entirety and replaced by the following:
“The Directors may from time to time appoint committees (including, but without limitation, a Risk Management Committee in compliance with section 65 of the SFO) consisting of such member or members of their body and/or such other person(s) as they think fit, and may delegate any of their powers to any such committee, and from time to time revoke any such delegation and discharge any such committee wholly or in part. Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Directors. Without limiting the generality of this Article 106, any committee so formed may be authorised by the Directors to sub-delegate all or any of the powers, authorities or discretions for the time being vested in it.”
- (f) Article 111(2) and (3) of the Articles of Association of HKEx be deleted in its entirety and replaced by the following:
“(2) Any appointment of a person to the office of Chairman by the Directors shall be subject to (and effective only upon) the written approval of such appointment by the Chief Executive of Hong Kong. The Chairman shall be a non-executive Director and shall be appointed for an initial term coinciding with his term as a non-executive Director and may be re-appointed in accordance with the provisions of this Article for a further period or periods up to a maximum of the longer of six consecutive years or six consecutive annual general meetings (including the initial term as aforesaid but disregarding any annual general meeting held in the year 2000). For greater certainty, a person who has served as Chairman for the maximum consecutive period as aforesaid shall not be eligible for reappointment until the later of one year after he ceases to be Chairman or the next annual general meeting after he ceases to hold such office. A person may only be removed from his office as Chairman by:
(a) a resolution of the Directors passed by two-thirds in number of the Directors from time to time; or
(b) written notice from the Chief Executive of Hong Kong removing him from his office in accordance with section 69 of the SFO.
(3) Any appointment of a person to the office of Chief Executive or Chief Operating Officer by the Directors shall be subject to (and effective only upon):
(a) the Chairman providing his prior written recommendation to the appointment of the relevant person to the relevant office; and
(b) the written approval of the Commission.
A person may only be removed from his office as Chief Executive or Chief Operating Officer by:
(i) a resolution of the Directors passed by a simple majority in number of the Directors from time to time if such removal has been recommended by the Chairman; or
(ii) written notice from the Commission removing him from his office in accordance with section 70 of the SFO.
A person removed from office by the Commission pursuant to subparagraph 3(ii) above shall be entitled to appeal his removal to the Chief Executive in Council (having the same meaning as used in section 73 of the SFO) in accordance with the provisions of section 73 of the SFO.””

By Order of the Board
HONG KONG EXCHANGES AND CLEARING LIMITED
Joseph Mau
Company Secretary

Hong Kong, 12 March 2003

Notes:

- (1) A shareholder entitled to attend and vote at the above meeting (or at any adjournment thereof) is entitled to appoint one or more proxies to attend and vote in his stead. The proxy need not be a shareholder of HKEx.
- (2) Where there are joint registered holders of any shares, any one of such persons may vote at the above meeting (or at any adjournment thereof), either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the above meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of HKEx in respect of such share shall alone be entitled to vote in respect thereof.
- (3) In order to be valid, the enclosed form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority (such certification to be made by either a notary public or a solicitor qualified to practise in Hong Kong), must be deposited at HKEx's registrar, Hong Kong Registrars Limited, at Rooms 1901-5, 19/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time fixed for holding the above meeting or adjourned meeting (as the case may be).
- (4) The register of members of HKEx will be closed from Thursday, 10 April 2003 to Tuesday, 15 April 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged for registration with HKEx's registrar, Hong Kong Registrars Limited at the above address not later than 4:00 p.m. on Wednesday, 9 April 2003.
- (5) Concerning Resolutions 5(I) and 5(II), the Directors wish to state that there are no immediate plans to issue any new shares or to repurchase any shares of HKEx. The general mandates are being sought from shareholders in compliance with the Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.
- (6) There will be six elected Director vacancies to be filled at the forthcoming annual general meeting. A circular containing further information concerning the election of Directors and Resolutions 5(I) to 5(V) will be sent to shareholders together with HKEx's 2002 Annual Report.

Please also refer to the published version of this announcement in South China Morning Post dated on 13-3-2003.