



Hong Kong Exchanges and Clearing Limited

香港交易及結算所有限公司

(Incorporated in Hong Kong with limited liability)

2003 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 2003 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003

(Financial figures are expressed in Hong Kong dollars)

	Note	2003 \$'000	As restated 2002 \$'000
INCOME	2		
Trading fees and trading tariff		485,211	331,729
Stock Exchange listing fees		333,786	320,033
Clearing and settlement fees		254,907	181,424
Depository, custody and nominee services fees		211,726	211,413
Income from sale of information		264,239	293,735
Investment income	3	311,307	284,984
Other income	4	158,649	184,772
	2	<u>2,019,825</u>	<u>1,808,090</u>
OPERATING EXPENSES			
Staff costs and related expenses		525,573	492,549
Information technology and computer maintenance expenses		246,648	262,700
Premises expenses		84,033	101,234
Product marketing and promotion expenses		7,891	14,728
Legal and professional fees		28,873	39,613
Depreciation and amortisation		183,488	163,139
Payment to SFC under dual filing regime		15,000	–
Other operating expenses	5	130,635	90,694
	2	<u>1,222,141</u>	<u>1,164,657</u>
OPERATING PROFIT	2	<u>797,684</u>	<u>643,433</u>
SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES	2	<u>7,664</u>	<u>6,141</u>
PROFIT BEFORE TAXATION	2	<u>805,348</u>	<u>649,574</u>
TAXATION	2/6	<u>(113,583)</u>	<u>(61,069)</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	2	<u>691,765</u>	<u>588,505</u>
DIVIDENDS		<u>629,263</u>	<u>532,220</u>
SPECIAL DIVIDEND		<u>1,762,318</u>	<u>–</u>
		<u>2,391,581</u>	<u>532,220</u>
Earnings per share	7	<u>\$0.66</u>	<u>\$0.56</u>
Dividends per share			
Interim dividend paid		\$0.18	\$0.08
Final dividend declared		\$0.42	\$0.43
		<u>\$0.60</u>	<u>\$0.51</u>
Dividend payout ratio		<u>91%</u>	<u>91%</u>
SPECIAL DIVIDEND DECLARED PER SHARE		<u>\$1.68</u>	<u>–</u>

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 (HKSA). 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 2002 except that the Group has adopted the new Hong Kong Statement of Standard Accounting Practice (SSAP) 12: Income Taxes, issued by the HKSA, which is effective for accounting periods commencing on or after 1 January 2003. The effects of the change to the Group's accounting policies are set out below.

Under the new SSAP 12, 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. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax assets and liabilities in 2002. 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 brought 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 \$6,040,000 was absorbed as an additional deferred tax charge in 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 \$5,369,000 in revaluation reserves and an increase of \$2,516,000 in retained earnings) and \$6,028,000 (with a corresponding reduction of \$4,081,000 in revaluation reserves and reduction of \$1,947,000 in retained earnings) respectively. Therefore, as detailed in note 8, opening retained earnings at 1 January 2002 and 2003 have increased by \$2,516,000 and decreased by \$1,947,000 respectively. The change has reduced the profit for the year ended 31 December 2002 by \$4,463,000 (from \$592,968,000 to \$588,505,000).

- The Group's turnover comprises trading fees and trading tariff from securities and options traded on The Stock Exchange of Hong Kong Limited (Stock Exchange) and derivatives contracts traded on Hong Kong Futures Exchange Limited (Futures Exchange), Stock Exchange listing fees, clearing and settlement fees, depository, custody and nominee services fees, income from sale of information, investment income (including investment income net of interest expenses of Clearing House Funds) and other income, which are disclosed as Income in the 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, results, assets, liabilities and capital expenditures for the year by business segments is as follows:

	Cash Market 2003 S'000	Derivatives Market 2003 S'000	Clearing Business 2003 S'000	Information Services 2003 S'000	Others 2003 S'000	Group 2003 S'000
Income	847,074	317,421	589,017	266,313	–	2,019,825
Costs	590,854	174,947	362,183	94,157	–	1,222,141
Segment results	256,220	142,474	226,834	172,156	–	797,684
Share of profits of associated companies	1	–	7,663	–	–	7,664
Segment profits before taxation	256,221	142,474	234,497	172,156	–	805,348
Taxation						(113,583)
Profit attributable to shareholders						691,765
Segment assets	2,407,862	9,179,156	8,131,719	81,969	1,558	19,802,264
Segment liabilities	551,468	7,948,646	5,543,371	30,070	125,446	14,199,001
Segment capital expenditures	13,154	5,493	12,430	5,170	–	36,247
Segment depreciation and amortisation	91,344	21,222	60,571	13,013	–	186,150
Segment other non-cash expenses	22,489	18,847	3,305	1,459	–	46,100
	Cash Market 2002 S'000	Derivatives Market 2002 S'000	Clearing Business 2002 S'000	Information Services 2002 S'000	Others 2002 S'000	Group 2002 S'000
Income	721,892	269,243	520,516	296,439	–	1,808,090
Costs	568,984	145,867	334,995	114,811	–	1,164,657
Segment results	152,908	123,376	185,521	181,628	–	643,433
Share of profits/(losses) of associated companies	(103)	–	6,244	–	–	6,141
Segment profits before taxation	152,805	123,376	191,765	181,628	–	649,574
Taxation						(61,069)
Profit attributable to shareholders						588,505
Segment assets	2,206,360	5,839,940	5,894,579	92,818	1,774	14,035,471
Segment liabilities	435,596	4,597,581	3,365,127	38,386	108,417	8,545,107
Segment capital expenditures	12,068	27,522	92,987	14,093	–	146,670
Segment depreciation and amortisation	89,112	16,401	49,701	9,493	–	164,707
Segment other non-cash expenses	(688)	234	1,914	789	–	2,249

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. The major sources of income of the business are trading fees, trading tariff and listing fees. Direct costs of the Listing Function (which were previously included under the Others Segment) are treated as segment costs under the Cash Market Segment. Comparatives for 2002 have been reclassified retrospectively to conform to this practice.

The **Derivatives Market** business 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 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 and HKFE Clearing Corporation Limited, 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. Since Information Services activities share similar business risks as the Cash and Derivatives Market segments, results of Information Services activities were previously grouped under the two business segments based on the nature of their business risks (e.g., income from sales of Cash market information under the Cash Market). As Information Services activities generate a significant amount of income for the Group, from 2003 onwards, their results are disclosed under a separate Information Services Segment. Accordingly, comparatives for 2002 have been reclassified to conform to the new disclosure.

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. Accordingly comparatives for 2002 have been reclassified to conform to this practice.

Assets and liabilities under the **Others Segment** represent mainly taxation recoverable and payable, deferred tax liabilities and unclaimed dividends. Comparatives for 2002 have been reclassified to conform to this practice.

3. Investment income

	2003 \$'000	2002 \$'000
Interest income from		
– Bank deposits and cash margin deposits	66,830	90,761
– Listed securities	40,187	41,013
– Unlisted securities	105,612	129,227
	<u>212,629</u>	<u>261,001</u>
Interest expenses	(2,153)	(5,797)
Net interest income	<u>210,476</u>	<u>255,204</u>
Accommodation income on securities deposited by Participants as alternatives to cash deposits of the margin funds	<u>5,163</u>	<u>5,611</u>
Non-interest investment income		
Net realised gain/(loss) on investments		
– listed trading and non-trading securities	9,733	(8,789)
– unlisted trading and non-trading securities	11,197	1,360
– exchange difference	13,883	(6,346)
Net unrealised gain/(loss) on investments		
– listed trading securities	33,267	(9,836)
– unlisted trading securities	(4,810)	14,732
– exchange difference	14,284	28,071
Dividend income		
– non-trading securities	14,096	2,482
– trading securities	4,018	2,495
	<u>95,668</u>	<u>24,169</u>
Total investment income	<u>311,307</u>	<u>284,984</u>
Total investment income is derived from:		
Corporate funds (note (i))	214,869	178,613
Margin funds	78,732	82,238
Clearing House Funds	17,706	24,133
	<u>311,307</u>	<u>284,984</u>

(i) Corporate funds include investment income of Compensation Fund Reserve Account of \$714,000 (2002: \$680,070) and Cash and Derivatives Market Development Fund (CDMD Fund) of \$56,000 (2002: \$42,000).

4. Other income

	2003 \$'000	2002 \$'000
Exchange network, terminal user, dataline and software sub-license fees	101,491	97,500
Participants' subscription and application fees	36,227	40,767
Share registration services fees	1,600	18,500
Brokerage on direct IPO applications	11,618	18,973
Miscellaneous income	7,713	9,032
	<u>158,649</u>	<u>184,772</u>

5. Other operating expenses

	2003 \$'000	2002 \$'000
Write-down of strategic investments (note i)	32,667	–
Retirement of redundant IT systems	10,133	2,791
Provision for/(reversal of provision for) doubtful debts	1,789	(900)
Insurance	11,780	12,877
Financial data subscription fees	8,978	9,098
Custodian and fund management fees	8,445	8,625
Bank charges	7,135	4,102
Repair and maintenance	7,373	7,061
Other miscellaneous expenses	42,335	47,040
	<u>130,635</u>	<u>90,694</u>

(i) Includes a 100 per cent write-down (\$32,303,000) of the Group's investment in BondsInAsia Limited under non-trading securities following a review of the Group's business strategy and operations in May 2003.

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

	2003 \$'000	As restated 2002 \$'000
Provision for Hong Kong Profits Tax for the year	125,503	68,741
Under/(over) provision in respect of prior years	1,170	(5,422)
	<u>126,673</u>	<u>63,319</u>
Deferred taxation (note ii)	(14,774)	(3,559)
	<u>111,899</u>	<u>59,760</u>
Share of taxation of associated companies	1,684	1,309
Taxation charge	<u>113,583</u>	<u>61,069</u>

(i) Hong Kong Profits Tax has been provided for at 17.5 per cent (2002: 16 per cent) on the estimated assessable profit for the year.

(ii) 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 \$6,040,000, which arose from recomputing outstanding deferred tax liabilities brought forward from 2002 using the higher tax rate of 17.5 per cent.

7. The calculation of basic earnings per share is based on the profit attributable to shareholders of \$691,765,000 (2002: \$588,505,000) and the weighted average of 1,046,494,819 shares (2002: 1,042,665,487) in issue during the year. The employee share options outstanding did not have a material dilutive effect on the basic earnings per share.

8. Retained Earnings

	Note	Group		HKEx	
		2003 \$'000	As restated 2002 \$'000	2003 \$'000	As restated 2002 \$'000
At 1 January					
Retained earnings, as previously reported		3,223,268	3,198,763	108,292	28,252
Effect of adopting SSAP 12	1	(1,947)	2,516	(219)	1,995
Retained earnings, as restated		3,221,321	3,201,279	108,073	30,247
Proposed and declared dividend		448,740	260,166	448,740	260,166
Profit for the year		691,765	588,505	461,568	610,494
Investment income net of expenses of Clearing House					
Funds transferred to Clearing House Funds reserves		(8,430)	(35,114)	-	-
Investment income net of expenses of Compensation Fund					
Reserve Account transferred to Compensation Fund					
Reserve Account reserve		(714)	(681)	-	-
Transfer from Development reserve		49,226	-	-	-
Dividends paid:					
2002/2001 final dividend		(448,740)	(260,166)	(448,740)	(260,166)
2003/2002 interim dividend		(188,452)	(83,450)	(188,452)	(83,450)
Dividend on shares issued for employee share options exercised after declaration of 2002/2001 final dividend		(647)	(448)	(647)	(448)
Dividend on shares issued for employee share options exercised after declaration of 2003/2002 interim dividend		(231)	(30)	(231)	(30)
At 31 December		<u>3,763,838</u>	<u>3,670,061</u>	<u>380,311</u>	<u>556,813</u>
Representing:					
Retained earnings/(accumulated losses)		1,560,940	3,221,321	(1,822,587)	108,073
Proposed and declared dividend		2,202,898	448,740	2,202,898	448,740
At 31 December		<u>3,763,838</u>	<u>3,670,061</u>	<u>380,311</u>	<u>556,813</u>

FINAL AND SPECIAL DIVIDENDS

The Board of Directors recommends a final dividend of \$0.42 per share (2002: \$0.43) to shareholders. Together with the interim dividend of \$0.18 per share (2002: \$0.08), this will bring the total dividend distribution for the year to \$0.60 per share (2002: \$0.51).

The Company has carried out a review of the Group's policy regarding its cash funds, which are made up largely of liquid funds required in connection with our clearing businesses but also include substantial retained earnings. The review has taken into account the changed economic environment, the Group's strategy and our medium-term capital and risk management requirements. Following this review, the Board has recommended, in addition to the dividend referred to above, a special dividend of \$1.68 per share (2002: \$Nil).

The share register will be closed from Friday, 26 March 2004 to Wednesday, 31 March 2004, both dates inclusive, during which period, no transfer of shares will be registered. Dividend warrants will be despatched to shareholders on or about Wednesday, 14 April 2004. In order to qualify for the final and special dividends, 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 Thursday, 25 March 2004.

FINANCIAL HIGHLIGHTS

(Financial figures are expressed in Hong Kong dollars)

	2003	2002	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	\$10.4 billion	\$6.7 billion	55%
Average daily number of derivatives contracts traded on the Futures Exchange	41,889	30,038	39%
Average daily number of stock options contracts traded on the Stock Exchange	17,122	15,203	13%
	\$'000	As restated \$'000	
RESULTS			
Income	2,019,825	1,808,090	12%
Operating expenses	1,222,141	1,164,657	5%
Operating profit	797,684	643,433	24%
Share of profits less losses of associated companies	7,664	6,141	25%
Profit before taxation	805,348	649,574	24%
Taxation	(113,583)	(61,069)	86%
Profit attributable to shareholders	691,765	588,505	18%
Shareholders' funds	5,603,263	5,490,364 [#]	2%
Total assets *	19,802,264	14,035,471	41%
Earnings per share	\$0.66	\$0.56	18%
Interim dividend per share	\$0.18	\$0.08	125%
Final dividend declared per share	\$0.42	\$0.43	-2%
	\$0.60	\$0.51	18%
Dividend payout ratio	91%	91%	
SPECIAL DIVIDEND DECLARED PER SHARE	\$1.68	-	

* 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

OVERALL PERFORMANCE

The Group recorded a profit attributable to shareholders of \$692 million for the year (2003 first quarter: \$89 million; 2003 second quarter: \$125 million; 2003 third quarter: \$190 million; 2003 fourth quarter: \$288 million), compared with \$588 million for 2002 (2002 first quarter: \$118 million; 2002 second quarter: \$171 million; 2002 third quarter: \$138 million; 2002 fourth quarter: \$161 million). The 18 per cent or \$103 million increase in profit was mainly attributable to the increase in cash and derivatives market activities in the latter half of the year, which has caused an increase in revenue from trading fees and trading tariff, and clearing and settlement fees.

Total operating expenses increased by \$57 million or 5 per cent to \$1,222 million (2002: \$1,165 million), primarily attributable to one-off costs incurred in 2003 second quarter that are not expected to recur in the coming few years. The one-off costs included a write-down of strategic investments (\$33 million), retirement of redundant IT systems (\$10 million), and severance costs (\$9 million) following the review of the Group's business strategy and operations in May 2003. After taking into account tax deduction available, the one-off costs reduced the Group's profit by \$51 million in 2003. Moreover, there was a one-off increase in deferred tax charge of \$6 million in 2003 following the implementation of a new accounting standard, SSAP 12: Income Taxes, which became effective on 1 January 2003.

Had the above-mentioned one-off costs (\$51 million after tax) and deferred tax charge (\$6 million) not been incurred, after-tax profit attributable to shareholders for the year would have been \$749 million, which would be \$161 million or 27 per cent higher than that in 2002.

Income

Total income (including share of profits less losses of associated companies) for the year increased by \$213 million or 12 per cent to \$2,027 million (2002: \$1,814 million).

Bolstered by improved investor sentiment, the cash market rebounded distinctly in the second half of the year, after the setback caused by the Severe Acute Respiratory Syndrome in the second quarter. Average daily turnover on the Stock Exchange for the year increased by 55 per cent to \$10.4 billion, compared with \$6.7 billion in 2002. Average daily number of stock options contracts traded on the Stock Exchange increased by 13 per cent in 2003 compared with that in 2002. Average daily number of derivatives contracts traded on the Futures Exchange increased by 39 per cent, mainly on account of an increase in the trading of Hang Seng Index (HSI) Futures contracts. Consequently, income from trading fees and trading tariff rose by \$153 million or 46 per cent to \$485 million (2002: \$332 million).

Listing fee income rose by \$14 million or 4 per cent to \$334 million (2002: \$320 million), largely because of an increase in initial listing fees, and a rise in annual listing fees due to a higher number of listed securities. The increase in initial listing fees was primarily as a result of higher number of initial public offerings (IPOs) processed. Although the number of new listings fell compared with 2002, the reduction in initial listing fees from new listings was more than offset by initial listing fees forfeited due to increased numbers of lapsed and withdrawn IPO applications and approved IPOs not listed within six months of application. A total of 46 (2002: 60) new companies joined the Main Board and 27 (2002: 57) the Growth Enterprise Market (GEM) during the year. As at 31 December 2003, 3 Main Board and 5 GEM (31 December 2002: 13 Main Board and 7 GEM) IPO applications had obtained approval in principle from the Listing Committee for listing, and 19 Main Board and 32 GEM applications were under processing (31 December 2002: 35 Main Board and 72 GEM). As at 31 December 2003, there were 852 companies listed on the Main Board and 185 on GEM (31 December 2002: 812 and 166 respectively).

In line with the increase in cash market activities, clearing and settlement fee income increased by \$74 million or 41 per cent to \$255 million (2002: \$181 million).

Depository, custody and nominee services fee income only increased by \$1 million or 0.1 per cent to \$212 million (2002: \$211 million) as higher fees from electronic IPOs and dividend/interest collection were offset by lower stock custody fees, which was partly due to stock consolidation undertaken by issuers in 2003.

Income from sale of information declined by \$30 million or 10 per cent to \$264 million (2002: \$294 million), due to the consolidation of broking firms and lower demand for stock information. However, demand for information started to pick up in the second half of 2003 as the market became more buoyant.

Investment income comprises income from investments supervised by the Treasury Division, investment in Singapore Exchange Limited and accommodation income on securities deposited by Participants as alternatives to cash deposits of the margin funds. Total investment income for the Group increased by 9 per cent or \$26 million to \$311 million (2002: \$285 million).

For investments supervised by the Treasury Division, income for the year amounted to \$293 million, 5 per cent or \$15 million higher than the \$278 million reported for last year. The increase was due to higher net realised gain at \$35 million (2002: loss of \$14 million), net unrealised mark-to-market gain at \$43 million (2002: \$33 million) on the investment portfolio, and dividends at \$4 million (2002: \$3 million), but partly offset by lower net interest income at \$211 million (2002: \$256 million) due to lower interest rates. As the valuation of the investments in bonds and equities reflects movements in their market prices, unrealised gains or losses may fluctuate or reverse unless the investments are sold.

During the two years under review, the average 6-month Hong Kong Exchange Fund Bill rate dropped from 1.70 per cent in 2002 to 0.84 per cent in 2003, and the average 90-day US Treasury Bill rate declined from 1.62 per cent to 1.02 per cent.

For the year ended 31 December 2003, the Group achieved a positive return on investments of 2.76 per cent (2002: 3.10 per cent). The Corporate Funds returned 4.25 per cent (2002: 3.92 per cent), the margin funds 1.55 per cent (2002: 2.10 per cent), and the Clearing House Funds 1.56 per cent (2002: 2.60 per cent). Therefore, the overall portfolio recorded a spread of 192 basis points above the 6-month Hong Kong Exchange Fund Bill yield (2002: 140 basis points), with the Corporate Funds registering a spread of 341 basis points (2002: 222 basis points), the margin funds 71 basis points (2002: 40 basis points), and the Clearing House Funds 72 basis points (2002: 90 basis points) above the 6-month Hong Kong Exchange Fund Bill yield.

The average amount of funds available for investment increased by \$1.5 billion or 17 per cent to \$10.6 billion (2002: \$9.1 billion), mainly due to a rise in margin funds received from Clearing Participants as a result of increased trading in futures and options contracts. As at 31 December 2003, 59 per cent (2002: 44 per cent) of the funds were invested in cash or bank deposits, 39 per cent (2002: 55 per cent) in investment-grade bonds with an average credit rating of Aa2, and 2 per cent (2002: 1 per cent) in global equities.

Income from investment in Singapore Exchange Limited increased by 924 per cent or \$12 million to \$13 million (dividend of \$14 million less interest expense of \$1 million for funding the investment) in 2003 from \$1 million (dividend of \$2 million less interest expense of \$1 million) in 2002, mainly attributable to a special dividend of \$12 million received during the year. Accommodation income (i.e., retention interest charged on securities deposited by Participants as alternatives to cash deposits of the margin funds) dropped by 8 per cent or \$1 million to \$5 million (2002: \$6 million).

Other income decreased by \$26 million or 14 per cent to \$159 million (2002: \$185 million), mainly due to a \$7 million reduction in brokerage on direct IPO applications from \$19 million in 2002 to \$12 million in 2003, and a \$17 million decrease in share registration services fees following the disposal in May 2002 of the Group's share registration operations, Hong Kong Registrars Limited, in return for a 18 per cent shareholding in an associated company, Computershare Hong Kong Investor Services Limited (CHIS). The Group's share of CHIS's profit is included under Share of Profits Less Losses of Associated Companies in the Consolidated Profit and Loss Account.

Operating Expenses

Total operating expenses increased by \$57 million or 5 per cent to \$1,222 million (2002: \$1,165 million), primarily as a result of \$52 million of one-off costs incurred in 2003 second quarter that are not expected to recur in the near future.

Staff costs and related expenses increased by \$33 million or 7 per cent to \$526 million (2002: \$493 million), largely due to higher severance costs of \$12 million (of which \$9 million was one-off costs incurred following the reorganisation and streamlining of the Group's operations in May 2003), and the payment of performance bonus of \$15 million (2002: \$Nil) due to improved performance of the Group.

Information technology and computer maintenance expenses fell by \$16 million or 6 per cent from \$263 million in 2002 to \$247 million in 2003, mainly attributable to lower hardware and software rental but partly offset by expenditures relating to the maintenance of the upgraded Central Clearing and Settlement System (CCASS/3) rolled out in May 2002.

Premises expenses fell by \$17 million or 17 per cent to \$84 million (2002: \$101 million) as lower rental was negotiated upon the renewal of certain leases.

Legal and professional fees decreased by \$11 million or 27 per cent to \$29 million (2002: \$40 million), primarily as a result of professional fees incurred for several one-off consulting projects in 2002.

Depreciation and amortisation costs increased by \$20 million or 12 per cent to \$183 million (2002: \$163 million), mainly due to the additional depreciation charge arising from the roll-out of CCASS/3 in May 2002.

Payment to the Securities and Futures Commission (SFC) under the dual filing regime started from 1 April 2003 and amounted to \$15 million (2002: \$Nil).

Other operating expenses rose by \$40 million or 44 per cent to \$131 million (2002: \$91 million), mainly attributable to one-off items not expected to recur in the near future, which included the write-down of a 100 per cent (\$32.3 million) of the Group's investment in BondsInAsia Limited and \$0.4 million of investment in ADP Wilco Processing Services Limited, and the retirement of redundant IT systems (\$10 million) following the review of the Group's business strategy and operations in May 2003.

The Group's taxation charge rose by \$53 million or 86 per cent to \$114 million (2002: \$61 million), mainly on account of an increase in net profit and Hong Kong Profits Tax rate from 16 per cent to 17.5 per cent announced in the March 2003 Hong Kong Budget (\$34 million), the tax charge on non-deductible expenses including part of the one-off costs mentioned above (\$6 million) and an increase of \$7 million due to prior year taxation (prior year underprovision of \$1 million booked as a charge in 2003 compared with prior year overprovision of \$6 million reversed as a credit in 2002). In addition, there was a one-off increase in deferred tax charge of \$6 million as, under the new SSAP 12: Income Taxes, effective from 1 January 2003, outstanding deferred tax liabilities brought 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.

Liquidity, Financial Resources, Gearing and Capital Commitments

Working capital increased by \$256 million or 6 per cent to \$4,463 million as at 31 December 2003 (2002: \$4,207 million), mainly due to current year profit retained. Bank balances and time deposits of corporate funds increased by \$793 million or 80 per cent to \$1,778 million (2002: \$985 million).

Although the Group has consistently been in a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. As at 31 December 2003, the Group's total available credit facilities amounted to \$2,764 million (2002: \$2,763 million), of which \$1,500 million were repurchase facilities to augment the liquidity of the margin funds and \$1,100 million were for meeting the Group's Continuous Net Settlement money 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 2003, the only facility drawn down was a fixed rate bank loan of SGD11 million (equivalent to HK\$50 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 Exchange Limited (2002: SGD11 million, equivalent to HK\$49 million).

As at 31 December 2003, 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 (2002: less than 1 per cent).

The Group's capital expenditure commitments, largely in respect of its ongoing investments in facilities and technology, amounted to \$91 million as at 31 December 2003 (2002: \$94 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 2003, 98 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

The Group did not have any charges on assets as at 31 December 2003 and 31 December 2002.

Significant Investments Held and Material Acquisitions and Disposals of Subsidiaries

The Group has been holding 1 per cent of the issued ordinary share capital of Singapore Exchange Limited since November 2000 (cost: \$49.1 million; and market value: \$77.2 million), 14.47 per cent of the issued ordinary share capital of BondsInAsia Limited since April 2002 (cost: \$32.3 million; and book value: \$Nil), and 24 per cent of Computershare Hong Kong Investor Services Limited (cost: \$26.5 million; and book value: \$32.6 million) and 30 per cent of ADP Wilco Processing Services Limited since May 2002 (cost: \$1.8 million; and book value: \$1.4 million).

During the year, the Group has written down 100 per cent (\$32.3 million) of the value of its investment in BondsInAsia Limited, and 21 per cent (\$0.4 million) of investment in ADP Wilco Processing Services Limited to the Group's share of the net assets of this associated company due to impairment.

There were no material acquisitions or disposals of investments and subsidiaries during the year.

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 2003, aggregate net open foreign currency positions amounted to HK\$1,663 million, of which HK\$204 million were non-USD exposures (2002: HK\$1,924 million, of which HK\$200 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.

Contingent Liabilities

The Compensation Fund is a fund set up under the repealed 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 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 2003, there were outstanding claims received in respect of 13 defaulted Stock Exchange Participants (2002: 14).

Pursuant to the Securities and Futures Ordinance (SFO), the Stock Exchange issued a notice on 3 April 2003 inviting for claims against the Compensation Fund in relation to any default of a Stock Exchange Participant occurring before 1 April 2003. The claims period expired on 3 October 2003 and no claims had been received in response to that notice. Claims made after the claims period shall, unless the Stock Exchange otherwise determines, be barred. As at 31 December 2003, no such claims had been received.

Under the new compensation arrangements implemented under the SFO, a new Investor Compensation Fund has replaced 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. In accordance with the provisions of the SFO, deposits to the Commodity Exchange Compensation Fund had been returned to the Futures Exchange by the SFC in January 2004. The Futures Exchange had in turn reimbursed holders of Futures Exchange Trading Rights their contributions to the Commodity Exchange Compensation Fund. Existing deposits to the Unified Exchange Compensation Fund would be returned to the Stock Exchange in accordance with the provisions of the SFO. There is no 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 437 trading Participants as at 31 December 2003 (2002: 471) default, the maximum contingent liability of the Stock Exchange under the indemnity will amount to \$87 million (2002: \$94 million).

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 CCASS Participants default on their payment obligations. As at 31 December 2003 and 31 December 2002, 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 2003, SGD11 million (equivalent to HK\$50 million) of the facility was drawn down (2002: SGD11 million, equivalent to HK\$49 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 the Chief Executive and employees of the Group to subscribe for shares in HKEx in accordance with the terms and conditions of the Share Option Scheme 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 (including 88 temporary staff) prior to the merger to 803 (including 38 temporary staff) as at 31 December 2003. Total employees' cost increased by \$33 million or 7 per cent from \$493 million in 2002 to \$526 million in 2003, mainly due to higher severance costs of \$12 million (of which \$9 million were one-off costs incurred following the reorganisation and streamlining of the Group's operations in May 2003), and the payment of performance bonus due to improved performance of the Group.

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 activity on the Stock Exchange and Futures Exchange, and movements in interest rates. The recent increases in trading activities in the cash and derivatives markets suggest that investor confidence has rebounded significantly. The external environment is likely to be influenced by low interest rate levels, Mainland China's rapid economic growth, and movements in the currency markets. In this climate, investment funds will likely continue to be drawn to equities. The inflow of international funds will continue to bring about a favourable environment for the listing of major enterprises, in particular those from the Mainland. These factors suggest a more promising outlook for Hong Kong's financial market.

The Expert Group appointed by the Government to review the operation of the securities and futures market regulatory structure recommended on 21 March 2003 various market reform measures, including the transfer of the listing function on a bottom-line neutral basis from the Group to the SFC. In light of this, the Government issued a consultation paper to seek public views on enhancing listing regulations on 3 October 2003. HKEX submitted its views in January 2004. HKEX supports the proposal to expand the existing dual filing system as they would benefit the market and require minimal changes. HKEX will further improve the listing regulatory structure based on the outcome of the Government's review, and continue to work closely with the Government and the SFC on measures to raise the quality of Hong Kong's financial markets.

HKEX will continue to exercise control over its costs vigilantly, and to develop new financial products and services to meet investor needs. It will seek to further raise the quality and efficiency of its markets to increase their competitiveness. Continued investments in market infrastructure will be made to ensure that it remains robust and reliable. HKEX will also encourage more fund-raising activities on the Stock Exchange and strengthen its position among the world's equity markets.

Mainland related activities have buoyed and exerted a dynamic impact on the size and trading volume of Hong Kong's equities market. The rapid economic development and continued market reform of China could lead to an increasing number of financially important and large-scale state and other enterprises seeking listings in Hong Kong. The Closer Economic Partnership Arrangement (CEPA) between the Mainland and Hong Kong will provide opportunities for HKEX to further develop its Mainland business. The official establishment of HKEX's Beijing Representative Office in November 2003 will enable HKEX to better promote its services to mainland enterprises. We are looking into stationing staff in other Mainland cities including Shanghai and Guangzhou. HKEX will focus its marketing efforts in Mainland China, and expand its business network in the Mainland through promotional and educational activities. HKEX will continue to develop China-related products and enhance listing services to Mainland

issuers in order to attract more major, high quality Mainland enterprises to list in Hong Kong. HKEx will further explore possible business co-operation with the Mainland exchanges.

HKEx will strive to maintain an open, secure, fair, orderly and transparent marketplace contributing to Hong Kong's status as an international financial centre and premier capital market for China.

ELECTION OF DIRECTORS

According to Article 93(1) and (2), at every annual general meeting after the annual general meeting in year 2003, one-third of the Directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third of the Directors shall retire from office. The Public Interest Directors and the Chief Executive are not subject to retirement by rotation. Mr John Estmond Strickland, who was appointed under Article 92 to hold office until the annual general meeting to be held on 31 March 2004 (AGM), is also not subject to retirement by rotation. Article 93(3) further provides that the Directors to retire by rotation on each occasion shall be those who have been longest in office since their last appointment or re-appointment, but as between persons who became or were last re-appointed Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by drawing lots. Article 93(5) provides that a retiring Director is eligible for re-appointment. Mr John Estmond Strickland, being a Director appointed by the Board after the 2003 annual general meeting of HKEx, will hold office only until the AGM in accordance with Article 92. In addition to Mr Strickland, one of the five Elected Directors elected by shareholders of HKEx on 15 April 2003, who are subject to retirement by rotation, shall retire at the AGM. The five Elected Directors are Messrs Kwok Chi Piu, Bill, Lee Jor Hung, Dennis, Lee Kwan Ho, Vincent, David Michael Webb and Wong Sai Hung, Oscar. Pursuant to Article 93(3), lots have been drawn and Mr Wong Sai Hung, Oscar shall retire at the conclusion of the AGM. Both Messrs John Estmond Strickland and Wong Sai Hung, Oscar are eligible for re-appointment. Shareholders are invited to elect up to two Elected Directors at the AGM to fill the vacancies available due to retirement of the two said Directors.

PURCHASE, SALE OR REDEMPTION OF HKEX'S LISTED SECURITIES

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

HKEx has fully complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules throughout the year of 2003.

CHAIRMAN'S STATEMENT

HKEx introduced quarterly reporting during 2003 to promote high standards of corporate governance and provide shareholders with timely information about the Group's performance. The quarterly, interim and final financial reports were reviewed by the Audit Committee before they were presented to the Board. The voluntary publication of our results on a quarterly basis demonstrates our commitment to transparency and good corporate governance.

Since the merger of the exchanges and clearing houses, HKEx has established an integrated corporate structure, strengthened the market infrastructure and streamlined management and operations. One of the most important tasks in 2003 was to formulate a strategic plan for 2004-2006, to guide the path of the Group's future development.

Our mission is to operate a world-class market for capital formation and the trading of securities and derivatives products. We are committed to fulfilling our obligations to ensure a fair and orderly market and to ensure that risks of the markets are managed prudently and to safeguard the interests of the public, in particular the interests of the investing public. Our strategic focus is to further strengthen the status of Hong Kong as an international financial centre as well as China's leading capital market, where Mainland issuers can gain access to international investors through listings on our market.

Development during the period 2004 to 2006 will incorporate three aspects: Consolidation; Building a higher quality market; and Expanding relationship with the Mainland.

Outlook

The external environment is likely to be influenced by low interest rate levels, Mainland China's rapid economic growth, and movements in the currency markets. In this climate, investment funds will likely continue to be drawn to equities. The inflow of international funds will continue to bring about a favourable environment for the listing of major enterprises, in particular those from the Mainland. I am optimistic that these factors augur well for the prospects of our markets.

By Order of the Board
LEE Yeh Kwong, Charles
 Chairman

Hong Kong, 26 February 2004

This results announcement is published on the Stock Exchange's website (<http://www.hkex.com.hk>) and the annual report, which contains all information required by paragraph 45(1) to 45(3) of Appendix 16, will be available from the same website on or before 8 March 2004.

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 Wednesday, 31 March 2004 at 4:30 p.m. for the following purposes:

1. To receive and consider the Audited Accounts for the year ended 31 December 2003 together with the Reports of the Directors and Auditors thereon.
2. To declare a Final Dividend.
3. To declare a Special Dividend.
4. To elect Directors.
5. To re-appoint Auditors and to authorise the Directors to fix their remuneration.
6. 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, subject to and in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time, 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 6(I) and 6(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 6(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 6(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.”
- (V) “**THAT** conditional upon:
- (a) the passing of a resolution at this meeting to approve the payment of a special cash dividend to shareholders;
- (b) the per share amount of such special cash dividend payable to shareholders of HKEx being not less than 2 per cent of the closing price of the shares of HKEx on the Stock Exchange as stated in the Stock Exchange’s daily quotations sheet on the day the announcement of the proposal to pay such special cash dividend is published in Hong Kong newspapers or, if such day is not a trading day, the first trading day thereafter; and
- (c) obtaining the consent of the relevant option holder,
 (i) the subscription price per share (“Pre-Listing Option Subscription Price”) and the contract size for the unexercised portion of each option that has been granted under the pre-listing share option scheme (“Pre-Listing Share Option Scheme”) of HKEx adopted on 31 May 2000 but not fully exercised on the date of the passing of this Resolution and (ii) the subscription price per share (“Post-Listing Option Subscription Price”) and the contract size for the unexercised portion of each option that has been granted under the share option scheme (“Post-Listing Share Option Scheme”) of HKEx adopted on 31 May 2000 and amended on 17 April 2002 but not fully exercised on the date of the passing of this Resolution, be adjusted as follows:

Adjusted Subscription Price

$$ASP = OSP \times \frac{S - OD - CD}{S - OD}$$

Adjusted Contract Size

$$ACS = \frac{OSP \times \text{Old Contract Size}}{ASP}$$

where:

- ACS = the contract size of the option (being the number of shares which are the subject matter of the option (insofar as it is unexercised)) adjusted in accordance with this Resolution
- ASP = (i) in the case of an option granted under the Pre-Listing Share Option Scheme, the Pre-Listing Option Subscription Price of the option adjusted in accordance with this Resolution; and
 (ii) in the case of an option granted under the Post-Listing Share Option Scheme, the Post-Listing Option Subscription Price of the option adjusted in accordance with this Resolution
- OSP = (i) in the case of an option granted under the Pre-Listing Share Option Scheme, the original Pre-Listing Option Subscription Price of the option prior to adjustment in accordance with this Resolution; and
 (ii) in the case of an option granted under the Post-Listing Share Option Scheme, the original Post-Listing Option Subscription Price of the option prior to adjustment in accordance with this Resolution
- CD = the per share amount of the special cash dividend approved by shareholders at the 2004 annual general meeting of HKEx
- OD = the per share amount of any ordinary cash dividend approved by shareholders at the 2004 annual general meeting of HKEx
- S = the closing price of HKEx shares on the Stock Exchange as stated in the Stock Exchange’s daily quotations sheet on the last trading day on which the HKEx shares are traded cum the special cash dividend,

and, for the avoidance of doubt, any refusal to give consent on the part of an option holder shall not affect the adjustment of the Pre-Listing Option Subscription Price, the Post-Listing Option Subscription Price and/or the contract size in accordance with this Resolution in relation to the options held by other option holders who consent to such adjustment.”

Special Resolution

- (VI) “**THAT** subject to the written approval of the Securities and Futures Commission pursuant to section 67 of the Securities and Futures Ordinance:
- (a) Article 2 of the Articles of Association of HKEx be amended by adding the following new definition:
 “associate has the same meaning as in the Rules Governing the Listing of Securities on the Stock Exchange;”
- (b) Article 70(1) of the Articles of Association of HKEx be deleted in its entirety and replaced by the following:
 “(1) Subject to the rules prescribed by any Relevant Exchange from time to time, at every general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless (before or upon the declaration of the result of the show of hands) a poll be demanded by:
 (a) the chairman of the meeting; or
 (b) at least three members present in person or by proxy having the right to vote on the resolution; or
 (c) a member or members present in person or by proxy representing in aggregate not less than one-tenth of the total voting rights of all the members having the right to attend and vote at the meeting; or
 (d) a member or members present in person or by proxy holding shares conferring the right to attend and vote at the meeting on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right;
 and a demand for a poll by a person as proxy for a member shall be as valid as if the demand were made by the member himself.”
- (c) A new Article 79A be added to the Articles of Association of HKEx as follows:
 “79A. Voting restrictions under Listing Rules
 Where any member is, under the Rules Governing the Listing of Securities on the Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.”
- (d) Article 90(2)(b) of the Articles of Association of HKEx be deleted in its entirety and replaced by the following:
 “(b) not earlier than the day after the despatch of the notice of the meeting and not later than 7 days prior to the date appointed for the meeting there has been given to the Secretary, by a member (other than the person to be proposed) entitled to vote at the meeting, notice of his intention to propose a resolution for the appointment or reappointment of that person and a notice executed by that person of his willingness to be appointed or re-appointed, provided however that this provision shall not apply in respect of:
 (i) the first general meeting called to appoint Directors after the date on which these Articles become effective; and
 (ii) any general meeting at which a person is to be appointed a Director to fill any vacancy created by an Inaugural Elected Director prior to the expiration of his term in 2003.”
- (e) Article 94(1) of the Articles of Association of HKEx be deleted in its entirety and replaced by the following:
 “(1) The Company may by ordinary resolution remove any Director (other than a Public Interest Director or the Chief Executive) before his period of office has expired notwithstanding anything in these Articles or in any agreement between him and the Company.”

- (f) Article 95(h) of the Articles of Association of HKEx be deleted in its entirety and replaced by the following:
“(h) in the case of a Director other than a Public Interest Director, if he is removed by ordinary resolution of the Company in accordance with the Statutes.”
- (g) Articles 101(7) to (10) of the Articles of Association of HKEx be deleted in its entirety and replaced by the following:
“(7) A Director shall also not vote (or be counted in the quorum at a meeting) in relation to any resolution relating to any contract or arrangement or other proposal in which he has an interest which (taken together with any interest of any of his associates) is to his knowledge a material interest and, if he purports to do so, his vote shall not be counted, but this prohibition shall not apply and a Director may vote (and be counted in the quorum) in respect of any resolution concerning any one or more of the following matters:
- (a) the giving to him or any of his associates of any guarantee, indemnity or security in respect of money lent or obligations undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
 - (b) the giving to a third party of any guarantee, indemnity or security in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself or any of his associates has assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
 - (c) where the Company or any of its subsidiaries is offering securities in which offer the Director or any of his associates is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which any of them is to participate;
 - (d) any contract in which he or any of his associates is interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his or their interest in shares or debentures or other securities of the Company;
 - (e) any contract concerning any other company (not being a company in which the Director and any of his associates in aggregate own 5 per cent. or more) in which he or any of his associates is interested directly or indirectly as an officer or shareholder;
 - (f) any contract concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director or any of his associates as such any privilege or advantage not accorded to the employees to which the fund or scheme relates;
 - (g) any contract for the benefit of employees of the Company or of any of its subsidiaries under which the Director or any of his associates benefits in a similar manner to the employees and which does not accord to any Director or any of his associates as such any privilege or advantage not accorded to the employees to whom the contract relates; and
 - (h) any contract for the purchase or maintenance for any Director or Directors of insurance against any liability.
- (8) A company shall be deemed to be one in which a Director and any of his associates in aggregate own 5 per cent. or more if and so long as (but only if and so long as) they are (either directly or indirectly) the holder of or beneficially interested in 5 per cent. or more of any class of the equity share capital of that company (or of any third company through which the interest of the Director or that of his associate is derived) or of the voting rights available to members of that company. For the purpose of this paragraph of this Article there shall be disregarded any shares held by the Director or any of his associates as bare or custodian trustee and in which he and his associates have no beneficial interest, any shares comprised in a trust in which the interest of him and his associates is in reversion or remainder if and so long as some other person is entitled to receive the income of the trust and any shares comprised in an authorised unit trust scheme in which he or any of his associates is interested only as a unit holder.
- (9) Where a company in which a Director and any of his associates in aggregate own 5 per cent. or more is materially interested in a contract, he also shall be deemed materially interested in that contract.
- (10) If any question arises at any meeting as to the materiality of an interest of a Director (other than the chairman of the meeting) and any of his associates or as to the entitlement of any Director (other than the chairman of the meeting) to vote and the question is not resolved by his voluntarily agreeing to abstain from voting, the question shall be referred to the chairman of the meeting and his ruling in relation to the Director concerned shall be final and conclusive except in a case where the nature or extent of the interest of the Director or any of his associates concerned, so far as known to him, has not been fairly disclosed. If any question shall arise in respect of the chairman of the meeting or any of his associates and is not resolved by his voluntarily agreeing to abstain from voting, the question shall be decided by a resolution of the Directors (for which purpose the chairman shall be counted in the quorum but shall not vote on the matter) and the resolution shall be final and conclusive except in a case where the nature or extent of the interest of the chairman or any of his associates, so far as known to him, has not been fairly disclosed.”

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

Hong Kong, 26 February 2004

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 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 Friday, 26 March 2004 to Wednesday, 31 March 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final and special dividends, 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 Thursday, 25 March 2004.
- (5) Concerning Resolutions 6(I) and 6(II), the Board wishes to state that there is 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 two elected Director vacancies to be filled at the forthcoming annual general meeting. A circular containing further information concerning the election of Directors and Resolutions 6(I) to 6(VI) will be sent to shareholders together with HKEx's 2003 Annual Report.
- (7) For the sake of good corporate governance practice, the Chairman intends to demand poll voting for all the resolutions set out in the notice of the annual general meeting.

Please also refer to the published version of this announcement in South China Morning Post dated 27 February 2004.