

QUARTERLY REPORT
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2003



Hong Kong Exchanges and Clearing Limited

CONTENTS

| | Page |
|---|------|
| Financial Highlights | 1 |
| Business Review | 2 |
| Condensed Consolidated Profit and Loss Account | 8 |
| Condensed Consolidated Statement of Changes in Equity | 9 |
| Condensed Consolidated Balance Sheet | 10 |
| Notes to the Condensed Consolidated Accounts | 12 |
| Other Information | 21 |

FINANCIAL HIGHLIGHTS

(Financial figures are expressed in Hong Kong dollars)

| | Unaudited Nine months ended 30 Sept | | | Unaudited Three months ended 30 Sept | | |
|--|--|---------------|--------|---|---------------|--------|
| | 2003 | 2002 | Change | 2003 | 2002 | Change |
| KEY MARKET STATISTICS | | | | | | |
| Average daily turnover value on the Stock Exchange | \$8.8 billion | \$7.0 billion | 26% | \$12.0 billion | \$5.9 billion | 103% |
| Average daily number of derivatives contracts traded on the Futures Exchange | 41,316 | 28,972 | 43% | 45,541 | 31,166 | 46% |
| Average daily number of stock options contracts traded on the Stock Exchange | 15,199 | 15,532 | (2%) | 16,313 | 17,226 | (5%) |
| | \$ million | \$ million | | \$ million | \$ million | |
| RESULTS | | | | | | |
| Income | 1,401 | 1,346 | 4% | 494 | 454 | 9% |
| Operating expenses | 934 | 884 | 6% | 273 | 307 | (11%) |
| Operating profit | 467 | 462 | 1% | 221 | 147 | 50% |
| Share of profits less losses of associated companies | 4 | 4 | 13% | 1 | 3 | (59%) |
| Profit before taxation | 471 | 466 | 1% | 222 | 150 | 48% |
| Taxation | (67) | (39) | 71% | (32) | (12) | 169% |
| Profit attributable to shareholders | 404 | 427 | (5%) | 190 | 138 | 37% |
| Shareholders' funds | 5,307 | 5,490 # | (3%) | 5,307 | 5,490 # | (3%) |
| Total assets * | 16,164 | 14,035 Φ | 15% | 16,164 | 14,035 Φ | 15% |
| Earnings per share | \$0.387 | \$0.410 | (6%) | \$0.181 | \$0.133 | 36% |

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

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

Φ Audited as at 31 December 2002

BUSINESS REVIEW

BUSINESS AND MARKET DEVELOPMENTS

Hong Kong Exchanges and Clearing Limited (HKEx) wishes to report below its business activities during the three months ended 30 September 2003 and its financial performance for the first three quarters under review.

Market Activity

Average daily turnover value on The Stock Exchange of Hong Kong Limited (Stock Exchange) during the three months ended 30 September 2003 was \$12.0 billion (2003 first three quarters: \$8.8 billion), compared with \$5.9 billion during the same period in 2002. A total of 15 new equity issues were listed on the Main Board, including one by company formerly listed on the Growth Enterprise Market (GEM), and six were listed on GEM (2003 first three quarters: 31 on Main Board and 18 on GEM). In the third quarter of 2002, there were 12 new equity listings on the Main Board and 16 on GEM. Capital formation through initial public offering (IPO) and post issue fund raising totalled \$17,847.2 million on the Main Board and \$1,959.9 million on GEM (2003 first three quarters: \$152,704.3 million on Main Board and \$2,932.8 million on GEM), compared with a total of \$48,823.5 million on the Main Board and \$4,428.5 million on GEM in the third quarter of 2002.

The average daily number of futures and options contracts traded on Hong Kong Futures Exchange Limited (Futures Exchange) and the Stock Exchange in the third quarter of 2003 was 61,854 contracts (2003 first three quarters: 56,515), up from 48,392 in the third quarter of 2002. Total open interest at the end of September 2003 was 541,247 contracts, compared with 547,339 at the end of September 2002.

The exchanges are wholly-owned subsidiaries of HKEx.

Listing Matters

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 Securities and Futures Commission (SFC). In this connection, the Government published on 3 October 2003 a consultation paper on the regulation of listing matters. HKEx is studying the proposals and plans to prepare a response for submission during the consultation period. HKEx strongly supports further enhancement of statutory obligations for listed companies, their controllers and directors (in particular financial reporting and disclosure requirements) and statutory sanctions for infringements of such requirements. HKEx will continue to work closely with the Government and the SFC on measures to raise the quality of Hong Kong financial markets.

The consultation period for proposals in the joint consultation paper published by HKEx and the SFC on the regulation of sponsors and independent financial advisers ended on 31 July 2003. The 129 submissions are now being analysed. HKEx expects the consultation conclusions to be considered by the Listing Committee before the end of this year and by the SFC thereafter.

Amendments to Chapter 20 of the Stock Exchange's Main Board Listing Rules and its ancillary sections took effect on 1 September 2003. The amendments created a listing and trading platform for all collective investment schemes authorised by the SFC, including unit trusts and mutual funds and Real Estate Investment Trusts. The amendments also clarified the respective regulatory roles of the

SFC and the Stock Exchange in the initial listing of, and the ongoing regulatory monitoring of, collective investment schemes. Further, they streamlined the listing process for authorised collective investment schemes.

Rationalisation of Regulatory Requirements and Associated Fees

Several measures to facilitate the business operations of Stock Exchange and Futures Exchange Participants took effect on 25 August 2003. They were part of a group of measures announced in March 2003. The changes comprised the abolition of five Stock Exchange fees and five Futures Exchange fees along with the standardisation of six fees for Stock Exchange Participants and eight for Futures Exchange Participants.

Senior Management

Patrick Conroy became chief operating officer on 18 August 2003, succeeding Frederick Grede. Mr Grede did not seek renewal of his employment contract, which expired on 31 July 2003. HKEx thanks Mr Grede for his service to the company.

Recent Developments

Securities Market

HKEx published its Consultation Paper on a Proposed Operational Model for a Scripless Securities Market on 24 October 2003. The proposed operational model is mainly based on the scripless market model set out by the SFC in its consultation paper published in February 2002. In developing its proposed model, HKEx considered the characteristics of Hong Kong's securities market and the current market arrangements with a view to preserving market flexibility and investor choices as far as possible, while gaining maximum efficiency and cost-effectiveness. The proposed model also sought to contribute to investor protection, increase shareholder transparency, reduce the risk of misappropriation, uphold market integrity, maintain current system reliability, and ensure the fair allocation of costs through the user-pays principle following its implementation. Comments on the consultation paper can be submitted until the close of business on 23 December 2003.

Hong Kong Securities Clearing Company Limited (HKSCC) petitioned to wind-up Tai Wah Securities Limited, a broker participant, after it defaulted in its settlement obligations to HKSCC in April 2003. The order to wind-up Tai Wah Securities Limited was granted in October 2003 and the Official Receiver was constituted the provisional liquidator of its affairs.

Derivatives Market

The software in the derivatives market trading system, the Hong Kong Futures Automated Trading System (HKATS), was further enhanced on 6 October 2003 to pave the way for the rollout of the Derivatives Clearing and Settlement System (DCASS), which is scheduled to be introduced in the first quarter next year. DCASS will consolidate all futures and options clearing operations on a single platform.

The Futures Exchange announced on 22 October that an H-shares Index Futures contract would be introduced for trading on 8 December 2003. The underlying index is the Hang Seng China Enterprises Index. The contract is designed to meet the growing interest in China-related investment products.

The Futures Exchange and the HKFE Clearing Corporation Limited (HKCC) suspended all rights of Yicko Futures Limited (Yicko) as their respective Participant since 2 October 2003 after it failed to meet its obligations to HKCC. Yicko's default did not affect market operations. It is expected that the Reserve Fund may be applied to cover any financial loss resulting from Yicko's default. Hence, Yicko's failure to meet its obligations to HKCC should have no significant financial impact on the clearing house.

China Development

Under the Mainland and Hong Kong Closer Economic Partnership Arrangement announced at the end of June 2003, HKEx has been permitted to set up a representative office in Beijing. The Beijing office is to be opened on 17 November in conjunction with the ceremony to commemorate the tenth anniversary of the listing of H shares. The opening of the representative office will greatly enhance HKEx's business development work in China and enable the Group to provide guidance and better services to potential issuers on the Mainland. The Group expect the office will help attract more new listings and further strengthen its communications and relationships with the regulators and other authorities on the Mainland.

OVERALL PERFORMANCE

The Group recorded a profit attributable to shareholders of \$404 million for the nine months ended 30 September 2003 (2003 first quarter: \$89 million; 2003 second quarter: \$125 million; 2003 third quarter: \$190 million), compared with \$427 million for the same period in 2002 (2002 first quarter: \$118 million; 2002 second quarter: \$171 million; 2002 third quarter: \$138 million).

The \$23 million or 5 per cent decrease in profit was primarily attributable to one-off costs incurred in 2003 second quarter that are not expected to recur in the near future, which 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, and a one-off increase in deferred tax charge of \$6 million in 2003 following the implementation of a new accounting standard, Hong Kong Statement of Standard Accounting Practice (SSAP) 12: Income Taxes, which became effective on 1 January 2003.

Had the above-mentioned one-off costs (\$52 million less tax deduction of \$1 million) and deferred tax charge (\$6 million) not been incurred, profit attributable to shareholders for the nine months ended 30 September 2003 would have been \$461 million, which would be \$34 million or 8 per cent higher than the corresponding period in 2002.

Income

Total income (including share of profits less losses of associated companies) increased by \$56 million or 4 per cent to \$1,406 million (2002: \$1,350 million). The increase was primarily attributable to the buoyant derivatives market since the beginning of the year and the active cash market in 2003 third quarter, which have led to higher trading fees and trading tariff and clearing and settlement fees but partly offset by lower income from sale of information as demand for information remained subdued.

Hopes of a revival of the Hong Kong economy and an influx of foreign capital led to a boost in investor confidence in the third quarter of 2003. Average daily turnover on the Stock Exchange increased by 26 per cent for the nine months and 103 per cent for the third quarter ended 30 September 2003 compared with the corresponding periods last year. Average daily number of

derivatives contracts traded on the Futures Exchange increased by 43 per cent for the nine months and 46 per cent for the quarter ended 30 September 2003, mainly on account of an increase in the trading of Hang Seng Index (HSI) Futures contracts. Consequently, trading fees and trading tariff rose by \$69 million or 27 per cent to \$323 million for the nine months (2002: \$254 million) and by \$51 million to \$139 million (2002: \$87 million) for the quarter ended 30 September 2003 compared with the same periods in 2002.

Listing fees rose by \$1 million to \$243 million for the nine months ended 30 September 2003 (2002: \$242 million), primarily on account of an increase in annual listing fees due to a higher number of listed securities, but partly offset by lower prospectus vetting and subsequent issue fees. As at 30 September 2003, there were 838 companies listed on the Main Board and 179 on GEM (31 December 2002: 812 and 166 respectively).

In line with the increase in cash market activities, for the nine months ended 30 September 2003, clearing and settlement fees increased by 19 per cent to \$168 million from \$141 million (primarily due to a \$30 million increase in the third quarter of 2003 compared with the corresponding period), and depository, custody and nominee services fees rose by 3 per cent to \$143 million (2002: \$139 million).

Income from sale of information decreased by 17 per cent to \$192 million for the nine months ended 30 September 2003 (2002: \$230 million) due to the consolidation of broking firms and lower demand for stock information.

Total investment income for the nine months ended 30 September 2003 was \$225 million, 14 per cent higher than the \$197 million reported for the same period last year. The increase was predominantly due to dividend and net realised gain of \$46 million (2002: loss of \$13 million) and net unrealised mark-to-market gain of \$8 million (2002: loss of \$5 million) on the investment portfolio but partly offset by lower interest income at \$172 million (2002: \$216 million). Compared with the corresponding period in 2002, total investment income for the third quarter of 2003 declined by \$15 million, mainly due to a decline in net interest income as a result of a fall in interest rate and investment yield.

For the nine months ended 30 September 2003, the average amount of funds available for investment achieved a positive annualised return of 2.99 per cent (2002: 2.82 per cent). The portfolio recorded a spread of 195 basis points above the yield on 6-month Hong Kong Exchange Fund Bill, which was higher than the 106 basis points spread achieved in 2002.

Other income decreased by 25 per cent to \$107 million for the nine months ended 30 September 2003 (2002: \$143 million) mainly due to a \$15 million decrease in share registration services fees following the disposal of the Group's share registration operations, Hong Kong Registrars Limited, in May 2002. In addition, brokerage on direct IPO applications decreased by \$16 million to \$0.5 million as significant IPOs listed in the third quarter of 2002 were not repeated in 2003.

Operating Expenses

Total operating expenses increased by 6 per cent to \$934 million for the nine months (2002: \$884 million) primarily attributable to the \$52 million of one-off costs incurred in 2003 second quarter that are not expected to recur in the near future. Total operating expenditures for 2003 third quarter decreased by 11 per cent to \$274 million (2002: \$307 million).

Premises expenses fell by 15 per cent to \$64 million for the nine months ended 30 September 2003 (2002: \$75 million) as lower rental was negotiated upon the renewal of certain leases.

Legal and professional fees increased by \$12 million to \$24 million for the nine months ended 30 September 2003 (2002: \$12 million), primarily as a result of professional fees incurred for several one-off consulting projects during the first six months and for projects brought forward from last year.

Depreciation and amortisation costs increased by 12 per cent to \$139 million for the nine months ended 30 September 2003 (2002: \$124 million), mostly due to the additional depreciation charge arising from the roll-out of the upgraded Central Clearing and Settlement System in mid-2002.

Payment to the SFC under the dual filing regime started from 1 April 2003 and amounted to \$10 million for the nine months ended 30 September 2003 (2002: \$Nil).

Other operating expenses rose by \$42 million to \$110 million for the nine months ended 30 September 2003 (2002: \$68 million), mainly attributable to one-off items not expected to recur in the near future, which included a 100 per cent (\$32 million) write-down of the Group's investment in BondsInAsia Limited and the retirement of redundant IT systems (\$10 million) following the review of the Group's business strategy and operations in May 2003. Further, due to the decline in property prices this year, the reduction of value of one of the Group's properties has resulted in a charge (\$4 million) to the profit and loss account for the first time. Compared with the corresponding period last year, other operating expenses for the third quarter of 2003 fell by \$8 million mainly due to a decrease in overseas travelling expenses, provision for bad debts and insurance.

The Group's taxation charge rose by \$28 million to \$67 million (2002: \$39 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 of \$5 million, the tax charge on non-deductible expenses including part of the one-off costs mentioned above of \$6 million, and an increase of \$11 million due to prior year taxation mainly on account of the reversal in 2002 of \$9 million of overprovision for profits tax for 2001. 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.

Comparison of 2003 third quarter performance with 2003 second quarter results

The recovery in activity of the cash market in 2003 third quarter has led to significant increases in trading fees and trading tariff (+\$38 million) and clearing and settlement fee (+\$24 million) compared with 2003 second quarter. The higher fee income was partly offset by lower depository, custody and nominee services fees (-\$18 million). Consequently, total income excluding investment income increased by \$53 million. On the other hand, total operating expenses dropped by \$87 million compared with 2003 second quarter (and by \$35 million if excluding the one-off costs in 2003 second quarter). Operating profit before investment income for the third quarter 2003 of \$174 million was \$140 million (and by \$88 million if one-off costs were excluded) higher against that for the second quarter 2003. However, due to the drop in investment income for the third quarter of \$63 million against \$110 million for the second quarter 2003, the profit attributable to shareholders was \$64 million higher than that for the second quarter 2003, and accounted for 47 per cent (2002: 32 per cent) of the year-to-date profit attributable to shareholders.

Bank balances and time deposits of corporate funds increased by \$506 million to \$1,491 million (31 December 2002: \$985 million), mainly due to the maturity and disposals of trading securities and increased investment in time deposits.

During the nine-month period, the Group has written down 100 per cent (\$32 million) of the value of its investment in BondsInAsia Limited.

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

It is the Group's plan to declare dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the third quarter ended 30 September 2003 (third quarter of 2002: \$Nil).

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

PROSPECTS

As a substantial part of HKEx's income is derived from trading fees and trading tariff, 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 market sentiment has largely improved.

HKEx will continue to raise the quality and efficiency of its markets to increase their competitiveness. It will further develop new financial products and services to meet investor needs. Stringent control on cost will continue to be maintained. HKEx will also reinforce its role as the premier international capital formation centre for enterprises from Mainland China and strengthen its position among the world's equity markets.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Financial figures are expressed in Hong Kong dollars)

| | Note | Unaudited Nine months ended 30 Sept | | Unaudited Three months ended 30 Sept | |
|---|-------|--|------------------|---|----------------|
| | | 2003 \$'000 | 2002 \$'000 | 2003 \$'000 | 2002 \$'000 |
| INCOME | 2 | | | | |
| Trading fees and trading tariff | | 323,222 | 254,163 | 138,713 | 87,231 |
| Stock Exchange listing fees | | 242,642 | 242,034 | 82,583 | 77,027 |
| Clearing and settlement fees | | 167,592 | 141,337 | 75,280 | 44,935 |
| Depository, custody and nominee services fees | | 143,156 | 138,700 | 48,563 | 51,484 |
| Income from sale of information | | 192,038 | 230,185 | 65,785 | 71,647 |
| Investment income | 4 | 225,187 | 196,807 | 46,897 | 61,799 |
| Other income | 5 | 107,326 | 142,842 | 36,294 | 59,356 |
| | 3 | <u>1,401,163</u> | <u>1,346,068</u> | <u>494,115</u> | <u>453,479</u> |
| OPERATING EXPENSES | | | | | |
| Staff costs and related expenses | | 390,433 | 391,052 | 123,572 | 128,716 |
| Information technology and computer maintenance expenses | | 192,348 | 204,230 | 54,895 | 72,618 |
| Premises expenses | | 63,570 | 75,057 | 20,737 | 25,176 |
| Product marketing and promotion expenses | | 4,705 | 9,510 | 1,363 | 1,707 |
| Legal and professional fees | | 24,385 | 12,422 | 3,394 | 6,391 |
| Depreciation and amortisation | | 138,863 | 123,704 | 45,838 | 45,322 |
| Payment to SFC under dual filing regime | | 10,000 | - | 5,000 | - |
| Other operating expenses | 6 | 109,963 | 67,804 | 18,777 | 26,695 |
| | | <u>934,267</u> | <u>883,779</u> | <u>273,576</u> | <u>306,625</u> |
| OPERATING PROFIT | 3 | 466,896 | 462,289 | 220,539 | 146,854 |
| SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES | 3 | 4,647 | 4,095 | 1,384 | 3,335 |
| PROFIT BEFORE TAXATION | 3 | 471,543 | 466,384 | 221,923 | 150,189 |
| TAXATION | 3 / 7 | (67,247) | (39,294) | (32,013) | (11,891) |
| PROFIT ATTRIBUTABLE TO SHAREHOLDERS | 3 | 404,296 | 427,090 | 189,910 | 138,298 |
| Earnings per share | 8 | \$0.387 | \$0.410 | \$0.181 | \$0.133 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Financial figures are expressed in Hong Kong dollars)

| | Note | Unaudited Nine months ended 30 Sept 2003 \$'000 | Unaudited Nine months ended 30 Sept 2002 \$'000 |
|--|------|--|---|
| Total equity at 1 Jan, as previously reported | | 5,496,392 | 5,235,407 |
| Effect of adopting SSAP 12 | 1 | <u>(6,028)</u> | <u>(2,853)</u> |
| Total equity at 1 Jan, as restated | | 5,490,364 | 5,232,554 |
| Change in valuation of investment property | | (200) | (1,500) |
| Change in valuation of other properties | | (8,271) | (8,245) |
| Change in fair value of non-trading securities | | 18,330 | 9,068 |
| Deferred tax arising from change in valuation of other properties | 1 | 763 | 1,318 |
| Deferred tax arising from change in fair value of non-trading securities | 1 | <u>868</u> | <u>(1,735)</u> |
| Net surplus/(deficits) not recognised in the condensed consolidated profit and loss account | | 11,490 | (1,094) |
| Profit attributable to shareholders | | 404,296 | 427,090 |
| Realisation of change in fair value of non-trading securities on maturity and disposal | | 2,214 | (2,064) |
| 2002/2001 final dividend | | (448,740) | (260,166) |
| 2003/2002 interim dividend | | (188,452) | (83,450) |
| Dividend on shares issued for employee share options exercised after declaration of 2002/2001 final dividend | | (647) | (448) |
| Dividend on shares issued for employee share options exercised after declaration of 2003/2002 interim dividend | | (231) | (30) |
| Proceeds from issue of shares under employee share option schemes | 10 | <u>36,607</u> | <u>21,402</u> |
| Total equity at 30 Sept | | <u>5,306,901</u> | <u>5,333,794</u> |

CONDENSED CONSOLIDATED BALANCE SHEET
(Financial figures are expressed in Hong Kong dollars)

| | Note | Unaudited at 30 Sept 2003 \$'000 | Audited and restated at 31 Dec 2002 \$'000 |
|--|------|---|---|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 9 | 609,905 | 748,108 |
| Investments in associated companies | | 31,590 | 35,536 |
| Clearing House Funds | | 1,257,527 | 980,748 |
| Compensation Fund Reserve Account | | 36,689 | 35,827 |
| Cash and Derivatives Market Development Fund | | 922 | 914 |
| Non-trading securities maturing over one year | | 81,535 | 87,604 |
| | | <u>2,018,168</u> | <u>1,888,737</u> |
| CURRENT ASSETS | | | |
| Margin funds on derivatives contracts | | 6,120,515 | 4,551,601 |
| Accounts receivable, prepayments and deposits | | 3,390,753 | 3,118,199 |
| Taxation recoverable | | - | 1,774 |
| Trading securities | | 3,143,592 | 3,490,046 |
| Bank balances and time deposits | | 1,491,345 | 985,114 |
| | | <u>14,146,205</u> | <u>12,146,734</u> |
| CURRENT LIABILITIES | | | |
| Bank loans | | 49,280 | 49,456 |
| Margin deposits and securities received from Clearing Participants on derivatives contracts | | 6,120,515 | 4,551,601 |
| Accounts payable, accruals and other liabilities | | 3,609,365 | 3,007,392 |
| Participants' admission fees received | | 4,900 | 3,350 |
| Deferred revenue | | 101,030 | 269,774 |
| Taxation payable | | 83,913 | 29,051 |
| Provisions | | 26,730 | 28,863 |
| | | <u>9,995,733</u> | <u>7,939,487</u> |
| NET CURRENT ASSETS | | <u>4,150,472</u> | <u>4,207,247</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>6,168,640</u> | <u>6,095,984</u> |

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

(Financial figures are expressed in Hong Kong dollars)

| | Note | Unaudited at 30 Sept 2003 \$'000 | Audited and restated at 31 Dec 2002 \$'000 |
|---|------|---|---|
| NON-CURRENT LIABILITIES | | | |
| Participants' admission fees received | | 84,400 | 86,800 |
| Participants' contributions to Clearing House Funds | | 693,421 | 425,440 |
| Deferred tax liabilities | 1 | 62,814 | 73,281 |
| Provisions | | 21,104 | 20,099 |
| | | <u>861,739</u> | <u>605,620</u> |
| NET ASSETS | | <u>5,306,901</u> | <u>5,490,364</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 10 | 1,048,449 | 1,043,581 |
| Share premium | 10 | 50,751 | 19,012 |
| Revaluation reserves | | 43,603 | 29,899 |
| Designated reserves | | 696,563 | 727,811 |
| Retained earnings | 11 | 3,467,535 | 3,221,321 |
| Proposed and declared dividend | 11 | - | 448,740 |
| SHAREHOLDERS' FUNDS | | <u>5,306,901</u> | <u>5,490,364</u> |

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

(Financial figures are expressed in Hong Kong dollars)

1. Basis of Preparation and Accounting Policies

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

The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2002 except that the Group has adopted the new Hong Kong Statement of Standard Accounting Practice (SSAP) 12: Income Taxes, issued by the Hong Kong Society of Accountants (HKSA), which is effective for accounting periods commencing on or after 1 January 2003. The effects of the change to the Group's accounting 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. 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 the nine months to 30 September 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 11 to the accounts, 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).

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

2. Turnover

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

3. Segment Information

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

| | Nine months ended 30 Sept 2003 (unaudited) | | | | |
|--|--|-----------------------|----------------------|----------------|-----------------|
| | \$'000 | | | | |
| | Cash Market | Derivatives Market | Clearing Business | Others | Group |
| Income | 700,732 | 214,373 | 339,297 | 146,761 | 1,401,163 |
| Costs | <u>307,352</u> | <u>103,116</u> | <u>220,729</u> | <u>-</u> | <u>631,197</u> |
| Segment results | <u>393,380</u> | <u>111,257</u> | <u>118,568</u> | <u>146,761</u> | 769,966 |
| Unallocated costs | | | | | <u>303,070</u> |
| Operating profit | | | | | 466,896 |
| Share of profits less losses of associated companies | 10 | - | 4,637 | - | <u>4,647</u> |
| Profit before taxation | | | | | 471,543 |
| Taxation | | | | | <u>(67,247)</u> |
| Profit attributable to shareholders | | | | | <u>404,296</u> |

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

3. Segment Information (continued)

| | Nine months ended 30 Sept 2002 (unaudited) | | | | |
|--|--|-----------------------|----------------------|----------------|-----------------|
| | \$'000 | | | | |
| | Cash Market | Derivatives Market | Clearing Business | Others | Group |
| Income | 724,254 | 178,088 | 324,944 | 118,782 | 1,346,068 |
| Costs | <u>310,209</u> | <u>85,501</u> | <u>188,894</u> | <u>-</u> | <u>584,604</u> |
| Segment results | <u>414,045</u> | <u>92,587</u> | <u>136,050</u> | <u>118,782</u> | 761,464 |
| Unallocated costs | | | | | <u>299,175</u> |
| Operating profit | | | | | 462,289 |
| Share of profits less losses of associated companies | (16) | - | 4,111 | - | <u>4,095</u> |
| Profit before taxation | | | | | 466,384 |
| Taxation | | | | | <u>(39,294)</u> |
| Profit attributable to shareholders | | | | | <u>427,090</u> |

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, listing fees and income from sale of information.

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 comes from the trading fees imposed and the 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 (SECH) and HKFE Clearing Corporation Limited (HKCC), which are responsible for clearing, settlement and custodian activities and the related risk management of the cash and derivatives markets operated by the Group. Its income is derived primarily from interest earned on the Clearing House Funds and the fees charged on providing clearing, settlement, depository and nominee services.

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

3. Segment Information (continued)

Income under the **Others Segment** represents mainly investment 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.

4. Investment Income

| | Unaudited Nine months ended 30 Sept | | Unaudited Three months ended 30 Sept | |
|--|--|----------------|---|----------------|
| | 2003 \$'000 | 2002 \$'000 | 2003 \$'000 | 2002 \$'000 |
| Interest income | 173,518 | 219,854 | 53,234 | 72,569 |
| Interest expenses | (1,836) | (4,227) | (867) | (1,761) |
| Net interest income | 171,682 | 215,627 | 52,367 | 70,808 |
| Non-interest investment income | | | | |
| Dividends and net realised gain/(loss) on trading and non-trading securities | 45,828 | (13,532) | 13,364 | (11,166) |
| Net unrealised gain/(loss) on trading securities | 7,677 | (5,288) | (18,834) | 2,157 |
| Total investment income | 225,187 | 196,807 | 46,897 | 61,799 |

5. Other Income

| | Unaudited Nine months ended 30 Sept | | Unaudited Three months ended 30 Sept | |
|---|--|----------------|---|----------------|
| | 2003 \$'000 | 2002 \$'000 | 2003 \$'000 | 2002 \$'000 |
| Exchange network, terminal user, dataline and software sub-license fees | 73,872 | 72,586 | 25,256 | 27,531 |
| Participants' subscription and application fees | 27,405 | 30,795 | 8,862 | 10,209 |
| Share registration services fees | 862 | 15,886 | 135 | 2,492 |
| Brokerage on direct IPO applications | 535 | 16,620 | 402 | 15,965 |
| Miscellaneous income | 4,652 | 6,955 | 1,639 | 3,159 |
| | 107,326 | 142,842 | 36,294 | 59,356 |

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

6. Other Operating Expenses

| | Unaudited Nine months ended 30 Sept | | Unaudited Three months ended 30 Sept | |
|---|--|----------------|---|----------------|
| | 2003 \$'000 | 2002 \$'000 | 2003 \$'000 | 2002 \$'000 |
| Write-down of strategic investments (note a) | 32,667 | - | - | - |
| Retirement of redundant IT systems | 9,943 | (1) | 97 | (3) |
| Impairment of other property – revaluation deficit | 4,411 | - | - | - |
| Provision for/(reversal of provision for) doubtful debts | 3,058 | 1,168 | (516) | 1,305 |
| Insurance | 9,002 | 9,616 | 3,018 | 5,091 |
| Financial data subscription fees | 6,636 | 6,869 | 2,132 | 2,550 |
| Custodian and fund management fees | 6,330 | 6,476 | 2,092 | 2,154 |
| Bank charges | 4,838 | 3,053 | 1,740 | 817 |
| Repair and maintenance | 4,883 | 4,200 | 1,633 | 1,695 |
| Other miscellaneous expenses | 28,195 | 36,423 | 8,581 | 13,086 |
| | <u>109,963</u> | <u>67,804</u> | <u>18,777</u> | <u>26,695</u> |

- (a) 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.

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

7. Taxation

Taxation in the condensed consolidated profit and loss account represents:

| | Unaudited Nine months ended 30 Sept | | Unaudited Three months ended 30 Sept | |
|--|--|----------------|---|----------------|
| | 2003 \$'000 | 2002 \$'000 | 2003 \$'000 | 2002 \$'000 |
| Provision for Hong Kong Profits Tax (note a) | 73,834 | 51,167 | 36,482 | 18,235 |
| Under/(over)provision in respect of prior years | <u>1,170</u> | <u>(9,223)</u> | <u>1,170</u> | <u>(3,994)</u> |
| | 75,004 | 41,944 | 37,652 | 14,241 |
| Deferred taxation (note b) | <u>(8,836)</u> | <u>(3,523)</u> | <u>(5,965)</u> | <u>(3,064)</u> |
| | 66,168 | 38,421 | 31,687 | 11,177 |
| Share of taxation of associated companies | <u>1,079</u> | <u>873</u> | <u>326</u> | <u>714</u> |
| | <u>67,247</u> | <u>39,294</u> | <u>32,013</u> | <u>11,891</u> |

- (a) Hong Kong Profits Tax has been provided for at 17.5 per cent (2002: 16 per cent) on the estimated assessable profit for the period.
- (b) As explained in note 1, under the new SSAP 12, deferred tax assets and liabilities in 2002 are computed using a tax rate of 16 per cent and deferred tax assets and liabilities in 2003 using the higher tax rate of 17.5 per cent announced in the March 2003 Hong Kong Budget. Deferred taxation for 2003 includes a one-off deferred tax charge of \$6,040,000, which arose from recomputing outstanding deferred tax liabilities brought forward from 2002 using the higher tax rate of 17.5 per cent.

8. Earnings Per Share

The calculation of basic earnings per share for the nine months ended 30 September 2003 is based on the profit attributable to shareholders of \$404,296,000 (2002: \$427,090,000) and the weighted average of 1,045,703,000 shares (2002: 1,042,379,000) in issue during the period.

The calculation of basic earnings per share for the three months ended 30 September 2003 is based on the profit attributable to shareholders of \$189,910,000 (2002: \$138,298,000) and the weighted average of 1,047,821,000 shares (2002: 1,043,370,000) in issue during the period.

The employee share options outstanding did not have a material dilutive effect on the basic earnings per share for the nine-month and three-month periods ended 30 September 2003.

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

9. Fixed Assets

The Group is heavily reliant on the capability and reliability of its computer systems for its business operations, including those required for its electronic trading platforms and for post-trading clearing and settlement services. The total cost of additions to fixed assets of the Group during the nine months to 30 September 2003 was \$23,688,000 (2002: \$113,424,000) of which \$20,968,000 (2002: \$106,863,000) or 89 per cent (2002: 94 per cent) was on computer systems, hardware and software. The total cost and net book value of disposals and write-offs of fixed assets during the nine months to 30 September 2003 were \$173,354,000 and \$10,147,000 respectively (2002: \$51,810,000 and \$188,000 respectively).

10. Share Capital and Share Premium

| | | Unaudited at 30 Sept 2003 \$'000 | Audited at 31 Dec 2002 \$'000 | |
|---|--------------------------------------|---|-------------------------------------|-------------------------|
| Authorised: | | | | |
| 2,000,000,000 shares of \$1 each | | <u>2,000,000</u> | <u>2,000,000</u> | |
| Issued and fully paid: | | | | |
| | No. of shares of \$1 each | Share capital \$'000 | Share premium \$'000 | Total \$'000 |
| At 1 Jan 2002 | 1,040,664,846 | 1,040,665 | - | 1,040,665 |
| Shares issued under employee share option schemes | <u>2,916,000</u> | <u>2,916</u> | <u>19,012</u> | <u>21,928</u> |
| At 31 Dec 2002 | 1,043,580,846 | 1,043,581 | 19,012 | 1,062,593 |
| Shares issued under employee share option schemes | <u>4,868,000</u> | <u>4,868</u> | <u>31,739</u> | <u>36,607</u> |
| At 30 Sept 2003 | <u>1,048,448,846</u> | <u>1,048,449</u> | <u>50,751</u> | <u>1,099,200</u> |

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

11. Retained Earnings

| | Note | Unaudited at 30 Sept 2003 \$'000 | Audited and restated at 31 Dec 2002 \$'000 |
|--|------|---|---|
| At 1 Jan | | | |
| Retained earnings, as previously reported | | 3,223,268 | 3,198,763 |
| Effect of adopting SSAP 12 | 1 | <u>(1,947)</u> | <u>2,516</u> |
| Retained earnings, as restated | | 3,221,321 | 3,201,279 |
| Proposed and declared dividend | | 448,740 | 260,166 |
| Profit for the nine-month period/year | | 404,296 | 588,505 |
| Investment income net of expenses of Clearing House Funds for the nine-month period/year transferred to Clearing House Funds reserves | | (7,538) | (35,114) |
| Investment income net of expenses of Compensation Fund Reserve Account for the nine-month period/year transferred to Compensation Fund Reserve Account reserve | | (578) | (681) |
| Transfer from Development reserve | | 39,364 | - |
| Dividends paid: | | | |
| 2002/2001 final dividend | | (448,740) | (260,166) |
| 2003/2002 interim dividend | | (188,452) | (83,450) |
| Dividend on shares issued for employee share options exercised after declaration of 2002/2001 final dividend | | (647) | (448) |
| Dividend on shares issued for employee share options exercised after declaration of 2003/2002 interim dividend | | <u>(231)</u> | <u>(30)</u> |
| At 30 Sept/31 Dec | | <u><u>3,467,535</u></u> | <u><u>3,670,061</u></u> |
| Representing: | | | |
| Retained earnings | | 3,467,535 | 3,221,321 |
| Proposed and declared dividend | | <u>-</u> | <u>448,740</u> |
| At 30 Sept/31 Dec | | <u><u>3,467,535</u></u> | <u><u>3,670,061</u></u> |

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

12. Material Related Party Transactions

Certain Directors of HKEx are directors and/or shareholders of (i) Stock Exchange Participants and Futures Exchange Participants (Exchange Participants) and Clearing Participants; (ii) companies listed on the Stock Exchange; and (iii) Exchange Participants for buying shares on behalf of HKSCC. Securities and derivatives contracts traded by, and fees levied on, these Exchange Participants and Clearing Participants, fees levied on these listed companies and fees paid to these Exchange Participants for buying shares on behalf of HKSCC are all undertaken in the ordinary course of business of the Group on the standard terms and conditions applicable to all other Exchange Participants and Clearing Participants, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

In addition to the transactions mentioned above, \$862,285 (2002: \$2,521,807) of consultancy fee was paid during the nine-month period to Goldman Sachs (Asia) LLC where Mr Tim Freshwater, an independent non-executive director of HKEx is a director. The transaction was carried out in the ordinary course of business on normal commercial terms.

During the period, one of the subsidiaries, the Futures Exchange, has entered into a lease agreement with Shine Hill Development Limited, a subsidiary of Great Eagle Holdings Limited whose group managing director, Dr K S Lo is an independent non-executive director of HKEx, to lease office space for a period of two years commencing 1 January 2003. The rental payment for the nine-month period amounted to \$2,699,743 (2002: \$5,738,178) and the lease was entered into on normal commercial terms. In addition, \$499,513 (2002: \$669,954) was paid during the nine-month period for air conditioning services and \$41,525 (2002: \$53,144) for premises cleaning services to Selex Properties Management Co. Ltd and Sun Fook Kong Housing Services Ltd respectively of which Dr K S Lo was a director.

In May 2002, two loans amounted to \$12,500,000 were made to an associated company, Computershare Hong Kong Investor Services Limited (CHIS). \$5,000,000 was unsecured, interest free and was fully repaid before 30 September 2002. The remaining \$7,500,000 was unsecured with interest payable semi-annually at prime rate per annum and was fully repaid in March 2003. Total interest received in 2003 was \$20,652 (2002: \$119,315). In addition, share registration service fees amounted to \$463,687 (2002: \$73,169) were paid to CHIS during the nine-month period.

During the nine months ended 30 September 2003, bank charges of \$2,256,318, \$346,561 and \$268,843 were paid to The Hongkong Banking Corporation Limited, Bank of China, and Hang Seng Bank Limited where Dr K S Lo, Dr Liu Jinbao (resigned from HKEx Board on 28 May 2003) and Mr John C C Chan (retired from HKEx Board on 15 April 2003) were directors of the aforesaid banks respectively. Dr K S Lo and Mr John C C Chan are non-executive directors of The Hongkong Banking Corporation Limited and Hang Seng Bank Limited respectively.

Save as aforesaid, HKEx had entered into other transactions with companies where there are common directors but the amount was immaterial.

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

Outstanding Share Options

Details of the share options outstanding as at 30 September 2003 under the Pre-Listing Share Option Scheme (Pre-Listing Scheme) and the Post-Listing Share Option Scheme (Post-Listing Scheme) were as follows:

(a) Pre-Listing Scheme

| | Date of grant | Exercise price | No. of shares | | | | Exercise period |
|--|---------------|----------------|-------------------------------|---|---|----------------------------------|-------------------------------------|
| | | | issuable as at 1 January 2003 | issued during the nine months ended 30 September 2003 | lapsed during the nine months ended 30 September 2003 | issuable as at 30 September 2003 | |
| Aggregate total for employees (note 1) | 20 June 2000 | \$7.52 | 23,253,020 | 4,868,000 (note 2) | 3,553,874 (note 3) | 14,831,146 | 6 March 2002 – 30 May 2010 (note 4) |

(b) Post-Listing Scheme

| Date of grant | Exercise price | No. of shares issuable under the option granted | Option value | No. of shares issuable under the option granted as at 30 September 2003 | Exercise period |
|---------------------------|------------------|---|-----------------------|---|---|
| Director (note 5) | | | | | |
| 2 May 2003 | \$9.05 (note 6) | 3,000,000 | \$8,010,000 (note 9a) | - | 2 May 2005 – 1 May 2013 (note 10) |
| Employees (note 1) | | | | | |
| 14 August 2003 | \$13.60 (note 7) | 1,000,000 | 4,560,000 (note 9b) | - | 14 August 2005 – 13 August 2013 (note 11) |
| 18 August 2003 | \$13.65 (note 8) | 1,800,000 | 8,226,000 (note 9c) | - | 18 August 2005 – 17 August 2013 (note 12) |

Notes:

1. Employees working under employment contracts that were regarded as “continuous contracts” for the purpose of the Employment Ordinance of Hong Kong.
2. The weighted average closing price immediately before the dates on which the options were exercised was \$10.96.
3. Options lapsed in accordance with the terms of the Pre-Listing Scheme due to resignation of employees.
4. Options granted are exercisable between 6 March 2002 and 30 May 2010, in tranches of 25 per cent each reaching 100 per cent as from 6 March 2005.
5. The option was granted to Mr. Chow Man Yiu, Paul, a Director and the Chief Executive of HKEx.
6. The closing price immediately before the date on which the option was granted was \$9.10.
7. The closing price immediately before the date on which the option was granted was \$13.95.
8. The closing price immediately before the date on which the option was granted was \$13.35.
9. According to the Binomial Option Pricing Model, the value of the options granted during the period under review were as follows:

(a) 2 May 2003

The value of the option was estimated at \$8,010,000 with the following variables and assumptions:

- | | |
|---------------------------------|---|
| – Risk Free Rate | 4.3%, being the yield of 10-year Exchange Fund Note as at 30 April 2003. |
| – Expected Volatility | 36%, being the annualised volatility of the closing price of the shares in HKEx from 3 May 2002 to 2 May 2003. |
| – Expiration date of the option | 10 years from 2 May 2003. |
| – Expected Dividend | 5.6%, being the 2003 prospective dividend yield of the shares as at 2 May 2003. |
| – Assumption | No material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in HKEx over the period from 3 May 2002 to 2 May 2003 is assumed. |

(b) 14 August 2003

The value of the option was estimated at \$4,560,000 with the following variables and assumptions:

- | | |
|---------------------------------|---|
| – Risk Free Rate | 4.84%, being the yield of 10-year Exchange Fund Note as at 14 August 2003. |
| – Expected Volatility | 36%, being the annualised volatility of the closing price of the shares in HKEx from 15 August 2002 to 14 August 2003. |
| – Expiration date of the option | 10 years from 14 August 2003. |
| – Expected Dividend | 4.49%, being the 2003 prospective dividend yield of the shares as at 14 August 2003. |
| – Assumption | No material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in HKEx over the period from 15 August 2002 to 14 August 2003 is assumed. |

(c) 18 August 2003

The value of the option was estimated at \$8,226,000 with the following variables and assumptions:

- Risk Free Rate 4.76%, being the yield of 10-year Exchange Fund Note as at 18 August 2003.
- Expected Volatility 36%, being the annualised volatility of the closing price of the shares in HKEx from 19 August 2002 to 18 August 2003.
- Expiration date of the option 10 years from 18 August 2003.
- Expected Dividend 4.47%, being the 2003 prospective dividend yield of the shares as at 18 August 2003.
- Assumption No material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in HKEx over the period from 19 August 2002 to 18 August 2003 is assumed.

The Binomial Option Pricing Model is developed to estimate the fair value of American style options. It is one of the commonly used models to estimate the fair value of an option which can be exercised before the expiry of the option period. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

No option granted during the period under review has lapsed.

10. Option granted is exercisable between 2 May 2005 to 1 May 2013, in tranches of 25 per cent each reaching 100 per cent as from 2 May 2008.
11. Option granted is exercisable between 14 August 2005 to 13 August 2013, in tranches of 25 per cent each reaching 100 per cent as from 14 August 2008.
12. Option granted is exercisable between 18 August 2005 to 17 August 2013, in tranches of 25 per cent each reaching 100 per cent as from 18 August 2008.

Directors' and Chief Executive's Interests and Short Positions

As at 30 September 2003, the Directors, the Chief Executive and their respective associates had interests in the shares and underlying shares of HKEx as recorded in the register maintained by HKEx pursuant to Section 352 of the Securities and Futures Ordinance (SFO) as follows:

(i) Shares

| Name of Director | Number of shares held | | | Total |
|-------------------------|-----------------------|------------------|-----------------------|-----------|
| | Personal Interests | Family Interests | Corporate Interests | |
| Lee Jor Hung, Dannis | - | - | 1,610,000 (note 1) | 1,610,000 |
| David Michael Webb | 2 (note 2) | 2 (note 3) | 6 (note 4) | 10 |
| John Estmond Strickland | 18,000 (note 5) | - | - | 18,000 |

Notes:

1. 1,610,000 shares were owned by DL Brokerage Limited, a private company beneficially wholly owned by Mr Lee Jor Hung, Dannis, representing approximately 0.15 per cent of the issued share capital of HKEx.
2. The shares held by Mr David Michael Webb as beneficial owner represent approximately 0.00 per cent of the issued share capital of HKEx.
3. The shares were owned by the spouse of Mr David Michael Webb, representing approximately 0.00 per cent of the issued share capital of HKEx.
4. The shares were owned by Fundamental Consultants Limited, Member One Limited and Member Two Limited which are under the control of Mr David Michael Webb, representing approximately 0.00 per cent of the issued share capital of HKEx.
5. The shares held by Mr John Estmond Strickland as beneficial owner represent approximately 0.00 per cent of the issued share capital of HKEx.

(ii) Underlying Shares

As at 30 September 2003, the outstanding number of shares issuable under a share option granted pursuant to the Post-Listing Scheme to Mr Chow Man Yiu, Paul, a Director and the Chief Executive of HKEx, was 3,000,000 (2002: Nil), which represents approximately 0.29 per cent of the issued share capital of HKEx. The said option was granted on 2 May 2003, and is exercisable between 2 May 2005 and 1 May 2013 at an exercise price of \$9.05 per share.

Other than the holdings disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or Chief Executive of HKEx or their respective associates in the shares, underlying shares and debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to HKEx and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the Directors and the Chief Executive (including their spouses and children under the age of 18) had, as at 30

September 2003, any interest in, or had been granted any right to subscribe for the securities and options of HKEx and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Disclosable Interests and Short Positions of Shareholders under the SFO

As at 30 September 2003, the Directors are not aware of any party who was directly or indirectly interested in 5 per cent or more of the issued share capital of HKEx, as recorded in the register required to be kept by HKEx under Section 336 of the SFO.

Minority Controllers

Under the SFO, no person shall be or become a Minority Controller, i.e. a person who either alone or with any associate or associates, is entitled to exercise, or control the exercise of 5 per cent or more of the voting power at any general meeting of the recognized exchange controller, except with the approval in writing of the Securities and Futures Commission (SFC) after consultation with the Financial Secretary of the HKSAR.

The SFC has so far granted approval to five entities to be Minority Controllers of HKEx, on the basis that the shares are held by them in custody for their clients.

As at 30 September 2003, the Minority Controllers were in aggregate holding 58.5 per cent of the issued share capital of HKEx (30 September 2002 : 42.5 per cent).

Corporate Governance

The Audit Committee has reviewed the unaudited condensed consolidated accounts for the nine months ended 30 September 2003.

Management has appointed the external auditors to carry out certain agreed upon procedures in accordance with Statement of Auditing Standards 710 “Engagements to perform agreed upon procedures regarding financial information” issued by the Hong Kong Society of Accountants on the unaudited condensed consolidated accounts for the nine months ended 30 September 2003.

Purchase, Sale or Redemption of HKEx's Listed Securities

During the nine months ended 30 September 2003, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold any of HKEx's listed securities.

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

Hong Kong, 12 November 2003