



12 November 2003

Hong Kong Exchanges and Clearing Limited
香港交易及結算有限公司
(incorporated in Hong Kong with limited liability)

2003 Third Quarter Results

The Directors of Hong Kong Exchanges and Clearing Limited (HKEx) submit the unaudited consolidated results of HKEx and its subsidiaries (the Group) for the nine months ended 30 September 2003 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Financial figures are expressed in Hong Kong dollars)

		Unaudited Nine months ended 30 Sept		Unaudited Three months ended 30 Sept	
	Note	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	3	225,187	196,807	46,897	61,799
Other income	4	107,326	142,842	36,294	59,356
	2	<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	5	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	2	466,896	462,289	220,539	146,854
SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES	2	4,647	4,095	1,384	3,335
PROFIT BEFORE TAXATION	2	471,543	466,384	221,923	150,189
TAXATION	2 / 6	(67,247)	(39,294)	(32,013)	(11,891)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	2	404,296	427,090	189,910	138,298
Earnings per share	7	\$0.387	\$0.410	\$0.181	\$0.133

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		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
		2,018,168	1,888,737
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
		14,146,205	12,146,734
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
		9,995,733	7,939,487
NET CURRENT ASSETS		4,150,472	4,207,247
TOTAL ASSETS LESS CURRENT LIABILITIES		6,168,640	6,095,984
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
		861,739	605,620
NET ASSETS		5,306,901	5,490,364
CAPITAL AND RESERVES			
Share capital		1,048,449	1,043,581
Share premium		50,751	19,012
Revaluation reserves		43,603	29,899
Designated reserves		696,563	727,811
Retained earnings	8	3,467,535	3,221,321
Proposed and declared dividend	8	-	448,740
SHAREHOLDERS' FUNDS		5,306,901	5,490,364

Notes:

1. 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 8 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).

2. 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 condensed consolidated profit and loss account.

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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>

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>

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The **Cash Market** business refers to the operations of the Stock Exchange, which covers all products traded on the cash market platforms, such as equities, debt securities, unit trusts, warrants and rights. Currently, the Group operates two cash market platforms, the Main Board and the Growth Enterprise Market (GEM). The major sources of income of the business are trading fees, trading tariff, 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 (SEOCH) and HKFE Clearing Corporation Limited (HKCC), which are responsible for clearing, settlement and custodian activities and the related risk management of the cash and derivatives markets operated by the Group. Its income is derived primarily from interest earned on the Clearing House Funds and the fees charged on providing clearing, settlement, depository and nominee services.

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.

3. 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

4. Other income

	Unaudited Nine months ended 30 Sept		Unaudited Three months ended 30 Sept	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'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
	<u>107,326</u>	<u>142,842</u>	<u>36,294</u>	<u>59,356</u>

5. Other operating expenses

	Unaudited Nine months ended 30 Sept		Unaudited Three months ended 30 Sept	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'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.

6. 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.

7. 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.

8. 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	(1,947)	2,516
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		(231)	(30)
At 30 Sept/31 Dec		3,467,535	3,670,061
Representing:			
Retained earnings		3,467,535	3,221,321
Proposed and declared dividend		-	448,740
At 30 Sept/31 Dec		3,467,535	3,670,061

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

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, 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 initial public offering (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 Securities and Futures Commission 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.

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

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