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(Amounts expressed in Hong Kong dollars)

The Group's profit after taxation for the interim period increased by 160% to $554 million (1999: $213 million). The increase was brought about by a 50% increase in total revenue to $1,227 million (1999: $820 million) while operating expenses decreased by 1% to $600 million (1999: $606 million). The annualised return on shareholders' funds for the period was 23.76%.

Turnover

Turnover value in the cash market on the Stock Exchange increased by 134% during January to June 2000 over the corresponding period in 1999 while the number of derivatives contracts traded on the Futures Exchange recorded a decrease of 36%.

Revenue generated from the increase in market turnover on the Stock Exchange was partially offset by the decrease in turnover on the Futures Exchange, thus resulting in an overall 74% increase in transaction levy, trading tariff and trading fees to $326 million (1999: $188 million). Transaction levy income of the Stock Exchange for the interim period has not been significantly affected by the reduction of the Stock Exchange's entitlement to the transaction levy from 0.007% to 0.005% which took effect from 12 June 2000.

Listing fee income increased by 30% to $126 million (1999: $97 million) as the number of new listings increased significantly amid flourishing capital formation activities. As at 30 June 2000, there were 717 and 29 companies listed on the Main Board and the newly established Growth Enterprise Market respectively (1999: 688 and Nil).

Clearing and settlement fee income increased by 117% to $176 million (1999: $81 million). Depository, custody and nominee service fee income also rose by 117% to $119 million (1999: $55 million). The increases were mainly attributable to the upsurge in market turnover on the stock market.

Income on providing information increased by 53% to $171 million (1999: $112 million) as the number of stock information subscribers increased in light of the robust stock market.

The Group's net interest income fell by 1% to $229 million (1999: $231 million). The impact brought by a decrease in interest income from margin funds had been partially offset by an increase in interest income from corporate fund. The daily average of margin fund received by the Futures Exchange decreased by 16% to $5.31 billion (1999: $6.29 billion). However, the Group's corporate fund increased by 27% from $2.69 billion to $3.42 billion, compared with 30 June 1999.

Other income recorded a growth of 39% to $80 million (1999: $58 million) primarily as a result of the increase in share registration service fees and unclaimed brokerage attributable to the increased number of initial public offerings.

Operating Expenses

The Group's operating expenses for the six-month interim period from January to June 2000 decreased by 1% to $600 million (1999: $606 million).

Staff costs and related expenses fell by 2% to $262 million (1999: $267 million), accounting for 44% (1999: 44%) of the Group's total operating expenses for the interim period. In line with the prevailing local economic conditions, the Group froze salaries in the 18 months to 30 June 2000 and reduced the headcount of permanent staff.

The Group's information technology and computer maintenance expenses decreased by 6% to $97 million (1999: $102 million). Certain items of expenses totalling approximately $10 million incurred in 1999 were non-recurring, namely, Y2K expenses and consultant fees and additional network rental on testing and migration of HKATS. On the other hand, the Group started its project on CCASS Architecture Review in year 2000 and a consultant fee of $8 million was incurred during the period.

Premises expenses for the interim period decreased by 15% to $48 million (1999: $56 million) due mainly to lower rentals. The Group established its head office at International Finance Centre in early year 2000.

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The Group's depreciation and amortisation charge increased by 35% to $100 million (1999: $74 million). The increase was mainly attributable to the Group's harmonisation of depreciation policy on computer trading system hardware which came into effect on 1 January 2000.

The Group's taxation expense for the interim period increased to $73 million (1999: $1 million) as a result of the higher profit recorded. Taxation expense in 1999 was reduced by a tax rebate of 10% on the Group's 1997/98 profit. The Group's effective rate of taxation was lower than the statutory profits tax rate of 16% as bank interest income earned by the Group has been exempted from profits tax.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2000, the Group had net current assets of $3.1 billion (1999: $2.6 billion).

The Group's commitments on capital expenditure at 30 June 2000 was $155 million, representing a decrease of 36% from $242 million at 31 December 1999. The capital expenditure was mainly for development and purchase of computer systems. The Group has adequate financial resources to fund its commitments on capital expenditure from its existing cash resources and cash flows generated from its operations.

Prospects for the Current Year

The Group's profit after taxation for the first six months of the current financial year recorded an increase of 160% compared to the same period in 1999. The increase was mainly brought about by the robust stock market.

As a substantial part of the Group's income is from transaction levy, clearing and settlement fee and interest income on margin funds, the results for the next six months of the current financial year will be highly dependent on the level of activity on the Stock Exchange as measured by dollar value and on the Futures Exchange as measured in terms of the number of open contracts and the volatility of the derivatives market.

During the first half of year 2000, the Group continued its efforts to develop a new trading system for the cash market, AMS/3, which will support multiple market models and provide an open interface for wider market access and more flexible trading strategies. The new system is expected to be introduced before the end of this year.

The process of integrating the businesses of the Group's subsidiaries will continue in the second half of the current financial year which will result in a headcount reduction of around 150. The projected integration expenses for the year will be approximately $70 million and the projected annual savings will be about $85 million.