



Hong Kong Exchanges and Clearing Limited
香港交易及結算所有限公司

Interim Report 2005



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QUALITY MARKET:

Everything has a price but, according to a Chinese saying, jade is priceless. Even though prices are determined every day on our markets, at HKEx we believe there is something as priceless as jade – effectively building a quality market. It defines what we do. Fairness and integrity are integral to Hong Kong’s success as a premier capital market for China and pre-eminent international financial centre. That success, we believe, is priceless.



Financial Highlights

(Financial figures are expressed in Hong Kong Dollar)

	Six months ended 30 Jun 2005	Six months ended 30 Jun 2004	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	\$16.9 billion	\$16.8 billion	1%
Average daily number of derivatives contracts traded on the Futures Exchange	62,681	57,651	9%
Average daily number of stock options contracts traded on the Stock Exchange	25,206	23,391	8%
	Unaudited \$'000	As restated Unaudited \$'000	
RESULTS			
Income	1,238,465	1,163,768	6%
Operating expenses	570,518	571,295	(0%)
Operating profit	667,947	592,473	13%
Share of profits less losses of associates	8,635	6,144	41%
Profit before taxation	676,582	598,617	13%
Taxation	(105,786)	(101,192)	5%
Profit attributable to shareholders	570,796	497,425	15%
Earnings per share	\$0.54	\$0.47	15%
Interim dividend declared per share	\$0.49	\$0.43	14%
Dividend payout ratio	91%	91%	N/A
Shareholders' funds	4,102,791	4,052,143 ^o	1%
Total assets*	21,237,865	21,443,404 ^o	(1%)
Net assets per share [#]	\$3.87	\$3.83 ^o	1%

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

^o Audited as at 31 December 2004

[#] Based on 1,061,200,846 shares issued and fully paid as at 30 June 2005 (31 December 2004: 1,056,638,846 shares)

Chronology of Events

(Financial figures are expressed in Hong Kong Dollar)

11 January

Hong Kong Exchanges and Clearing Limited (“HKEx”) and PCCW announced plans for next generation network for securities and derivatives markets.

28 January

Chief Executive Paul Chow attended investment conference in Hong Kong to promote HKEx and Hong Kong’s financial markets to Japanese investors and potential issuers.



7 February

HKEx published feedback statement on its Consultation on Continuing Listing Criteria and Related Issues.

18 February

HKEx published Consultation Paper on New Structure for Listing Decision-making.

1 March

HKFE Clearing Corporation Limited (“HKCC”) and The SEHK Options Clearing House Limited (“SEOCH”) abolished their standard instruction input/processing fees.

24 March

HKEx submitted views on proposals for statutory backing to major listing requirements.

2 April

HKEx hosted conference with direct contact with individual investors at Hong Kong Convention and Exhibition Centre.



19 May

Responses to Consultation Paper on New Structure for Listing Decision-making posted on the HKEx website.

23 May

FTSE/Xinhua China 25 Index Futures and Options began trading.



1 June

Interest retention at the rate of 1.2 per cent per annum for HKCC and that of 2 per cent per annum for SEOCH on margin deposits abolished and accommodation charges on utilised non-cash collateral levied by the two clearing houses reduced.

1-3 June

World Federation of Exchanges' Beijing Forum for Developing Markets co-hosted by Shanghai Stock Exchange, Shenzhen Stock Exchange and HKEx.



30 June

The Stock Exchange of Hong Kong Limited ("Stock Exchange") set new record for funds raised through initial public offerings in one month, with the total for June exceeding \$53.3 billion.

4 July

Minimum trading spreads for shares trading above \$30 reduced.

23 June

Initial deposit requirement for Investor Participant ("IP") accounts in the Central Clearing and Settlement System, or CCASS, abolished and fee waiver for Short Message Service offered to IPs extended to 30 June 2006.

4-5 July

Chief Executive Paul Chow attended investment conferences in Tokyo and Osaka to promote HKEx and its markets to Japanese investors and potential issuers.



24 June

HKEx participated in Hebei conference on listing in Hong Kong.



13 July

Total market capitalisation of the Main Board and the Growth Enterprise Market exceeded \$7,000 billion for the first time.

18 July

Renovation of Stock Exchange Trading Hall commenced.



Photo courtesy of Ta Kung Pao

Corporate Information

BOARD OF DIRECTORS

Independent Non-executive Chairman

LEE Yeh Kwong, Charles* GBS, JP

Independent Non-executive Directors

CHEUNG Kin Tung, Marvin* SBS, OBE, JP
(appointment effective 12 April 2005)

FAN Hung Ling, Henry* SBS, JP
(re-appointment effective 12 April 2005)

FONG Hup*
(re-appointment effective 12 April 2005)

FRESHWATER, Timothy George*

KWOK Chi Piu, Bill
(re-elected on 12 April 2005)

LEE Jor Hung, Dannis BBS

Executive Director, Chief Executive

CHOW Man Yiu, Paul SBS, JP

LEE Kwan Ho, Vincent Marshall
(re-elected on 12 April 2005)

LEONG Ka Chai* SBS, JP
(retired on 12 April 2005)

LO Ka Shui* GBS, JP

STRICKLAND, John Estmond GBS, JP

WEBB, David Michael

WONG Sai Hung, Oscar

* Government Appointed Directors

COMMITTEES

Audit Committee

STRICKLAND, John Estmond *(Chairman)*

FONG Hup *(Deputy Chairman)*

CHEUNG Kin Tung, Marvin
(appointment effective 13 April 2005)

FAN Hung Ling, Henry

LEE Kwan Ho, Vincent Marshall

WEBB, David Michael
(resigned on 13 April 2005)

Executive Committee

LEE Yeh Kwong, Charles *(Chairman)*

CHOW Man Yiu, Paul

CONROY, Patrick Kevin

KWOK Chi Piu, Bill
(appointment effective 13 April 2005)

LEE Jor Hung, Dannis

LEONG Ka Chai
(retired on 12 April 2005)

Investment Advisory Committee

FRESHWATER, Timothy George *(Chairman)*

WONG Sai Hung, Oscar *(Deputy Chairman)*

SUN, David

WEBB, David Michael

Nomination Committee

LEE Yeh Kwong, Charles *(Chairman)*

FONG Hup
(appointment effective 20 April 2005)

KWOK Chi Piu, Bill
(retired on 12 April 2005)

LEE Kwan Ho, Vincent Marshall
(appointment effective 13 April 2005)

WEBB, David Michael
(appointment effective 20 April 2005)

WONG Sai Hung, Oscar

Remuneration Committee

LO Ka Shui (*Chairman*)

CHEUNG Kin Tung, Marvin
(*appointment effective 13 April 2005*)

LEE Jor Hung, Dannis

LEE Kwan Ho, Vincent Marshall
(*retired on 12 April 2005*)

Risk Management Committee

(established under Section 65 of the Securities and Futures Ordinance)

LEE Yeh Kwong, Charles (*Chairman*)

CHAN Ka-lok**
(*appointment effective 1 July 2005*)

DICKENS, Mark**
(*retired on 31 March 2005*)

FAN Hung Ling, Henry

FONG Hup**
(*appointment effective 1 July 2005*)

KWOK Chi Piu, Bill

LAM Kin**
(*retired on 30 June 2005*)

LEONG Ka Chai**
(*retired on 30 June 2005*)

OR Ching Fai, Raymond**
(*retired on 31 March 2005*)

WHEATLEY, Martin**
(*appointment effective 1 July 2005*)

WONG Tung-shun, Peter**
(*appointment effective 1 April 2005*)

YUE Wai Man, Eddie**
(*re-appointment effective 1 July 2005*)

** *Appointed by the Financial Secretary*

COMPANY SECRETARY

MAU Kam Shing, Joseph

AUTHORISED REPRESENTATIVES

CHOW Man Yiu, Paul

MAU Kam Shing, Joseph

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISERS

Allen & Overy

Shareholding Analysis

Shareholdings according to the Register of Members as at 30 June 2005:

Size of holding	Number of shareholders	Percentage of shareholders (%)	Number of shares ('000)	Percentage of total issued capital (%)
1 – 1,000	18	1.29	5	0.00
1,001 – 5,000	571	40.93	1,564	0.15
5,001 – 10,000	341	24.45	2,918	0.27
10,001 – 100,000	309	22.15	10,611	1.00
100,001 and above	156	11.18	1,046,103	98.58
Total	1,395	100.00	1,061,201	100.00

Shareholdings according to the Register of Members as at 30 June 2004:

Size of holding	Number of shareholders	Percentage of shareholders (%)	Number of shares ('000)	Percentage of total issued capital (%)
1 – 1,000	19	1.42	5	0.00
1,001 – 5,000	582	43.43	1,601	0.15
5,001 – 10,000	312	23.28	2,616	0.25
10,001 – 100,000	267	19.93	9,333	0.88
100,001 and above	160	11.94	1,042,918	98.72
Total	1,340	100.00	1,056,473	100.00

Further analysis of share ownership as at 30 June 2005 and 30 June 2004:

Category	2005		2004	
	Number of shares ('000)	Percentage of total issued capital (%)	Number of shares ('000)	Percentage of total issued capital (%)
Individual¹	111,592	10.51	136,843	12.95
Local	109,515	10.32	133,800	12.66
Overseas	2,077	0.19	3,043	0.29
Corporate²	17,895	1.69	22,181	2.10
Institutions³	598,701	56.42	517,980	49.03
Local	82,776	7.80	52,578	4.98
Overseas	515,925	48.62	465,402	44.05
Exchange Participants (“EPs”)⁴	214,808	20.24	258,937	24.51
Custodian banks⁵	118,205	11.14	120,532	11.41
Total	1,061,201	100.00	1,056,473	100.00

The ownership analysis is according to the best estimate of information obtained from the Register of Members of Hong Kong Exchanges and Clearing Limited (“HKEx”), the Participant Shareholding Report of Hong Kong Securities Clearing Company Limited (“HKSCC”), and an inquiry of selected custodian banks and EPs conducted in June 2005 and June 2004 respectively.

Notes:

1. Shares owned by individuals other than those who are EPs.
2. Shares owned by companies other than those who are institutions, EPs, custodian banks, HKSCC Nominees Limited.
3. For 2005, institutions referred to the investment companies as shown in the HKEx Register of Members and HKSCC Participant Shareholding Report, and institutional investors identified by the five custodian banks and two EPs which are within top ten holders of HKEx shares in HKSCC Nominees Limited and have responded to the inquiry. The respondents held in aggregate 663 million shares or 62 per cent of the total issued shares.

For 2004, institutions referred to the investment companies as shown in the HKEx Register of Members and HKSCC Participant Shareholding Report, and institutional investors identified by the five custodian banks and four EPs which are within top twelve holders of HKEx shares in HKSCC Nominees Limited and have responded to the inquiry.
4. EPs include Stock EPs and Futures EPs, but exclude the EP respondents to the inquiry.
5. Custodian banks exclude HKSCC Nominees Limited and the holdings held for clients by the five custodian banks as mentioned in note 3 above.

TOP TEN SHAREHOLDERS

The respective holdings by the top ten/eleven shareholders that appeared on the Register of Members of HKEx as at 30 June 2005 and 30 June 2004 were as follows:

	Name	2005		Name	2004	
		Number of shares ('000)	Percentage of holding (%)		Number of shares ('000)	Percentage of holding (%)
1	HKSCC Nominees Ltd	918,745	86.58	HKSCC Nominees Ltd	899,655	85.16
2	Sun Hung Kai Investment Services Ltd	8,050	0.76	Sun Hung Kai Investment Services Ltd	8,050	0.76
3	Roctec Futures Trading Co Ltd	5,574	0.53	Roctec Futures Trading Co Ltd	5,574	0.53
4	Sun Hung Kai Commodities Ltd	4,181	0.39	The Bank of East Asia Ltd	4,830	0.46
5	HSBC Nominees (Hong Kong) Ltd	3,663	0.35	Sun Hung Kai Commodities Ltd	4,181	0.40
6	Tung Tak Securities (HK) Co Ltd	3,220	0.30	Phillip Securities (HK) Ltd	4,025	0.38
7	Phillip Commodities (HK) Ltd	2,787	0.26	Tung Tak Securities (HK) Co Ltd	3,220	0.30
8	Wocom Ltd	2,787	0.26	HSBC Nominees (Hong Kong) Ltd	3,091	0.29
9	Phillip Securities (HK) Ltd	2,415	0.23	Phillip Commodities (HK) Ltd	2,787	0.26
10	Roctec Securities Company Ltd	2,415	0.23	Wocom Ltd	2,787	0.26
11	Wong Wai Gin	2,415	0.23			

Management Discussion and Analysis

(Financial figures are expressed in Hong Kong Dollar)

BUSINESS REVIEW

LISTING

Consultations on Enhancing Listing Regulation

Since the submission of a combined response to the Consultation Paper on Proposed Amendments to the Securities and Futures Ordinance to give Statutory Backing to Major Listing Requirements published by the Financial Services and the Treasury Bureau (“FSTB”) and the Consultation Paper on Proposed Amendments to the Securities and Futures (Stock Market Listing) Rules issued by the Securities and Futures Commission (“SFC”), Hong Kong Exchanges and Clearing Limited (“HKEx”) has been working with the FSTB and the SFC on further developing the proposals in a manner which would minimise disruption to the market and achieve the objective of giving “teeth” to major listing requirements.

Proposed New Structure for Listing Decision-Making

The consultation on the New Structure for Listing Decision-Making issued on 18 February 2005 for soliciting public views on the overall listing decision-making structure together with the proposed amendments to Chapters 2A and 2B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) for implementing such a structure closed on 22 April 2005. The objective of the proposed new structure is to put in place a simpler administrative framework for listing decision-making whilst retaining the checks and balances for minimising and managing regulatory risk including potential conflicts of interest within HKEx and its subsidiaries (“Group”).

A total of 18 submissions were received from 17 respondents, which have been published on the HKEx website. Comments are being analysed, and the consultation conclusions and recommended amendments to the Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for implementing the conclusions will be published in the second half of 2005.

Revision of the Mechanisms for Disseminating Regulatory Information by Main Board Issuers

The Main Board Listing Committee has approved a proposal to require Main Board issuers to publish a notification announcement in newspapers instead of the full version of the announcement. The full version will be posted on the HKEx website, the issuer’s website and/or other communication channels. HKEx is finalising an implementation plan with the view to assisting the issuers, the professional advisers, the market participants and the investors at large to familiarise themselves with this mode of dissemination of regulatory information by Main Board issuers. A policy statement will be made in the near future which will provide an opportunity for the market to comment, among other things, on certain aspects of the proposed transitional arrangements including the form and content of the proposed notification announcement. The requirement of publishing notification announcements will be implemented subject to the system and operational readiness and approval of the relevant rule amendments by the SFC.

Review of the Growth Enterprise Market (“GEM”)

HKEx has recently established an internal working group to co-ordinate studies and develop proposals for the comprehensive review of the GEM. Informal views will also be sought from stakeholders including shareholders, issuers, investors, market practitioners and participants, and the Government.

Publication of Listing Committee Annual Report

The annual report of the Main Board and GEM Listing Committees (collectively the “Listing Committees”) was published on 7 July 2005 and posted on the HKEx website. The report provides an account of the work of the Listing Committees during the service term of their members from 1 May 2004 to 13 May 2005 with the aim at enhancing the transparency of the regulatory functions discharged by the Listing Committees and The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

CASH MARKET

Market Performance

In the first half of 2005, 19 companies were listed on the Main Board and two on the GEM. Total capital raised, including post-listing funds, reached \$124.7 billion. As at 30 June 2005, 901 companies were listed on the Main Board with a total market capitalisation of \$6,893 billion, and 203 companies were listed on the GEM with a total market capitalisation of \$65 billion. The market capitalisation of the Main Board and the GEM exceeded \$7,000 billion for the first time on 13 July 2005. Total funds raised through initial public offerings (“IPOs”) (both the Main Board and the GEM) in one month also reached a new high of exceeding \$53.3 billion. In addition, there were 927 derivative warrants, seven Exchange Traded Funds (“ETFs”) (excluding two ETFs for trading only) and 164 debt securities listed on the Stock Exchange as at the end of June 2005. Average daily turnover in the first half of 2005 was \$16.8 billion on the Main Board and \$78 million on the GEM.

Renovation of the Trading Hall

The renovation of the Trading Hall commenced on 18 July 2005. Part of the hall is now a temporary trading area including back-up trading facilities for Exchange Participants (“EPs”).

New trading booths will be provided in the renovated Trading Hall at a monthly user fee of \$2,800 per trading booth for a binding three-year period. The renovation of the trading area will be ready by the end of this year whilst the exhibition and conference facilities of the Trading Hall will be in operation by the second quarter of 2006.

Reduction of Minimum Trading Spreads

Following the publication of the consultation conclusions on 4 February 2005, the phase one reduction of trading spreads involving shares priced above \$30 was implemented on 4 July 2005 affecting a total of 29 shares. Various trading parameters of the trading system have been enhanced to support the change, and so far, no irregularities were noted. Trading spreads for shares priced at or below \$30 remain unchanged. Data is being collected for analysing the market impact.

Callable Bull/Bear Contracts

HKEx is proposing the introduction of Callable Bull/Bear Contracts (“CBBC”) to give the Hong Kong market an additional choice of investment product. HKEx has held extensive discussions with issuers and overseas exchanges on the development of CBBC and consulted market practitioners, including issuers, brokers and industry associations, on the infrastructure and the market model to be adopted for the launch and trading of CBBC. Issuers have expressed interest in issuing CBBC with different kinds of underlying assets and market practitioners have also indicated favourable response to trading the product. HKEx is discussing with the SFC on the approval of CBBC for listing and trading in Hong Kong.

Development of the ETFs Market

As at the end of June 2005, there were nine ETFs trading on the Stock Exchange, including two ETFs listed in June 2005. Average daily turnover in the first half of 2005 was \$64 million.

The Hang Seng FTSE/Xinhua China 25 Index ETF commenced trading on 8 June 2005 and has closely tracked the performance of the FTSE/Xinhua China 25 Index (“FXI China 25”) which consists of the 25 largest and most liquid Mainland enterprises (H-shares and Red Chips) listed on the Stock Exchange.

On 21 June 2005, the first bond ETF, ABF Hong Kong Bond Index Fund, made its debut in Asia. It is designed to provide investment results that correspond to the total return of the iBoxx ABF Hong Kong Index, an index that comprises 70 Hong Kong Dollar bond issues with an average maturity of slightly more than three years.

The ABF Pan Asia Bond Index Fund was also listed on 7 July 2005. It tracks the performance of the iBoxx Pan-Asia Bond Index, a US Dollar-denominated index of Asian currency bonds. The fund is traded and settled on the Stock Exchange in US Dollar.

The two ABF funds are key components of an initiative of 11 Asian central banks and monetary authorities to support the further development of the region’s bond markets.

With a view to enhancing the market making arrangements for ETF, trading rules that generally tighten the market making obligations of Securities Market Makers for each group of ETF were proposed by HKEx and approved by the SFC, and are expected to take effect in the latter part of this year.

Exemptions on Dealings in Suspended Securities

HKEx has proposed that exemptions be given to placing and fund raising activities by the EPs from the current prohibition of dealings in suspended securities under Rule 539 of the Rules of the Exchange. The relevant rule amendments have been submitted to the SFC for approval.

Market Value of All Listed Companies – Main Board & GEM

As at the end of June

	2005 (\$ mil)	2004 (\$ mil)	% Change
Main Board			
Finance	2,290,924.52	2,027,248.19	13.01
Utilities	434,193.55	379,578.60	14.39
Properties	811,456.63	605,261.01	34.07
Consolidated Enterprises	2,088,019.81	1,532,319.44	36.27
Industrials	1,176,998.78	887,541.33	32.61
Hotels	70,547.99	41,088.50	71.70
Miscellaneous	21,185.85	9,537.16	122.14
Sub-total	6,893,327.13	5,482,574.23	25.73
GEM	65,376.11	72,670.33	(10.04)
Total	6,958,703.24	5,555,244.56	25.26

Number of Listed Companies – Main Board & GEM

As at the end of June

	2005	2004	% Change
Main Board			
Finance	80	79	1.27
Utilities	15	14	7.14
Properties	100	99	1.01
Consolidated Enterprises	289	279	3.58
Industrials	399	380	5.00
Hotels	12	13	(7.69)
Miscellaneous	6	5	20.00
Sub-total	901	869	3.68
GEM	203	199	2.01
Total	1,104	1,068	3.37

Number of Listed Securities – Main Board & GEM*As at the end of June*

	2005	2004	% Change
Ordinary shares	1,104	1,068	3.37
Preference shares	4	4	0
Warrants	953	840	13.45
– Equity warrants	26	37	(29.73)
– Derivative warrants	927	803	15.44
Equity Linked Instruments	0	33	(100.00)
Debt securities	164	151	8.61
Unit trusts	10	8	25.00
Total	2,235	2,104	6.23

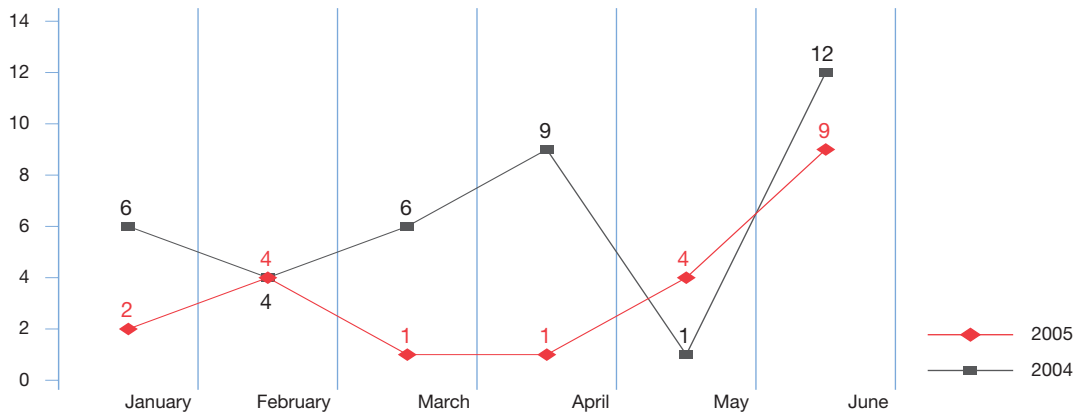
Market Value by Type of Securities – Main Board & GEM*As at the end of June*

	2005 (\$ mil)	2004 (\$ mil)	% Change
Equities	6,958,703.24	5,555,244.56	25.26
Warrants	69,622.77	56,348.30	23.56
– Equity warrants	2,499.05	1,222.24	104.46
– Derivative warrants	67,123.72	55,126.06	21.76
Equity Linked Instruments	0.00	1,049.46	(100.00)
Debt securities	431,586.37*	407,182.40*	5.99
Unit trusts	N/A	N/A	N/A
Total	7,459,912.38	6,019,824.72	23.92

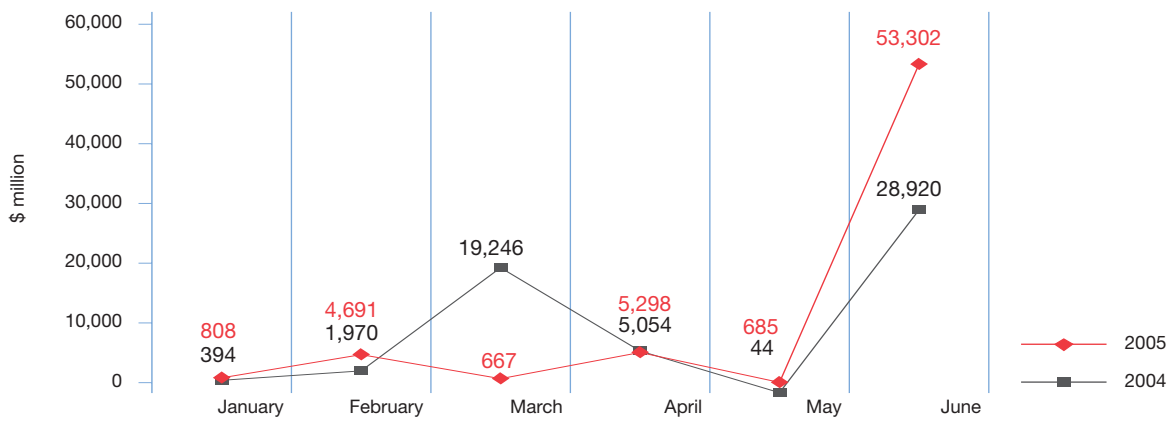
* *Nominal value***Turnover Value by Type of Securities – Main Board & GEM***For the six months ended 30 June*

	2005 (\$ mil)	2004 (\$ mil)	% Change
Equities	1,700,243.24	1,793,286.58	(5.19)
Warrants	331,105.83	246,955.45	34.08
– Equity warrants	1,644.03	1,152.43	42.66
– Derivative warrants	329,461.80	245,803.02	34.03
Equity Linked Instruments	1.02	168.67	(99.40)
Debt securities	7.72	23.59	(67.29)
Unit trusts	7,728.43	13,655.14	(43.40)
iShares	6.05	6.85	(11.61)
Total	2,039,092.29	2,054,096.28	(0.73)

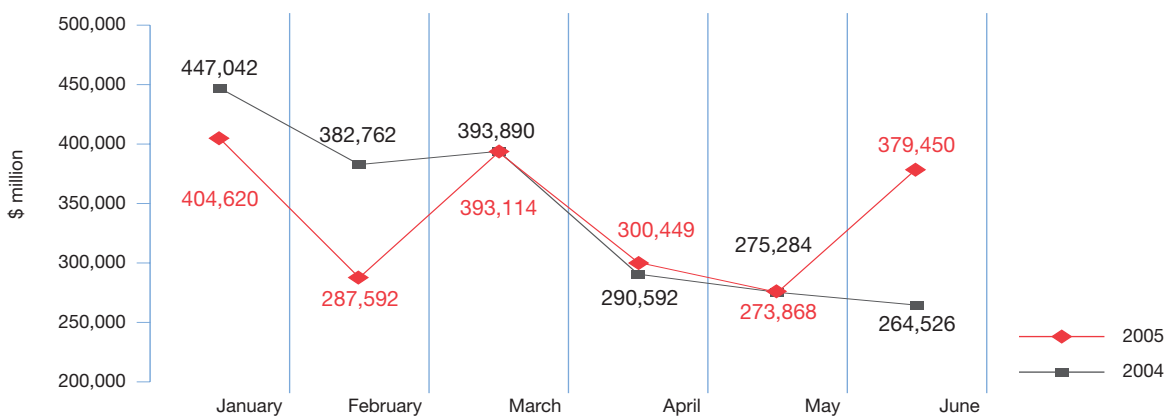
Number of Newly Listed Companies – Main Board & GEM



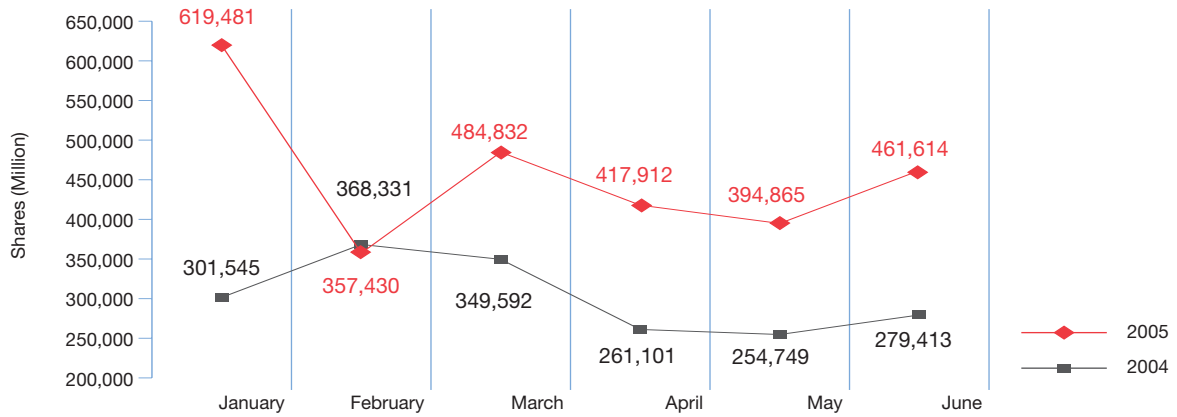
Funds Raised by Newly Listed Companies – Main Board & GEM



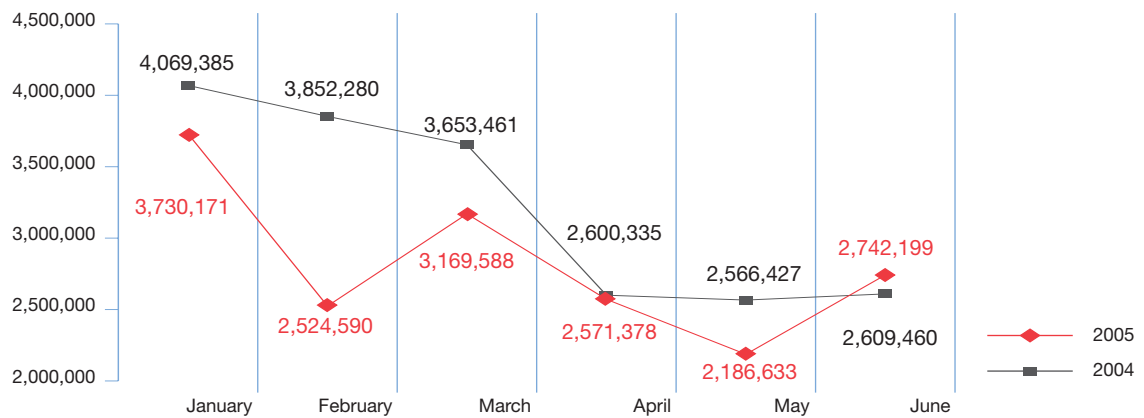
Monthly Turnover (Value) – Main Board & GEM



Monthly Turnover (Volume) – Main Board & GEM

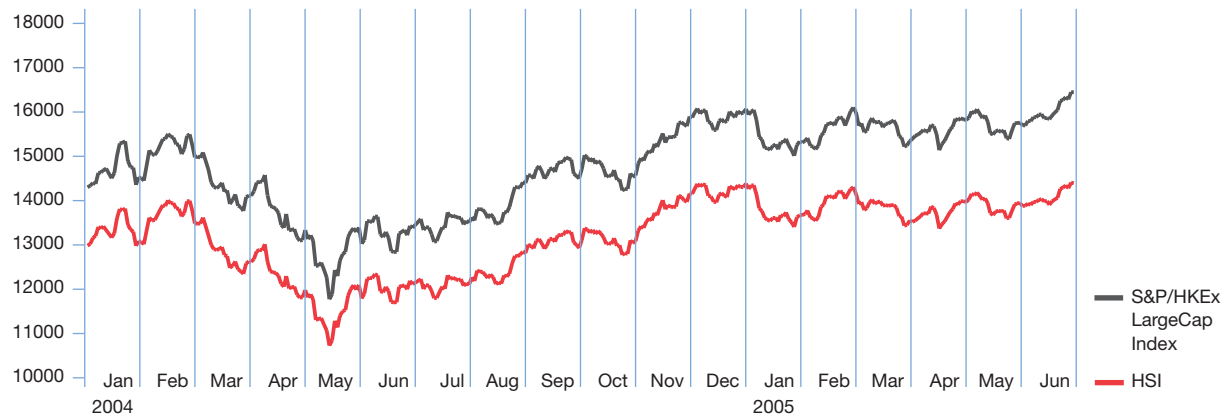


Number of Transactions – Main Board & GEM



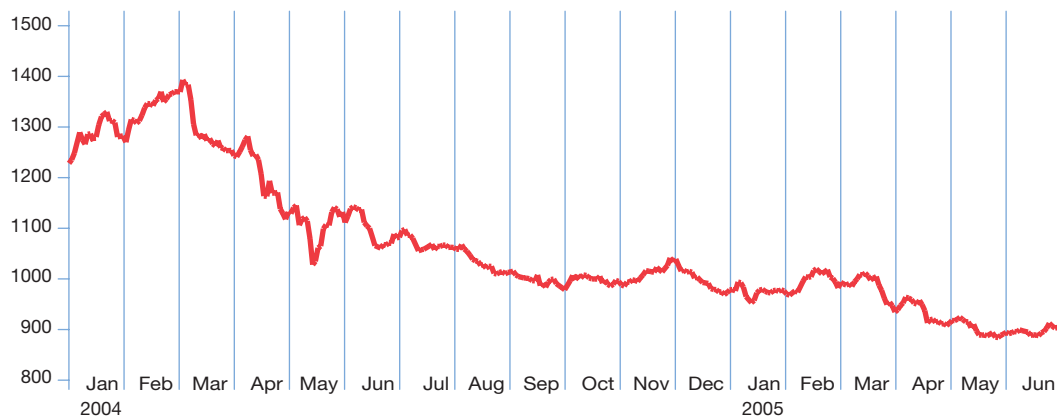
Hang Seng Index (“HSI”) and S&P/HKEx LargeCap Index

January 2004 – June 2005



S&P/HKEx GEM Index

January 2004 – June 2005



DERIVATIVES MARKET

Market Performance

Products	Products Achieved Record High in 2005 (up to 30 June)			
	Daily Volume		Open Interest	
	Date	Number of Contracts	Date	Number of Contracts
Hang Seng Index Options	22 Jun 2005	26,412	28 Jun 2005	228,842
Mini-Hang Seng Index Futures	–	–	29 Jun 2005	5,610
H-shares Index Futures	23 Feb 2005	31,770	29 Mar 2005	45,212
H-shares Index Options	29 Apr 2005	3,098	27 Jun 2005	48,987
Stock Options	–	–	28 Jun 2005	1,106,093

Product and Market Development

FXI China 25 Futures and Options contracts commenced trading on 23 May 2005. The new contracts were introduced to provide products on a broad-based stock index covering most of the large Mainland enterprises, and serve as trading and hedging tools for investors in Mainland enterprises and for those who invest in other products linked to FXI China 25, such as ETFs, warrants, and over-the-counter products. To support the trading of FXI China 25 Futures and H-shares Index Futures, HKEx has made an application to the US Commodity Futures Trading Commission for no-action relief concerning the offering of these futures contracts in the US.

A series of enhancement measures for the stock options market have been implemented in stages with effect from 1 February 2005. Market makers were recruited and equipped with upgraded communication lines to provide continuous quotes in eight designated stock option classes to increase market liquidity. More choices in strike prices were offered to investors by narrowing the strike intervals in all expiry months of seven option classes. The trading tariff of Tier 1 option classes was reduced from \$5 to \$3 per contract. Two new stock option classes were launched on 11 July 2005 to meet market demand. Since 1 February 2005, stock options have shown significant increases in average daily turnover, and open interest has set successive new records.

In view of the demand from market makers for more Options Hedging Participants to perform hedging transactions for their stock option trades, the restriction on the number of Options Hedging Participants to be appointed by a market maker was lifted from 21 April 2005.

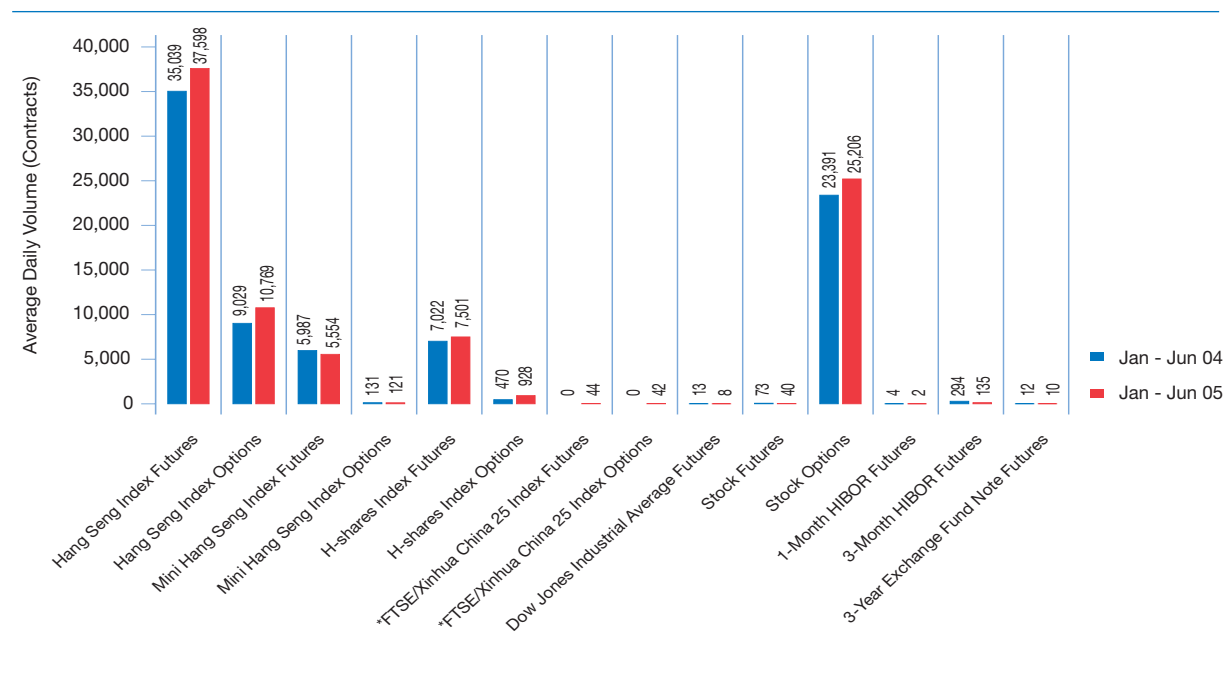
HKEx introduced preventive measures to regulate excessive order-book activity being entered into Hong Kong Futures Automated Trading System (“HKATS”) to ensure smooth trading functioning for all market participants. HKEx also enhanced the audit trail function in HKATS to further strengthen market monitoring and supervision capabilities. In view of the continuous growth in business for the past few years, HKEx is reviewing HKATS system capacity and is planning for a system upgrade in the fourth quarter.

Education and Marketing

To promote the stock options market, HKEx introduced a joint education programme under which nine participating Option Trading EPs were sponsored by HKEx to conduct public investor seminars on stock options, which were well attended. In addition, HKEx co-organised two seminars and nine workshops on 21 May 2005 to promote FXI China 25 Futures and Options.

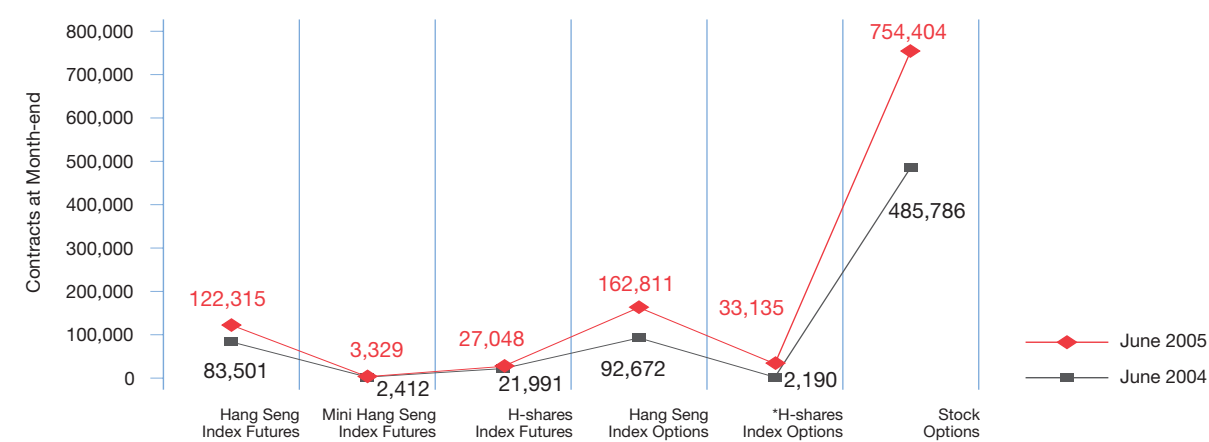
To promote HKEx as a quality marketplace to trade China equity derivatives, HKEx made overseas marketing trips to New York, Chicago and Tokyo, and arranged meetings with management of the affiliates and clients of EPs, as well as potential investors.

Volume of Derivatives Products (Contracts)



* Commenced trading on 23 May 2005

Open Interest of Derivatives Products (Month-end, Contracts)



* Commenced trading on 14 June 2004

Exchange Participants and Trading Right Holders Status

As at 30 June 2005

	Stock Exchange	Futures Exchange
Exchange Participants	464	129
<i>Trading</i>	425	129
<i>Non-trading</i>	39	0
Trading Right Holders	56	62
<i>Corporate</i>	2	53
<i>Individual</i>	54	9

CLEARING

Scripless Project

Hong Kong Securities Clearing Company Limited (“HKSCC”) is working with the Federation of Share Registrars to finalise the operational arrangements and system changes for the implementation of the initial phase of scripless, i.e. dematerialisation of physical scrip in the Central Clearing and Settlement System (“CCASS”) Depository. The SFC and the FSTB are in the process of finalising the relevant legislative changes for the implementation of scripless in Hong Kong. Subject to the enactment of the enabling legislation, initial phase of dematerialisation will start in 2006.

Clearing Fees Reductions

Effective 1 February 2005, HKSCC has waived its stock custody fee of \$0.012 per board lot charged on a monthly basis for delisted securities and securities in prolonged suspension. HKSCC has also extended the fee waiver on Short Message Service for the Investor Participant (“IP”) accounts up to the end of June 2006 and abolished the requirement of \$1,000 initial deposit upon the opening of an IP account with effect from 1 July 2005.

HKFE Clearing Corporation Limited (“HKCC”) and The SEHK Options Clearing House Limited (“SEOCH”) have both abolished the Derivatives Clearing and Settlement System (“DCASS”) standard instruction input/processing fees of \$1.5 per transaction per side with effect from 1 March 2005, and implemented several other fees changes with effect from 1 June 2005. Interest retention at the rate of 1.2 per cent per annum for HKCC and that of 2 per cent per annum for SEOCH on margin deposits were abolished, and interest is now paid to Participants at the prevailing bank savings deposit rate on their cash margin deposits (however, a negative interest will be charged if the bank savings deposit rate is negative). In addition, the accommodation charges on utilised non-cash collateral levied by HKCC and SEOCH have been reduced respectively from 1.2 per cent per annum and 2 per cent per annum to 0.5 per cent per annum.

Clearing Services Enhancements

HKSCC upgraded its Clearing Service Call Centre and Interactive Voice Recording System (“IVRS”) on 31 January 2005. The hotline for CCASS IPs has been revamped to streamline the call flow and make it more user-friendly. The input and enquiry functions of the IVRS are now available 24 hours a day, seven days a week.

The CCASS deadline for its Participants to submit their voting instructions has been extended to the business day before the relevant meeting date with effect from 4 April 2005. The CCASS deadline for its Participants to submit their corporate action instructions has been extended to a time much closer to the issuer’s deadline effective 8 August 2005.

The automation of the cash prepayment service, through which CCASS Participants are able to make payments through the Real Time Gross Settlement payment mechanism operated by Hong Kong Interbank Clearing Limited, has been launched on 8 August 2005. Such automated payment transactions will be exempted from the existing cash prepayment service fee of \$100 per transaction. Further improvements to the CCASS nominee services are planned for implementation in early 2006.

Risk Management Policies Harmonisation

A comprehensive review of the clearing houses’ collateral policy was completed in the first quarter of 2005. The new policy, which will broaden the eligible collateral types for the Derivatives Market and largely harmonise various collateral management measures of the three clearing houses, is expected to be implemented in the second half of 2005.

In addition, the capital requirements of each category of clearing participants have been reviewed. Relevant rule amendments will be made to simplify the structure of the participants and harmonise the capital requirements for clearing participants of the two derivatives clearing houses.

The three clearing houses, namely HKSCC, HKCC and SEOCH, act as the central counterparties for clearing trades concluded on the Stock Exchange and Hong Kong Futures Exchange Limited (“Futures Exchange”). Insurance cover is one of the risk management measures adopted to cover counterparty risk, which has been renewed for another year while an additional cover of \$78 million has been secured for HKCC to further strengthen its financial backing and reduce the financial burden on its Participants.

CCASS Statistics (Up to six months ended 30 June)

	2005	2004
Average Daily Exchange Trades Handled by CCASS		
– Number of trades	139,870	158,616
– Value of trades	\$16.9 billion	\$16.8 billion
– Share quantity involved	22.6 billion	14.9 billion
Average Daily Settlement Instructions (“SIs”) Settled by CCASS		
– Number of SIs	24,201	25,641
– Value of SIs	\$40.9 billion	\$42.0 billion
– Share quantity involved	13.9 billion	12.1 billion
Average Daily Investor SIs (“ISIs”) Settled by CCASS		
– Number of ISIs	342	460
– Value of ISIs	\$93.5 million	\$116.7 million
– Share quantity involved	75.0 million	80.0 million
Average Daily Settlement Efficiency of Continuous Net Settlement (“CNS”) Stock Positions on Due Day (T+2)	99.81%	99.69%
Average Daily Settlement Efficiency of CNS Stock Positions on the Day following the Due Day (T+3)	99.98%	99.98%
Average Daily Buy-ins Executed on T+3		
– Number of brokers involved	7	10
– Number of buy-ins	7	11
– Value of buy-ins	\$1.7 million	\$4.1 million
Shares Deposited in the CCASS Depository		
– Number of shares	1,234.6 billion	1,163.7 billion
– Percentage of total issued share capital of the admitted securities	60.55%	58.61%
– Value of shares	\$2,621.7 billion	\$1,984.8 billion
– Percentage of the total market capitalisation of the admitted securities	35.47%	33.39%

BUSINESS DEVELOPMENT AND INVESTOR SERVICES

Conferences and Seminars for Prospective Issuers

To promote Hong Kong as the largest fund-raising market in Asia and the Stock Exchange as a premier capital market for the Mainland and international companies, HKEx has co-organised a conference for the Japanese business community and participated in a conference during the Hebei-Hong Kong week organised by the Hebei Provincial Government jointly with the Government of the Hong Kong Special Administrative Region in June.

HKEx Investor Conference and Investor Education

HKEx organised its first half-day investor conference for individual investors at the Hong Kong Convention and Exhibition Centre on 2 April 2005. The conference provided a forum for senior HKEx officials to have a direct dialogue with the investing public on the present and future roles and functions of HKEx. The presentation materials of the various speakers and answers to questions raised by the participants at the conference have been posted on the HKEx website.

Seminars for introducing HKEx's new products have been held from time to time jointly with professional organisations. HKEx has also provided mentorship to university students and received delegations from different countries to facilitate their better understanding of the various aspects of the Hong Kong capital market.

Training Programmes for Listed Mainland Enterprises

It is our belief that continual training for listed companies' management is pivotal to upkeeping the best corporate governance practices among our issuers. HKEx has therefore organised three intensive training programmes in Hong Kong for the senior management of Mainland enterprises early this year. The training curriculum focused on the new requirements under the International Financial Reporting Standards ("IFRSs") and the amendments to the Listing Rules relating to the Code on Corporate Governance Practices and the Corporate Governance Report. Another training programme was held at HKEx's Beijing Representative Office for the management of H-shares companies to update them with the latest development of the IFRSs.

Communications with Fund Managers and Analysts

Open dialogue is maintained with fund managers and analysts locally and overseas to improve their understanding of HKEx's business development and update them with the latest corporate information of HKEx. Besides, HKEx has also conducted meetings with various investment firms in the UK and the US in March this year to raise the awareness of overseas investors of the Cash and Derivatives Markets in Hong Kong.

INFORMATION SERVICES

At the end of June 2005, there were 67 real-time information vendors for the Cash Market and 33 data vendors for the Derivatives Market. A total of 20 information vendors have participated in our China Promotion Programme (2004: 18) which allows the Mainland investors to subscribe to HKEx data at a discounted rate for a promotional period till the end of 2005.

Three international vendors have completed integration of their services with HKEx's Issuer Information Feed service to provide instantaneous access to disclosure documents filed by listed issuers. Packaged in Extensible Markup Language (XML) format, electronic copies of listed issuers' disclosures and announcements are transmitted to vendors once the information is posted on the HKEx website.

In the first half of 2005, HKEx has released 40,236 issuer disclosure documents on the HKEx website, an increase of 11.5 per cent from the corresponding period last year. Hit rate in the access of issuer information has increased 18.7 per cent with an average of around 15 million hits per month. For the six months ended June 2005, a total of 15,760 notices of Disclosure of Interests were filed with an average of around 900,000 hits for such information per month.

INFORMATION TECHNOLOGY

Production Systems Stability and Reliability

As of the end of June 2005, all major trading, clearing, settlement, and market data dissemination systems for the Cash and Derivatives Markets have maintained 100 per cent operational system uptime for the prior 27 months. To uphold this high standard of system stability and reliability, HKEx has upgraded the operating system of the HKATS, DCASS and the CCASS/3 to its updated version to secure continued and quality system vendor support.

Capacity Planning and Upgrade

In view of the overwhelming usage and popularity, the HKEx website (www.hkex.com.hk) is now undergoing a capacity upgrade and an enhancement to the disaster recovery arrangement to ensure its highest performance and availability during site disastrous situation.

The number of OMnet Application Programming Interface connections increased 19.8 per cent from 258 as at end of 2004 to 309 as at 30 June 2005, representing greater system flexibility for the market as a whole in establishing trading connections to the HKATS.

To meet the continuous growth of market activities and development, the Third Generation Automatic Order Matching and Execution System ("AMS/3") capacity upgrade exercise has been commenced and is planned to be completed in the fourth quarter of 2005. The capacity planning for HKATS, DCASS and Price Reporting System ("PRS") has also been formulated and it is planned to be implemented by the end of this year.

Obsolescent Technology Replacement and System Migration

Due to hardware obsolescence, the AMS/3 off-floor terminals will be replaced and its associated AMS/3 security will be upgraded. Initial phase of the replacement will be commenced in the latter part of August 2005. In line with the Trading Hall renovation programme, installation of additional off-floor terminals is anticipated in the latter part of the year as a result of the relinquishment of the existing AMS/3 on-floor terminals. Moreover, the existing AMS/3 Order Routing System will be migrated to HP/Nonstop platform to reduce technology complexity and achieve operational cost savings by the end of 2005.

System Consolidation and Operational Efficiency

The consolidation of the existing four market system networks into a new Optical Ethernet network (“SDNet”) to ensure a cost effective network infrastructure for the Hong Kong Cash and Derivatives Markets has started early this year. Fiber circuit installation for HKATS and DCASS participants and PRS information vendors has been substantially completed. The migration of the HKATS, DCASS and PRS circuits to the SDNet is planned in October 2005 following the successful completion of various market rehearsals.

AMS/3 satellite systems consolidation and Derivatives Market surveillance and risk management systems redevelopment are in progress to further improve operational efficiency and effectiveness.

TREASURY

HKEx’s investment funds comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling \$15.6 billion on average for the six months ended 30 June 2005 (first half of 2004 average: \$14.3 billion).

As compared with 31 March 2005, the overall fund size as at 30 June 2005 increased by 13 per cent or \$1.9 billion to \$16.5 billion (31 March 2005: \$14.6 billion). Details of the asset allocation of the investments as at 30 June 2005 against those as at 31 March 2005 are set out below.

	Fund size \$ billion		Bonds		Cash or bank deposits		Global equities	
	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar
Corporate Funds	3.9	4.1	60%	59%	34%	35%	6%	6%
Margin Funds	11.2	9.0	36%	47%	64%	53%	0%	0%
Clearing House Funds	1.4	1.5	17%	15%	83%	85%	0%	0%
Total	16.5	14.6	40%	47%	58%	51%	2%	2%

Investments are kept sufficiently liquid to meet HKEx's operating needs and possible liquidity requirements of the Clearing House Funds and Margin Funds. Excluding equities held under the Corporate Funds (\$0.3 billion as at 30 June 2005 and 31 March 2005), which have no maturity date, the maturity profiles of the remaining investments as at 30 June 2005 (\$16.2 billion) and 31 March 2005 (\$14.3 billion) were as follows:

	Fund size \$ billion		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		> 3 years	
	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar
Corporate Funds	3.6	3.8	18%	10%	12%	28%	25%	23%	29%	23%	16%	16%
Margin Funds	11.2	9.0	38%	42%	26%	11%	23%	28%	13%	19%	0%	0%
Clearing House Funds	1.4	1.5	78%	81%	4%	2%	11%	8%	7%	9%	0%	0%
Total	16.2	14.3	36%	37%	21%	15%	23%	25%	16%	19%	4%	4%

Credit exposure is well diversified. As at 30 June 2005, the bond portfolio held was of investment grade and had a weighted average credit rating of Aa2 (31 March 2005: Aa2) and a weighted average maturity of 1.5 years (31 March 2005: 1.4 years). Deposits are placed only with the note-issuing banks in Hong Kong and investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk ("VaR") and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by HKEx) at a given confidence level (95 per cent confidence interval is adopted by HKEx) based on historical data (one year is used by HKEx). The overall risk, as measured by the VaR methodology, during second quarter and first quarter of 2005 was as follows:

	Average VaR \$ million		Maximum VaR \$ million		Minimum VaR \$ million	
	Apr-Jun	Jan-Mar	Apr-Jun	Jan-Mar	Apr-Jun	Jan-Mar
Corporate Funds	12.1	15.3	14.7	16.1	11.3	14.1
Margin Funds	15.4	16.3	16.2	17.9	14.3	14.3
Clearing House Funds	1.4	0.7	1.5	1.5	1.2	0.6

For details of HKEx's investment income, please refer to the Income section under the Financial Review and Note 6 to the condensed consolidated accounts of this interim report.

INVESTMENTS IN ASSOCIATES

Computershare Hong Kong Investor Services Limited ("CHIS")

In May 2005, the Group acquired a further six per cent interest in CHIS for \$25 million and raised its interest to 30 per cent. As at 30 June 2005, the cost of the investment in CHIS was \$52 million and the book value of the investment was \$59 million.

ADP Wilco Processing Services Limited ("AWPS")

The Group has owned a 30 per cent interest in AWPS since May 2002 (cost: \$1.8 million; and book value: \$1.3 million). AWPS is in the process of a voluntary dissolution. The liquidation proceeds of AWPS are expected to approximate its book value.

FINANCIAL REVIEW

OVERALL PERFORMANCE

	Unaudited Six months ended 30 Jun 2005 \$ million	As restated Unaudited Six months ended 30 Jun 2004 \$ million
Income:		
Income directly affected by market turnover	659	658
Stock Exchange listing fees	195	183
Investment income	122	74
Income from sale of information	162	158
Other income	100	91
	1,238	1,164
Operating expenses	570	571
Operating profit	668	593
Share of profits less losses of associates	9	6
Profit before taxation	677	599
Taxation	(106)	(101)
Profit attributable to shareholders	571	498
Earnings per share	\$0.54	\$0.47
Interim dividend declared per share	\$0.49	\$0.43
Dividend payout ratio	91%	91%
Shareholders' funds	4,103	4,052 ^o
Total assets *	21,238	21,443 ^o
Net assets per share #	\$3.87	\$3.83 ^o

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

^o Audited as at 31 December 2004

Based on 1,061,200,846 shares issued and fully paid as at 30 June 2005 (31 December 2004: 1,056,638,846 shares)

The Group recorded a profit attributable to shareholders of \$571 million for the first six months of 2005 (first quarter: \$245 million, second quarter: \$326 million), compared with \$498 million, as restated, for the same period in 2004 (first quarter: \$313 million, second quarter: \$185 million).

The increase in profit for the six months ended 30 June 2005 was primarily attributable to the significant increase in investment income compared with the same period last year, mainly due to higher interest income resulting from the rising interest rates in 2005 and increased fund size, and the increase in Stock Exchange listing fees due to the higher number of listed securities and newly listed derivative warrants during the period.

Despite an increase in staff costs, the Group has managed to keep its total operating expenses for the six-month period at a similar level to that of the same period last year.

INCOME

(A) Income directly affected by market turnover

	Unaudited Six months ended 30 Jun 2005 \$'000	Unaudited Six months ended 30 Jun 2004 \$'000	Change
Trading fees and trading tariff	352,615	347,172	2%
Clearing and settlement fees	172,427	185,950	(7%)
Depository, custody and nominee services fees	133,682	125,157	7%
Total	658,724	658,279	0%

The increase in trading fees and trading tariff was mainly due to the higher turnover of the Derivatives Market in the first six months of 2005 against that of the corresponding period last year.

Clearing and settlement fees are derived predominantly from Cash Market transactions. Despite being mostly ad valorem fees, clearing and settlement fees are subject to a minimum and a maximum fee per transaction. Clearing and settlement fees decreased mainly due to lower exchange trade settlement income as there was a higher proportion of transactions with value subject to the maximum fee and a lower proportion of transactions with value subject to the minimum fee in 2005. Income from SIs also decreased as average daily market value of SIs dropped.

Depository, custody and nominee services fees increased due to the increase in scrip fee income and dividend collection fees in 2005.

Key market indicators

	Six months ended 30 Jun 2005	Six months ended 30 Jun 2004	Change
Average daily turnover value on the Stock Exchange	\$16.9 billion	\$16.8 billion	1%
Average daily number of derivatives contracts traded on the Futures Exchange	62,681	57,651	9%
Average daily number of stock options contracts traded on the Stock Exchange	25,206	23,391	8%

(B) Stock Exchange listing fees

	Unaudited Six months ended 30 Jun 2005 \$'000	Unaudited Six months ended 30 Jun 2004 \$'000	Change
Annual listing fees	131,356	123,664	6%
Initial and subsequent issue listing fees	60,394	55,997	8%
Others	3,822	3,309	16%
Total	195,572	182,970	7%

The increase in annual listing fees was attributable to the higher number of listed securities. Although the number of newly listed companies declined as compared with the same period in 2004, the decrease in initial listing fees from newly listed companies was more than offset by the higher income from newly listed derivative warrants and the initial listing fees forfeited due to increased numbers of lapsed and withdrawn IPO applications and approved IPOs not listed within six months of application.

Key drivers for annual listing fees

	As at 30 Jun 2005	As at 30 Jun 2004	Change
Number of companies listed on the Main Board	901	869	4%
Number of companies listed on the GEM	203	199	2%
Total	1,104	1,068	3%

Key drivers for initial and subsequent issue listing fees

	Six months ended 30 Jun 2005	Six months ended 30 Jun 2004	Change
Number of newly listed derivative warrants	679	595	14%
Number of new listings on the Main Board	19	23	(17%)
Number of new listings on the GEM	2	15	(87%)
Total equity funds raised on the Main Board	\$123.2 billion	\$210.9 billion	(42%)
Total equity funds raised on the GEM	\$1.5 billion	\$4.0 billion	(63%)

(C) Investment income

	Unaudited Six months ended 30 Jun 2005 \$'000	As restated Unaudited Six months ended 30 Jun 2004 \$'000	Change
Income from:			
Funds available for investment	122,073	72,656	68%
Investment in Singapore Exchange Limited	–	832	(100%)
Total	122,073	73,488	66%

The average amount of funds available for investment was as follows:

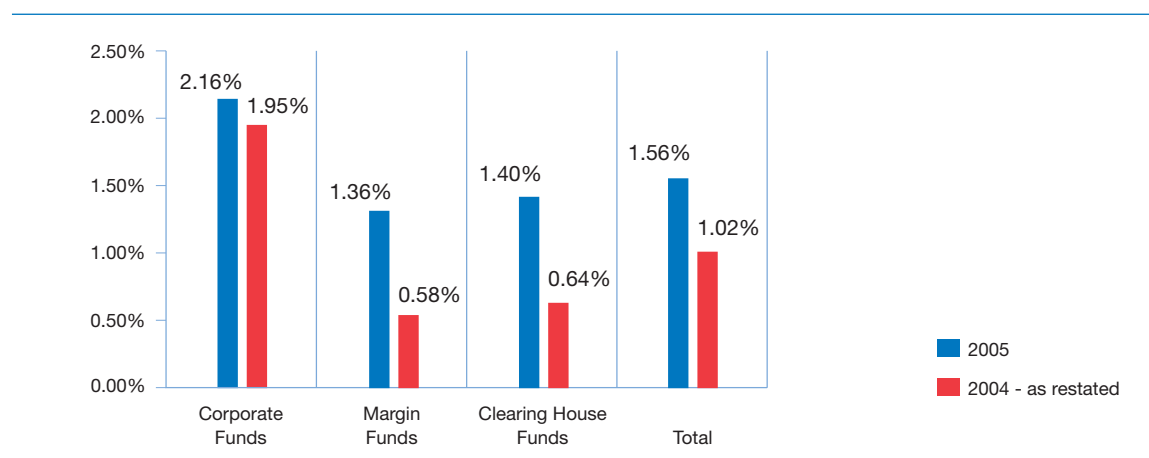
	Six months ended 30 Jun 2005 \$ billion	Six months ended 30 Jun 2004 \$ billion	Change
Corporate Funds	3.9	4.5	(13%)
Margin Funds	10.2	8.3	23%
Clearing House Funds	1.5	1.5	0%
Total	15.6	14.3	9%

The increase in average amount of Margin Funds available for investment during the period was primarily due to the increased open interest in futures and options contracts. The reduction in Corporate Funds was mainly due to the \$2.2 billion payment of 2003 special and final dividends in April 2004.

The increase in income generated from funds available for investment was primarily due to the higher interest income arising from increases in fund size and interest rates during the first half of 2005.

The performance of funds available for investment was as follows:

Annualised Return on Funds Available for Investment



For details of the investment portfolio, please refer to the Treasury section under the Business Review.

(D) Income from sale of information

	Unaudited Six months ended 30 Jun 2005 \$'000	Unaudited Six months ended 30 Jun 2004 \$'000	Change
Income from sale of information	162,245	158,340	2%

Income from sale of information rose as demand for information increased in tandem with the activities of the Cash and Derivatives Markets.

(E) Other income

	Unaudited Six months ended 30 Jun 2005 \$'000	As restated Unaudited Six months ended 30 Jun 2004 \$'000	Change
Other income			
Network, terminal user, dataline and software sub-license fees	66,134	56,807	16%
Participants' subscription and application fees	17,282	17,230	0%
Brokerage on direct IPO applications	6,188	8,382	(26%)
Fair value gain of an investment property	2,600	–	N/A
Accommodation income	1,494	3,789	(61%)
Miscellaneous income	6,153	4,483	37%
Total	99,851	90,691	10%

Despite the 20 per cent reduction in AMS/3 user fees that took effect on 1 January 2005, network, terminal user, dataline and software sub-license fees increased due to the increase in sales of additional throttle.

Accommodation income (i.e. retention interest charged on cash margin deposits in non-contract settlement currencies and securities deposited by Participants as alternatives to cash deposits of the Margin Funds) decreased as there were less cash margin deposits denominated in non-contract settlement currencies during the period. Furthermore, from 1 June 2005, accommodation charges on cash margin deposits were abolished and accommodation fee on utilised non-cash collateral charged by HKCC and SEOCH were reduced from 1.2 per cent and 2 per cent respectively to 0.5 per cent.

OPERATING EXPENSES

	Unaudited Six months ended 30 Jun 2005 \$'000	As restated Unaudited Six months ended 30 Jun 2004 \$'000	Change
Staff costs and related expenses	282,762	265,153	7%
Information technology and computer maintenance expenses	99,063	110,017	(10%)
Premises expenses	39,946	39,245	2%
Product marketing and promotion expenses	5,533	5,696	(3%)
Legal and professional fees	6,592	5,484	20%
Depreciation	85,680	91,578	(6%)
Payment to SFC under dual filing regime	10,000	10,000	0%
Other operating expenses	40,942	44,122	(7%)
Total	570,518	571,295	(0%)

Staff costs and related expenses rose by \$18 million, primarily due to the increase in salary costs of \$13 million as a result of the increase in headcount and salary adjustment in 2005. Employee share option costs also rose by \$5 million due to the amortisation of the option costs arising from grants of new share options in March 2004, May 2004 and January 2005.

Information technology and computer maintenance expenses of the Group, after excluding goods and services directly consumed by the Participants of \$26 million (2004: \$29 million), were \$73 million (2004: \$81 million). The reduction was mainly due to lower system maintenance costs and reduced network line rental charges. During the period under review, capital expenditures on computer systems, hardware and software amounted to \$11 million (2004: \$11 million).

Depreciation fell as certain fixed assets became fully depreciated.

Other operating expenses declined mainly as a result of the decrease in bank charges following the expiry of certain banking facilities that were no longer necessary.

SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

	Unaudited Six months ended 30 Jun 2005 \$'000	As restated Unaudited Six months ended 30 Jun 2004 \$'000	Change
Share of profits less losses of associates	8,635	6,144	41%

Share of profits less losses of associates increased due to the higher profitability of one of the associates, CHIS. In May 2005, the Group acquired a further six per cent of the share capital of CHIS.

TAXATION

	Unaudited Six months ended 30 Jun 2005 \$'000	As restated Unaudited Six months ended 30 Jun 2004 \$'000	Change
Taxation	105,786	101,192	5%

Taxation increased mainly attributable to an increase in operating profit, but partly offset by an increase in non-taxable investment income.

COMPARISON OF 2005 SECOND QUARTER PERFORMANCE WITH 2005 FIRST QUARTER PERFORMANCE

	Unaudited Three months ended 30 Jun 2005 \$ million	Unaudited Three months ended 31 Mar 2005 \$ million
Income:		
Income directly affected by market turnover:		
Trading fees and trading tariff	170	183
Clearing and settlement fees	81	92
Depository, custody and nominee services fees	100	33
	351	308
Stock Exchange listing fees	99	96
Investment income	79	43
Income from sale of information	83	79
Other income	52	48
	664	574
Operating expenses	287	283
Operating profit	377	291
Share of profits less losses of associates	6	3
Profit before taxation	383	294
Taxation	(57)	(49)
Profit attributable to shareholders	326	245

Profit attributable to shareholders increased by \$81 million to \$326 million for the second quarter of 2005, compared with \$245 million recorded in the first quarter of 2005. The improvement in profit was mainly due to an increase in depository, custody and nominee services fees due to seasonal factors and higher investment income, while operating expenses remained fairly stable during the two quarters.

Key market indicators

	Three months ended 30 Jun 2005	Three months ended 31 Mar 2005	Change
Average daily turnover value on the Stock Exchange	\$15.4 billion	\$18.4 billion	(16%)
Average daily number of derivatives contracts traded on the Futures Exchange	61,545	63,885	(4%)
Average daily number of stock options contracts traded on the Stock Exchange	23,907	26,583	(10%)

Despite a decrease in trading fees and trading tariff of \$13 million and clearing and settlement fees of \$11 million due to the decline in activities in the Cash and Derivatives Markets in the second quarter of 2005, income directly affected by market turnover increased by \$43 million in the second quarter as compared to the first quarter as depository, custody and nominee services fees rose by \$67 million on account of an increase in dividend collection and scrip fee income due to seasonal fluctuations.

Investment income increased by \$36 million, principally due to higher interest income attributable to rising interest rates in 2005 and increased fair value gains on the investments held, reflecting the market movements in the bond and equity prices during the two quarters.

Taxation increased, mainly as a result of the increase in operating profit, but partly offset by an increase in non-taxable investment income.

WORKING CAPITAL

Working capital rose by \$82 million or three per cent to \$3,147 million as at 30 June 2005 (31 December 2004: \$3,065 million). The increase was primarily due to the profit generated during the period of \$571 million, which was partly offset by payment of the 2004 final dividend of \$498 million in April 2005, and the increase in other net current assets of \$9 million.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. As at 30 June 2005, the Group's total available banking facilities amounted to \$1,608 million (31 December 2004: \$1,608 million), of which \$1,500 million (31 December 2004: \$1,500 million) represented repurchase facilities to augment the liquidity of the Margin Funds.

Borrowings of the Group have been rare and are mostly event driven, with little seasonality. As at 30 June 2005 and 31 December 2004, the Group had no bank borrowings, and therefore had zero gearing.

The Group's capital expenditure commitments as at 30 June 2005 were related to the refurbishment of the Trading Hall and the ongoing investments in facilities and technology, and amounted to \$144 million (31 December 2004: \$78 million). The Group has adequate internal resources to fund its commitments on capital expenditures.

As at 30 June 2005, 97 per cent (31 December 2004: 99 per cent) of the Group's cash and cash equivalents (comprise cash on hand, bank balances and time deposits within three months of maturity when acquired) were denominated in HKD or USD.

CHARGES ON ASSETS

None of the Group's assets was pledged as at 30 June 2005 and 31 December 2004.

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS AND SUBSIDIARIES

There were no material acquisitions or disposals of investments and subsidiaries during the six-month period.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 31(a)(i) – Foreign exchange risk to the condensed consolidated accounts of this interim report.

CONTINGENT LIABILITIES

In May 2005, the Court of Appeal issued its judgement in the New World Development Company Limited (“New World”) judicial review appeal case. The Court allowed the appeal and quashed the direction of the Chairman of the Listing (Disciplinary) Committee in the New World disciplinary proceedings that legal advisers not be permitted to address the Listing (Disciplinary) Committee. New World was awarded costs which are estimated to be in the region of \$4 million. The Stock Exchange has lodged an application for appeal to the Court of Final Appeal. In the opinion of external legal counsel, the Stock Exchange has valid grounds for an appeal, a reasonable prospect of success and consequently it is not probable that the Stock Exchange will be required to bear the costs incurred by New World in the legal proceedings. Accordingly, no provision for such costs has been made in the accounts.

For details of the other contingent liabilities, please refer to note 28(a), (b) and (c) to the condensed consolidated accounts of this interim report.

EMPLOYEES

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

For the purpose of motivating and retaining employees for the continual operation and development of the Group, share options were granted to some of the employees (including the executive Director) of HKEx to subscribe for shares in HKEx in accordance with the terms and conditions of the Pre-Listing Share Option Scheme and Post-Listing Share Option Scheme approved by the shareholders of HKEx at an extraordinary general meeting held on 31 May 2000 and the latter being subsequently amended by the shareholders of HKEx on 17 April 2002 so as to comply with the new Listing Rules which came into effect on 1 September 2001. No further options can be, or have been, issued under the Pre-Listing Share Option Scheme after the date of listing of HKEx on the Stock Exchange.

The staff team as at the end of June 2005 comprised 823 employees, including 40 temporary staff (31 December 2004: 791 employees, including 16 temporary staff).

There are no significant changes to the policies relating to remuneration, bonus, share option schemes and training schemes from the information disclosed in the 2004 annual report.

PROSPECTS

As the controller of the stock and futures exchanges, HKEx's revenue is closely correlated with the activities in the Cash and Derivatives Markets. Apart from the local economic development which is one of the contributing factors, the Group's performance is also subject to the economic growth of the Mainland and other major international financial markets. The rising interest rate and oil prices, the impact of the revaluation of Renminbi on international trade and capital inflow to Hong Kong will remain major concerns of both local and international investors.

In the first half of the year, Mainland enterprises raised a total of \$58.5 billion through IPOs on the Main Board and GEM, accounting for about 90 per cent of the total IPO funds raised during the period. HKEx has benefited from the steady economic growth on the Mainland in recent years and has successfully attracted the listings of major Mainland enterprises including some of the world's largest IPOs. These listings have further strengthened HKEx's role as a Mainland partner in capital raising and as the most liquid market for the trading of Mainland-related securities and derivatives. HKEx will continue building on its strength to reaffirm its position as the pre-eminent exchange where Mainland and Hong Kong enterprises can tap the global capital market, and reinforce Hong Kong's role as an international financial centre.

Condensed Consolidated Profit and Loss Account

(Financial figures are expressed in Hong Kong Dollar)

	Note	Unaudited Six months ended 30 Jun 2005 \$'000	As restated Unaudited Six months ended 30 Jun 2004 \$'000	Unaudited Three months ended 30 Jun 2005 \$'000	As restated Unaudited Three months ended 30 Jun 2004 \$'000
INCOME	2				
Trading fees and trading tariff	4	352,615	347,172	169,935	154,388
Stock Exchange listing fees	5	195,572	182,970	98,869	92,279
Clearing and settlement fees		172,427	185,950	80,786	79,316
Depository, custody and nominee services fees		133,682	125,157	100,069	87,331
Income from sale of information		162,245	158,340	83,255	77,785
Investment income/(loss)	6	122,073	73,488	79,193	(17,777)
Other income	7	99,851	90,691	52,106	41,575
	3	1,238,465	1,163,768	664,213	514,897
OPERATING EXPENSES					
Staff costs and related expenses	8	282,762	265,153	141,378	132,774
Information technology and computer maintenance expenses	9	99,063	110,017	50,157	55,403
Premises expenses		39,946	39,245	20,152	19,715
Product marketing and promotion expenses		5,533	5,696	3,846	2,528
Legal and professional fees		6,592	5,484	3,699	1,603
Depreciation		85,680	91,578	41,449	46,697
Payment to SFC under dual filing regime		10,000	10,000	5,000	5,000
Other operating expenses	10	40,942	44,122	22,162	22,689
	3	570,518	571,295	287,843	286,409
OPERATING PROFIT	3	667,947	592,473	376,370	228,488
SHARE OF PROFITS LESS LOSSES OF ASSOCIATES	3/14(c)	8,635	6,144	6,018	3,164
PROFIT BEFORE TAXATION	3	676,582	598,617	382,388	231,652
TAXATION	3/11	(105,786)	(101,192)	(57,013)	(47,123)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	3/25	570,796	497,425	325,375	184,529
DIVIDEND		519,988	454,283	519,988	454,283
Earnings per share	12	\$0.54	\$0.47	\$0.31	\$0.17
Interim dividend declared per share		\$0.49	\$0.43	\$0.49	\$0.43
Dividend payout ratio		91%	91%	N/A	N/A

Condensed Consolidated Statement of Changes in Equity

(Financial figures are expressed in Hong Kong Dollar)

	Unaudited					
	Share capital and share premium (note 21) \$'000	Employee share-based compensation reserve (note 22) \$'000	Revaluation reserves (note 23) \$'000	Designated reserves (note 24) \$'000	Retained earnings (note 25) \$'000	Total equity \$'000
At 1 Jan 2005	1,160,673	17,061	18,829	680,996	2,174,584	4,052,143
Change in valuation of leasehold buildings	-	-	(548)	-	-	(548)
Change in fair value of available-for-sale financial assets	-	-	(68,081)	-	-	(68,081)
Realisation of change in fair value of available-for-sale financial assets on maturity and disposal	-	-	(446)	-	-	(446)
Deferred tax arising from change in valuation of leasehold buildings	-	-	96	-	-	96
Deferred tax arising from change in fair value of available-for-sale financial assets	-	-	3,169	-	-	3,169
Net loss recognised directly in equity	-	-	(65,810)	-	-	(65,810)
Profit attributable to shareholders	-	-	-	-	570,796	570,796
Total recognised (loss)/profit	-	-	(65,810)	-	570,796	504,986
2004 final dividend	-	-	-	-	(498,217)	(498,217)
Shares issued under employee share option schemes	32,534	-	-	-	-	32,534
Employee share option benefits	-	11,345	-	-	-	11,345
Transfer of reserves	2,009	(2,009)	-	3,087	(3,087)	-
At 30 Jun 2005	1,195,216	26,397	(46,981)	684,083	2,244,076	4,102,791

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	As restated Unaudited					
	Share capital and share premium \$'000	Employee share-based compensation reserve \$'000	Revaluation reserves \$'000	Designated reserves \$'000	Retained earnings \$'000	Total equity \$'000
At 31 Dec 2003, as previously reported	1,103,337	–	46,431	689,657	3,763,838	5,603,263
Effect of changes in accounting policies	–	2,771	(9,932)	–	18,023	10,862
At 31 Dec 2003, as restated	1,103,337	2,771	36,499	689,657	3,781,861	5,614,125
Effect of initial adoption of HKAS 39	–	–	–	–	28	28
At 1 Jan 2004, as restated	1,103,337	2,771	36,499	689,657	3,781,889	5,614,153
Change in valuation of leasehold buildings	–	–	565	–	–	565
Change in fair value of available-for-sale financial assets	–	–	(37,319)	–	–	(37,319)
Realisation of change in fair value of financial assets on maturity and disposal	–	–	(140)	–	–	(140)
Deferred tax arising from change in valuation of leasehold buildings	–	–	(99)	–	–	(99)
Deferred tax arising from change in fair value of available-for-sale financial assets	–	–	5,036	–	–	5,036
Net loss recognised directly in equity	–	–	(31,957)	–	–	(31,957)
Profit attributable to shareholders	–	–	–	–	497,425	497,425
Total recognised (loss)/profit	–	–	(31,957)	–	497,425	465,468
2003 special and final dividends	–	–	–	–	(2,218,559)	(2,218,559)
Shares issued under employee share option schemes	56,194	–	–	–	–	56,194
Employee share option benefits	–	5,902	–	–	–	5,902
Transfer of reserves	–	–	–	(1,981)	1,981	–
At 30 Jun 2004, as restated	1,159,531	8,673	4,542	687,676	2,062,736	3,923,158

Condensed Consolidated Balance Sheet

(Financial figures are expressed in Hong Kong Dollar)

	Note	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
NON-CURRENT ASSETS			
Fixed assets	13	252,135	324,300
Investment property	13	15,900	13,300
Lease premium for land		94,397	94,670
Investments in associates	14	59,974	38,731
Clearing House Funds	15	1,347,126	1,861,487
Compensation Fund Reserve Account	16	37,574	37,451
Time deposit with maturity over one year		38,944	38,941
Deferred tax assets		3,230	1,227
Other assets		13,009	13,142
		1,862,289	2,423,249
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	17	4,327,370	4,691,846
Lease premium for land		548	548
Taxation recoverable		20	91
Margin Funds on derivatives contracts	18	11,179,014	10,529,692
Financial assets at fair value through profit or loss	19	2,600,570	2,761,593
Time deposits with original maturity over three months		209,266	1,340
Cash and cash equivalents		1,058,788	1,035,045
		19,375,576	19,020,155
CURRENT LIABILITIES			
Margin deposits from Clearing Participants on derivatives contracts	18	11,179,014	10,529,692
Accounts payable, accruals and other liabilities	17	4,646,646	4,902,350
Financial liabilities at fair value through profit or loss	19	189	10,749
Participants' admission fees received		4,550	4,850
Deferred revenue		165,824	284,148
Taxation payable		207,107	199,678
Provisions	20	24,821	23,212
		16,228,151	15,954,679
NET CURRENT ASSETS		3,147,425	3,065,476
TOTAL ASSETS LESS CURRENT LIABILITIES		5,009,714	5,488,725

	Note	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
NON-CURRENT LIABILITIES			
Participants' admission fees received		80,900	82,850
Participants' contributions to Clearing House Funds	15	781,348	1,298,752
Deferred tax liabilities		20,551	30,876
Provisions	20	24,124	24,104
		906,923	1,436,582
NET ASSETS			
		4,102,791	4,052,143
CAPITAL AND RESERVES			
Share capital	21	1,061,201	1,056,639
Share premium	21	134,015	104,034
Employee share-based compensation reserve	22	26,397	17,061
Revaluation reserves	23	(46,981)	18,829
Designated reserves	24	684,083	680,996
Retained earnings	25	1,724,088	1,677,964
Proposed/declared dividends	25	519,988	496,620
SHAREHOLDERS' FUNDS			
		4,102,791	4,052,143

Condensed Consolidated Cash Flow Statement

(Financial figures are expressed in Hong Kong Dollar)

	Note	Unaudited Six months ended 30 Jun 2005 \$'000	As restated Unaudited Six months ended 30 Jun 2004 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	26(a)	693,756	1,209,528
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		(13,461)	(13,217)
Proceeds from sales of fixed assets		1	155
Proceeds from sales of other assets		–	1,175
Payments for acquisition of interest in an associate		(24,876)	–
(Increase)/decrease in time deposits with original maturity more than three months		(207,929)	348,106
Dividends received from an associate		4,800	6,000
Dividends received from available-for-sale financial assets		–	1,070
Interest received from available-for-sale financial assets		39,385	26,448
Interest paid on bank loan		–	(827)
Net cash (outflow)/inflow from investing activities		(202,080)	368,910
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		32,534	56,194
Admission fees refunded to less receipts from Participants		(2,250)	(1,900)
Repayment of bank loan		–	(50,286)
Dividends paid		(498,217)	(2,218,559)
Net cash outflow from financing activities		(467,933)	(2,214,551)
Net increase/(decrease) in cash and cash equivalents		23,743	(636,113)
Cash and cash equivalents at 31 Dec 2004/2003		1,035,045	1,355,390
Effect of initial adoption of HKAS 39		–	25,886
Cash and cash equivalents at 30 Jun 2005/2004	26(b)	1,058,788	745,163

Notes to the Condensed Consolidated Accounts

(Financial figures are expressed in Hong Kong Dollar)

1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34: Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

These unaudited condensed consolidated accounts should be read in conjunction with the 2004 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 2004.

In May 2005, the HKICPA issued an interpretation HK-INT 4 “Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases”, which is applicable to the Group’s operation and became effective on 24 May 2005. The adoption of the interpretation has no financial impact to the Group as the Group’s accounting policies already comply with the interpretation.

As disclosed in the 2004 annual accounts, the Group adopted various new Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA in the fourth quarter of 2004. The results for the six months ended 30 June 2004 have been restated in accordance with the new HKFRSs.

The effect of changes in accounting policies on the condensed consolidated profit and loss account for the six months ended 30 June 2004 is as follows:

	Unaudited						Total \$’000
	Effect of adopting						
	HKAS 1 \$’000	HKAS 17 \$’000	HKFRS 2 \$’000	HKFRS 3, HKAS 36 & HKAS 38 \$’000	HKAS 32 & HKAS 39 \$’000	Other reclassification \$’000	
Decrease in							
investment income	-	-	-	-	(3,094)	(3,789)	(6,883)
Increase in other income	-	-	-	-	-	3,789	3,789
Increase in staff costs and related expenses	-	-	(5,902)	-	-	-	(5,902)
Increase in							
premises expenses	-	(274)	-	-	-	-	(274)
Decrease in depreciation	-	942	-	-	-	-	942
Increase in other							
operating expenses	-	-	-	-	(434)	-	(434)
(Decrease)/ increase in							
share of profits less							
losses of associates	(1,345)	-	-	1,324	-	-	(21)
Decrease/(increase)							
in taxation	1,345	(46)	-	-	(84)	-	1,215
Total increase/ (decrease) in profit	-	622	(5,902)	1,324	(3,612)	-	(7,568)
Increase/(decrease) in basic earnings per share	-	0.06 cents	(0.56 cents)	0.12 cents	(0.34 cents)	-	(0.72 cents)

1. Basis of Preparation and Accounting Policies (Continued)

The effect of changes in accounting policies on equity as at 30 June 2004 is as follows:

	Unaudited						Total \$'000
	Effect of adopting						
	HKAS 17 \$'000	HKFRS 2 \$'000	HKFRS 3, HKAS 36 & HKAS 38 \$'000	HKAS 32 & HKAS 39 \$'000	HKAS 40 \$'000	HK(SIC)- INT 21 \$'000	
Increase/(decrease) in equity							
Employee share-based compensation reserve	-	8,673	-	-	-	-	8,673
Revaluation reserves	(25,932)	-	-	-	(1,771)	-	(27,703)
Retained earnings	17,309	(8,673)	3,970	(3,584)	1,771	(310)	10,483

The Group manages a significant portfolio of investments. Securities and derivative financial instruments (i.e. forward foreign exchange contracts) held for trading purposes (such as those of the Corporate Funds), and securities or bank deposits with embedded derivatives of the Margin Funds and the Corporate Funds whose economic characteristics and risks are not closely related to the host investments (“structured securities” or “structured deposits”) are classified as financial assets/ liabilities at fair value through profit or loss with changes in fair value recognised in the profit and loss account. Securities not held for trading (such as those held for the Clearing House Funds, Compensation Fund Reserve Account and Margin Funds (other than structured securities or structured deposits)) are classified as available-for-sale financial assets with changes in fair value recognised in the investment revaluation reserve.

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:

	Unaudited Six months ended 30 Jun 2005				
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Group \$'000
Income	530,107	197,041	348,067	163,250	1,238,465
Costs	270,586	74,814	190,591	34,527	570,518
Segment results	259,521	122,227	157,476	128,723	667,947
Share of profits less losses of associates	(21)	–	8,656	–	8,635
Segment profits before taxation	259,500	122,227	166,132	128,723	676,582
Taxation					(105,786)
Profit attributable to shareholders					570,796
	As restated Unaudited Six months ended 30 Jun 2004				
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Group \$'000
Income	513,870	145,865	344,403	159,630	1,163,768
Costs	267,849	71,466	194,005	37,975	571,295
Segment results	246,021	74,399	150,398	121,655	592,473
Share of profits less losses of associates	2	–	6,142	–	6,144
Segment profits before taxation	246,023	74,399	156,540	121,655	598,617
Taxation					(101,192)
Profit attributable to shareholders					497,425

3. Segment Information *(Continued)*

The **Cash Market** business mainly refers to the operations of the Stock Exchange, which covers all products traded on the Cash Market platforms, such as equities, debt securities, unit trusts, warrants and rights. Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market (“GEM”). The major sources of income of the business are trading fees, trading tariff and listing fees. Direct costs of the Listing Function are treated as segment costs under the Cash Market. Costs of the Listing Function are further explained in note 5.

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

The **Clearing** business refers to the operations of the three Clearing Houses, namely Hong Kong Securities Clearing Company Limited (“HKSCC”), The SEHK Options Clearing House Limited (“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 fees from providing clearing, settlement, depository and nominee services.

The **Information Services** business is responsible for developing, promoting and compiling historical and statistical data, and sales and business development of market data. Its income comprises primarily income from sale of Cash Market and Derivatives Market information.

In addition to the above, central income (mainly investment income of Corporate Funds) and central costs (mainly costs of the support functions that centrally provide services to all of the business segments) are allocated to the business segments and included in the segment income and costs.

4. Trading Fees and Trading Tariff

	Unaudited Six months ended 30 Jun 2005 \$'000	Unaudited Six months ended 30 Jun 2004 \$'000	Unaudited Three months ended 30 Jun 2005 \$'000	Unaudited Three months ended 30 Jun 2004 \$'000
Trading fees and trading tariff are derived from:				
Securities traded on the Cash Market	234,760	236,807	111,017	96,454
Derivatives contracts traded on the Derivatives Market	117,855	110,365	58,918	57,934
	352,615	347,172	169,935	154,388

5. Stock Exchange Listing Fees

Stock Exchange listing fees and costs of Listing Function comprise the following:

	Unaudited Six months ended 30 Jun 2005				As restated Unaudited Six months ended 30 Jun 2004			
	Equity		Debt & Derivatives \$'000	Total \$'000	Equity		Debt & Derivatives \$'000	Total \$'000
	Main Board \$'000	GEM \$'000			Main Board \$'000	GEM \$'000		
Income								
Annual listing fees	117,501	12,929	926	131,356	110,086	12,510	1,068	123,664
Initial and subsequent issue listing fees	22,782	2,520	35,092	60,394	17,649	7,120	31,228	55,997
Prospectus vetting fees	1,185	165	110	1,460	1,560	210	85	1,855
Other listing fees	1,816	546	-	2,362	1,014	440	-	1,454
Total income	143,284	16,160	36,128	195,572	130,309	20,280	32,381	182,970
Costs of Listing Function								
Staff costs and related expenses	48,125	12,908	2,609	63,642	35,120	14,465	2,686	52,271
Information technology and computer maintenance expenses	772	216	-	988	1,166	305	3	1,474
Premises expenses	3,210	859	185	4,254	2,621	1,066	197	3,884
Legal and professional fees	1,635	757	1	2,393	1,082	895	-	1,977
Depreciation	3,718	1,063	142	4,923	5,742	2,240	331	8,313
Payment to SFC under dual filing regime	8,150	1,850	-	10,000	8,176	1,824	-	10,000
Other operating expenses	2,691	980	96	3,767	3,131	1,054	105	4,290
Total costs	68,301	18,633	3,033	89,967	57,038	21,849	3,322	82,209
Contribution	74,983	(2,473)	33,095	105,605	73,271	(1,569)	29,059	100,761

5. Stock Exchange Listing Fees (Continued)

	Unaudited Three months ended 30 Jun 2005				As restated Unaudited Three months ended 30 Jun 2004			
	Equity				Equity			
	Main Board \$'000	GEM \$'000	Debt & Derivatives \$'000	Total \$'000	Main Board \$'000	GEM \$'000	Debt & Derivatives \$'000	Total \$'000
Income								
Annual listing fees	59,050	6,450	466	65,966	55,981	6,171	487	62,639
Initial and subsequent issue listing fees	10,716	1,180	18,700	30,596	10,239	3,265	14,410	27,914
Prospectus vetting fees	770	105	20	895	940	105	85	1,130
Other listing fees	1,126	286	-	1,412	362	234	-	596
Total income	71,662	8,021	19,186	98,869	67,522	9,775	14,982	92,279
Costs of Listing Function								
Staff costs and related expenses	24,482	6,485	1,306	32,273	18,029	6,883	1,830	26,742
Information technology and computer maintenance expenses	401	123	-	524	565	154	3	722
Premises expenses	1,616	422	87	2,125	1,398	527	134	2,059
Legal and professional fees	1,174	332	1	1,507	(308)	221	-	(87)
Depreciation	1,804	509	62	2,375	2,874	1,046	219	4,139
Payment to SFC under dual filing regime	4,083	917	-	5,000	4,080	920	-	5,000
Other operating expenses	1,362	586	24	1,972	1,367	444	68	1,879
Total costs	34,922	9,374	1,480	45,776	28,005	10,195	2,254	40,454
Contribution	36,740	(1,353)	17,706	53,093	39,517	(420)	12,728	51,825

Listing fee income is fees paid by issuers to enable them to gain access to the Stock Exchange and enjoy the privileges and facilities by being admitted, listed and traded on the Stock Exchange.

The costs listed above are regulatory in nature, which comprise direct costs of the Listing Function on vetting Initial Public Offerings (“IPOs”) and enforcing the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, disseminating information relating to listed companies, and payments to the Securities and Futures Commission (“SFC”) under the dual filing regime. Other indirect costs, comprising costs incurred by other divisions on building the reputation of the Stock Exchange (e.g. marketing and promotion, brand-building, and providing an efficient market infrastructure and market access facilities) to attract issuers to list on the Stock Exchange, which contribute to the Stock Exchange listing fee income above, are not included as they are part and parcel of the activities of the Group and cannot be separately quantified. Moreover, the costs do not cover costs of support services and other central overheads attributable to the Listing Function.

6. Investment Income/(Loss)

	Unaudited Six months ended 30 Jun 2005 \$'000	As restated Unaudited Six months ended 30 Jun 2004 \$'000	Unaudited Three months ended 30 Jun 2005 \$'000	As restated Unaudited Three months ended 30 Jun 2004 \$'000
Interest income				
– bank deposits	68,571	7,828	48,501	2,818
– listed available-for-sale financial assets	4,898	1,914	3,287	1,133
– unlisted available-for-sale financial assets	34,487	24,534	16,189	13,090
	107,956	34,276	67,977	17,041
Interest expenses	(19,234)	(119)	(16,330)	(15)
Net interest income	88,722	34,157	51,647	17,026
Net realised and unrealised gains/(losses) and interest income on financial assets at fair value through profit or loss				
– bank deposits with embedded derivatives	266	(2,329)	–	(3,374)
– listed securities	36,450	27,635	25,860	(256)
– unlisted securities	3,861	14,580	12,655	(24,021)
– exchange difference	(9,698)	(5,343)	(12,321)	(9,548)
	30,879	34,543	26,194	(37,199)
Gains/(losses) on disposal and maturity of available-for-sale financial assets				
– unlisted securities	–	101	–	–
– exchange difference	–	(151)	–	–
	–	(50)	–	–
Dividend income				
– listed available-for-sale financial assets	–	1,070	–	–
– listed financial assets at fair value through profit or loss	3,411	3,352	2,430	2,215
	3,411	4,422	2,430	2,215
Other exchange difference	(939)	416	(1,078)	181
Total investment income/(loss)	122,073	73,488	79,193	(17,777)
Total investment income/(loss) is derived from:				
Corporate Funds (note a)	42,343	44,765	33,975	(30,996)
Margin Funds	69,153	23,994	38,518	10,848
Clearing House Funds	10,577	4,729	6,700	2,371
	122,073	73,488	79,193	(17,777)

6. Investment Income/(Loss) (Continued)

- (a) Investment income/(loss) derived from Corporate Funds includes investment income of Compensation Fund Reserve Account of \$498,000 (2004: \$263,000) and Cash and Derivatives Market Development Fund (“CDMD Fund”) of \$Nil (2004: \$12,000) for the six months ended 30 June 2005, and investment income of Compensation Fund Reserve Account of \$312,000 (2004: \$132,000) and CDMD Fund of \$Nil (2004: \$6,000) for the three months ended 30 June 2005. The CDMD Fund was fully utilised in 2004.

7. Other Income

	Unaudited Six months ended 30 Jun 2005 \$'000	As restated Unaudited Six months ended 30 Jun 2004 \$'000	Unaudited Three months ended 30 Jun 2005 \$'000	As restated Unaudited Three months ended 30 Jun 2004 \$'000
Network, terminal user, dataline and software sub-license fees	66,134	56,807	35,196	27,718
Participants' subscription and application fees	17,282	17,230	8,576	8,554
Brokerage on direct IPO applications	6,188	8,382	1,523	2,017
Fair value gain of an investment property	2,600	–	2,600	–
Accommodation income on cash margin deposits in non-contract settlement currencies and securities deposited by Participants as alternatives to cash deposits of the Margin Funds	1,494	3,789	784	1,466
Miscellaneous income	6,153	4,483	3,427	1,820
	99,851	90,691	52,106	41,575

8. Staff Costs and Related Expenses

Details of staff costs and related expenses are as follows:

	Unaudited Six months ended 30 Jun 2005 \$'000	As restated Unaudited Six months ended 30 Jun 2004 \$'000	Unaudited Three months ended 30 Jun 2005 \$'000	As restated Unaudited Three months ended 30 Jun 2004 \$'000
Salaries and other short-term employee benefits	246,140	232,210	122,750	114,705
Employee share option benefits	11,345	5,902	5,985	4,108
Termination benefits	–	3,596	–	2,372
Retirement benefit costs (note a):				
– ORSO Plan	25,144	23,256	12,574	11,498
– MPF Scheme	133	189	69	91
	282,762	265,153	141,378	132,774

- (a) The Group has sponsored two defined contribution post-retirement benefit plans - the Hong Kong Exchanges and Clearing Provident Fund Scheme (“ORSO Plan”) and the AIA-JF Premium MPF Scheme (“MPF Scheme”). The retirement benefit costs charged to the condensed consolidated profit and loss account represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme. No contribution payable was outstanding as at 30 June 2004 and 2005.

9. Information Technology and Computer Maintenance Expenses

	Unaudited Six months ended 30 Jun 2005 \$'000	Unaudited Six months ended 30 Jun 2004 \$'000	Unaudited Three months ended 30 Jun 2005 \$'000	Unaudited Three months ended 30 Jun 2004 \$'000
Costs of services and goods:				
– consumed by the Group	72,827	81,123	36,096	39,642
– directly consumed by Participants	26,236	28,894	14,061	15,761
	99,063	110,017	50,157	55,403

10. Other Operating Expenses

	Unaudited Six months ended 30 Jun 2005 \$'000	As restated Unaudited Six months ended 30 Jun 2004 \$'000	Unaudited Three months ended 30 Jun 2005 \$'000	As restated Unaudited Three months ended 30 Jun 2004 \$'000
(Reversal of provision for)/ provision for impairment losses of trade receivables	(372)	130	68	633
Insurance	8,202	8,245	4,104	3,955
Financial data subscription fees	2,757	3,933	1,198	1,901
Custodian and fund management fees	3,891	3,963	1,948	1,866
Bank charges	1,788	3,959	1,043	1,841
Repair and maintenance expenses	3,774	3,389	2,012	1,816
Other miscellaneous expenses	20,902	20,503	11,789	10,677
	40,942	44,122	22,162	22,689

11. Taxation

Taxation charge/(credit) in the condensed consolidated profit and loss account represents:

	Unaudited Six months ended 30 Jun 2005 \$'000	As restated Unaudited Six months ended 30 Jun 2004 \$'000	Unaudited Three months ended 30 Jun 2005 \$'000	As restated Unaudited Three months ended 30 Jun 2004 \$'000
Provision for Hong Kong Profits Tax (note a)	114,849	109,619	62,225	48,200
Deferred taxation	(9,063)	(8,427)	(5,212)	(1,077)
	105,786	101,192	57,013	47,123

- (a) Hong Kong Profits Tax has been provided for at 17.5 per cent (2004: 17.5 per cent) on the estimated assessable profit for the period.

12. Earnings Per Share

The calculation of basic earnings per share for the six months ended 30 June 2005 is based on the profit attributable to shareholders of \$570,796,000 (2004: \$497,425,000) and the weighted average of 1,058,595,023 shares (2004: 1,053,391,703 shares) in issue during the period.

The calculation of basic earnings per share for the three months ended 30 June 2005 is based on the profit attributable to shareholders of \$325,375,000 (2004: \$184,529,000) and the weighted average of 1,060,247,198 shares (2004: 1,056,464,648 shares) in issue during the period.

12. Earnings Per Share *(Continued)*

The employee share options outstanding did not have a material dilutive effect on the basic earnings per share for the six-month and three-month periods ended 30 June 2005 and 30 June 2004.

13. Fixed Assets and Investment Property

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. Fixed assets decreased mainly attributable to depreciation during the period. The total cost of additions to fixed assets of the Group during the six months to 30 June 2005 was \$14,064,000 (2004: \$12,439,000), of which \$11,428,000 (2004: \$11,035,000) or 81 per cent (2004: 89 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 six months to 30 June 2005 were \$1,375,000 and \$1,000 respectively (2004: \$140,159,000 and \$305,000 respectively).

The Group's leasehold buildings included in fixed assets were revalued as at 30 June 2005 on the basis of their depreciated replacement costs calculated by Jones Lang LaSalle, an independent firm of qualified property valuers. A revaluation deficit of \$452,000 (\$548,000 net of applicable deferred taxes of \$96,000) was charged to the leasehold buildings revaluation reserve during the six months ended 30 June 2005 (note 23). For the six months ended 30 June 2004, a revaluation gain of \$466,000 (\$565,000 net of applicable deferred taxes of \$99,000) was credited to the leasehold buildings revaluation reserve.

The Group's investment property was revalued as at 30 June 2005 on the basis of its open market value by Jones Lang LaSalle. The fair value gain during the six months ended 30 June 2005 of \$2,600,000 (2004: \$Nil) was credited to the condensed consolidated profit and loss account under other income (note 7).

14. Investments in Associates

	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
Share of net assets of associates	11,088	13,790
Goodwill (note a)	48,886	24,941
	59,974	38,731

14. Investments in Associates (Continued)

(a) Goodwill

	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
At 1 Jan	24,941	24,941
Further acquisition of 6% interest in Computershare Hong Kong Investor Services Limited on 3 May 2005	23,945	–
At 30 Jun 2005/31 Dec 2004	48,886	24,941
Represented by:		
Opening value upon adoption of HKFRS 3	25,321	25,321
At cost	23,945	–
Accumulated impairment	(380)	(380)
	48,886	24,941

(b) Details of the unlisted associates as at 30 June 2005 were as follows:

Name	Place of incorporation	Principal activities	Particulars of shares held	Interest held
Computershare Hong Kong Investor Services Limited ("CHIS")	Hong Kong	Provision of share registration services	7,317 Class A ordinary shares	30%
ADP Wilco Processing Services Limited ("AWPS")	Hong Kong	Provision of transaction processing services to Stock Exchange Participants	6 Class B ordinary shares	30%

AWPS has an accounting year end of 30 June, which is not coterminous with the Group's accounting year end. Voluntary liquidation of AWPS commenced in April 2005.

(c) Share of profits less losses of associates

	Unaudited Six months ended 30 Jun 2005 \$'000	As restated Unaudited Six months ended 30 Jun 2004 \$'000	Unaudited Three months ended 30 Jun 2005 \$'000	As restated Unaudited Three months ended 30 Jun 2004 \$'000
Share of profits less losses of associates	9,818	7,489	6,655	3,899
Share of taxation of associates	(1,183)	(1,345)	(637)	(735)
	8,635	6,144	6,018	3,164

15. Clearing House Funds

	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
Net assets of the Clearing House Funds are as follows:		
HKSCC Guarantee Fund	339,568	339,598
SEOCH Reserve Fund	262,053	160,119
HKCC Reserve Fund	745,505	1,361,770
	1,347,126	1,861,487
Net assets of the Clearing House Funds are composed of:		
Available-for-sale financial assets, at fair value		
– listed debt securities	101,703	–
– unlisted debt securities	124,829	127,569
Time deposits with original maturity over three months	30,020	144,610
Cash and cash equivalents	1,104,325	1,604,089
	1,360,877	1,876,268
Less: Other liabilities	(13,751)	(14,781)
	1,347,126	1,861,487
The Clearing House Funds are funded by:		
Clearing Participants' cash contributions (note a)	781,348	1,298,752
Designated reserves (note 24):		
– Clearing houses' contributions	320,200	320,200
– Forfeiture of defaulted Clearing Participants' contributions	1,928	1,928
– Accumulated investment income net of expenses attributable to:		
– Clearing Participants' contributions	187,181	182,839
– Clearing houses' contributions	57,110	55,659
	566,419	560,626
Revaluation reserve (note 23(b))	(641)	2,109
	1,347,126	1,861,487
The maturity profile of the net assets of the Clearing House Funds is as follows:		
Amounts maturing after more than twelve months	101,703	157,858
Amounts maturing within twelve months	1,245,423	1,703,629
	1,347,126	1,861,487

15. Clearing House Funds (Continued)

- (a) Amount includes Participants' additional deposits of \$437,048,000 (31 December 2004: \$961,502,000).
- (b) The HKSCC Guarantee Fund provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Broker Participants in Central Clearing and Settlement System ("CCASS") arising from their Stock Exchange trades accepted for settlement on the Continuous Net Settlement ("CNS") basis and defective securities deposited into CCASS. The SEOCH Reserve Fund and the HKCC Reserve Fund were established for the exclusive purpose of supporting SEOCH and HKCC to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to SEOCH and HKCC respectively.

16. Compensation Fund Reserve Account

	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
Net assets of the Compensation Fund Reserve Account are composed of:		
Available-for-sale financial assets, at fair value		
– unlisted debt securities	18,177	18,831
Cash and cash equivalents	29,567	29,137
Other receivable	–	100
	47,744	48,068
Less: Other liabilities	(10,170)	(10,617)
	37,574	37,451
The Fund represents:		
Accumulated investment income net of expenses included in designated reserves (note 24)	37,632	37,117
Revaluation reserve (note 23(b))	(58)	334
	37,574	37,451
The maturity profile of the net assets of the Compensation Fund Reserve Account is as follows:		
Amounts maturing after more than twelve months	–	18,831
Amounts maturing within twelve months	37,574	18,620
	37,574	37,451

16. Compensation Fund Reserve Account *(Continued)*

The SFC is responsible for maintaining the Unified Exchange Compensation Fund (“Compensation Fund”). By virtue of Schedule 10 of the Securities and Futures Ordinance (“SFO”), the Stock Exchange’s obligation under the repealed Securities Ordinance (“SO”) to deposit with the SFC and keep deposited \$50,000 in respect of each Stock Exchange Trading Right in the Compensation Fund remains. The Stock Exchange maintains an account known as the Compensation Fund Reserve Account for all receipts and payments in relation to the Compensation Fund under the Rules of the Exchange, in particular the following:

- (i) The interest received from the SFC on the statutory deposits paid in respect of each Stock Exchange Trading Right into the Compensation Fund maintained by the SFC;
- (ii) Amounts received or paid out in relation to each of the Stock Exchange Trading Rights granted or revoked by the Stock Exchange respectively; and
- (iii) Amounts reserved for the replenishment to the Compensation Fund.

The Compensation Fund is further explained in note 28(a).

17. Accounts Receivable, Prepayments and Deposits/Accounts Payable, Accruals and Other Liabilities

The Group’s accounts receivable, prepayments and deposits amounted to \$4,327,370,000 (31 December 2004: \$4,691,846,000). These mainly represent the Group’s CNS money obligations receivable under the T+2 settlement cycle, which account for 93 per cent (31 December 2004: 91 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days as they are due for settlement two days after the trade date. The majority of the remaining accounts receivable, prepayments and deposits will mature within three months. Fees receivable are due immediately or up to 30 days depending on the type of services rendered.

The Group’s accounts payable, accruals and other liabilities amounted to \$4,646,646,000 (31 December 2004: \$4,902,350,000). These mainly represent the Group’s CNS money obligations payable under the T+2 settlement cycle, which account for 87 per cent (31 December 2004: 87 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations payable mature within two days as they are due for settlement two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities will mature within three months.

18. Margin Funds on Derivatives Contracts

	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
The Margin Funds comprise:		
SEOCH Clearing Participants' Margin Funds	1,099,332	915,250
HKCC Clearing Participants' Margin Funds	10,079,682	9,614,442
	11,179,014	10,529,692
The assets of the Margin Funds comprise:		
Financial assets at fair value through profit or loss, on designation		
– bank deposits with embedded derivatives, at fair value	–	130,871
Available-for-sale financial assets, at fair value		
– listed debt securities	419,379	339,158
– unlisted debt securities	3,597,259	3,280,786
Time deposits with original maturity over three months	150,399	300,784
Cash and cash equivalents	7,011,389	6,443,406
Margin receivable from Clearing Participants	588	34,687
	11,179,014	10,529,692
The Group's liabilities in respect of the Margin Funds are as follows:		
Margin deposits from SEOCH and HKCC Participants on derivatives contracts	11,179,014	10,529,692
The maturity profile of the assets of Margin Funds is as follows:		
Amounts maturing after more than twelve months	1,486,827	2,138,362
Amounts maturing within twelve months	9,692,187	8,391,330
	11,179,014	10,529,692

19. Financial Assets/Liabilities at Fair Value through Profit or Loss

	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
Analysis of financial assets at fair value through profit or loss:		
<i>Held for trading</i>		
Equity securities, at fair value		
– listed in Hong Kong	123,480	93,154
– listed outside Hong Kong	131,077	151,954
	254,557	245,108
<i>Held for trading</i>		
Debt securities, at fair value		
– listed in Hong Kong	34,051	–
– listed outside Hong Kong	1,157,642	1,278,858
– unlisted	1,146,375	1,200,195
	2,338,068	2,479,053
<i>Held for trading</i>		
Derivative financial instruments, at fair value		
– forward foreign exchange contracts	7,945	247
<i>Designated as financial assets at fair value through profit or loss</i>		
Bank deposits with embedded derivatives, at fair value	–	37,185
	2,600,570	2,761,593
Analysis of financial liabilities at fair value through profit or loss:		
<i>Held for trading</i>		
Derivative financial instruments, at fair value		
– forward foreign exchange contracts	189	10,749

20. Provisions

	Unaudited		Total \$'000
	Reinstatement costs \$'000	Employee benefit costs \$'000	
At 1 Jan 2005	24,104	23,212	47,316
Provision for the period	20	17,966	17,986
Amount used during the period	–	(15,667)	(15,667)
Amount paid during the period	–	(690)	(690)
At 30 Jun 2005	24,124	24,821	48,945
		Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
Analysis of provisions:			
Current		24,821	23,212
Non-current		24,124	24,104
		48,945	47,316

21. Share Capital and Share Premium

	Unaudited at 30 Jun 2005 \$'000		Audited at 31 Dec 2004 \$'000	
	Number of shares of \$1 each	Share capital \$'000	Share premium \$'000	Total \$'000
Authorised: 2,000,000,000 shares of \$1 each		2,000,000		2,000,000
Issued and fully paid:				
		Audited		
At 1 Jan 2004	1,048,998,846	1,048,999	54,338	1,103,337
Shares issued under employee share option schemes	7,640,000	7,640	49,696	57,336
At 31 Dec 2004	1,056,638,846	1,056,639	104,034	1,160,673
		Unaudited		
At 1 Jan 2005	1,056,638,846	1,056,639	104,034	1,160,673
Shares issued under employee share option schemes	4,562,000	4,562	27,972	32,534
Transfer from employee share- based compensation reserve	–	–	2,009	2,009
At 30 Jun 2005	1,061,200,846	1,061,201	134,015	1,195,216

21. Share Capital and Share Premium *(Continued)*

During the period, employee share options granted under the Pre-Listing Share Option Scheme (“Pre-Listing Scheme”) and Post-Listing Share Option Scheme (“Post-Listing Scheme”) were exercised to subscribe for 4,562,000 shares (year ended 31 December 2004: 7,640,000 shares) in HKEx at an average consideration of \$7.13 per share (year ended 31 December 2004: \$7.50 per share), of which \$1.00 per share was credited to share capital and the balance was credited to the share premium account.

22. Employee Share-based Compensation Reserve

	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
At 1 Jan	17,061	2,771
Employee share option benefits	11,345	14,290
Transfer to share premium upon exercise of employee share options	(2,009)	–
At 30 Jun 2005/31 Dec 2004	26,397	17,061

- (a) Share options are granted to an executive Director and employees of the Group to subscribe for shares in HKEx in accordance with the terms and conditions of the Share Option Schemes approved by the shareholders of HKEx at an extraordinary general meeting held on 31 May 2000.

During the period, options for the subscription of 5,884,000 shares were granted under the Post-Listing Scheme to a number of employees on 26 January 2005 which are exercisable between 26 January 2007 and 25 January 2015 at an exercise price of \$19.25 per share.

22. Employee Share-based Compensation Reserve (Continued)

- (b) Movements in the number of shares issuable under options granted and their related weighted average exercise prices are as follows:

	Unaudited Six months ended 30 Jun 2005		Audited Year ended 31 Dec 2004	
	Average exercise price per share \$	Number of shares issuable under options granted	Average exercise price per share \$	Number of shares issuable under options granted
Pre-Listing Scheme				
Outstanding at 1 Jan	6.88	6,680,000	7.52	14,171,626
Exercised	6.88	(3,742,000)	7.50	(7,640,000)
Forfeited	–	–	7.00	(524,829)
Adjusted*	–	–	N/A	673,203
Outstanding at 30 Jun 2005/ 31 Dec 2004	6.88	2,938,000	6.88	6,680,000
Post-Listing Scheme				
Outstanding at 1 Jan	13.78	13,218,000	11.26	5,800,000
Granted	19.25	5,884,000	17.21	6,888,000
Exercised	8.28	(820,000)	–	–
Forfeited	16.96	(66,000)	16.96	(106,000)
Adjusted*	–	–	N/A	636,000
Outstanding at 30 Jun 2005/ 31 Dec 2004	15.78	18,216,000	13.78	13,218,000
Total	14.55	21,154,000	11.46	19,898,000

* Adjustments approved by shareholders at the 2004 annual general meeting held on 31 March 2004

- (c) According to the Binomial Option Pricing Model, the details of the options granted during the period under the Post-Listing Scheme were as follows:

Date of grant	Number of shares issuable under options granted	Option value	Closing share price at date of grant	Risk free rate (being the yield of 10-year Exchange Fund Notes)	Expected volatility (note i)	Expiration of the options	Expected ordinary dividend (note iii)
26 Jan 2005	5,884,000	\$26,183,800	\$19.25	3.67%	26%	10 years from 26 Jan 2005	4.42%

22. Employee Share-based Compensation Reserve *(Continued)*

- (i) The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the one year immediately preceding the grant date.
- (ii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in HKEx set out above.
- (iii) Expected ordinary dividend is based on 2005 prospective dividend yield of the shares as at 26 January 2005.
- (d) Had all the outstanding employee share options been fully exercised on 30 June 2005, the Group would have received \$307,709,420 in proceeds. The market value of the shares issued based on the closing price of \$20.10 per share on that date would have been \$425,195,400. The theoretical gains made by the employees or executive Director concerned would be as follows:

	Unaudited			
	Number of shares issuable under options granted as at 30 Jun 2005	Exercise price \$	Gain per share \$	Aggregate gain \$'000
Pre-Listing Scheme				
– granted to employees on 20 Jun 2000	2,938,000	6.88	13.22	38,840
Post-Listing Scheme				
– granted to an executive Director on 2 May 2003	2,460,000	8.28	11.82	29,077
– granted to an employee on 14 Aug 2003	1,094,000	12.45	7.65	8,369
– granted to an employee on 18 Aug 2003	1,968,000	12.49	7.61	14,977
– granted to an employee on 15 Jan 2004	1,094,000	17.30	2.80	3,063
– granted to employees on 31 Mar 2004	5,516,000	16.96	3.14	17,320
– granted to an employee on 17 May 2004	200,000	15.91	4.19	838
– granted to employees on 26 Jan 2005	5,884,000	19.25	0.85	5,002
Total	21,154,000			117,486

23. Revaluation Reserves

	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
Leasehold buildings revaluation reserve	2,085	2,537
Investment revaluation reserve (note b)	(49,066)	16,292
	(46,981)	18,829

- (a) The revaluation reserves are segregated for their respective specific purposes and are stated net of applicable deferred taxes.
- (b) Includes gross investment revaluation deficits of \$641,000 and \$58,000 (31 December 2004: gross surpluses of \$2,109,000 and \$334,000 respectively) which are attributable to investments of the Clearing House Funds and the Compensation Fund Reserve Account respectively. The significant decrease in investment revaluation reserve was mainly due to the decrease in fair value of available-for-sale financial assets of the Margin Funds.

24. Designated Reserves

	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	248,224	247,853
– SEOCH Reserve Fund reserve	50,514	48,774
– HKCC Reserve Fund reserve	267,681	263,999
	566,419	560,626
Compensation Fund Reserve Account reserve	37,632	37,117
Development reserve (note b)	80,032	83,253
	684,083	680,996

- (a) These reserves are segregated for their respective purposes.
- (b) Development reserve was set aside for systems development for the Stock Exchange. During the six months ended 30 June 2005, \$3,221,000 (2004: \$3,159,000) of the reserve was utilised and transferred to the Group's retained earnings (note 25) for funding systems development projects relating to the securities market.

25. Retained Earnings (Including Proposed/Declared Dividends)

	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
At 1 Jan		
Retained earnings	1,677,964	1,578,991
Proposed/declared dividends	496,620	2,202,898
Profit for the period/year (note a)	570,796	1,056,884
(Surplus)/deficit of investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves	(5,793)	5,040
Investment income net of expenses of Compensation Fund Reserve Account for the period/year transferred to Compensation Fund Reserve Account reserve	(515)	(576)
Transfer from CDMD Fund reserve (note b)	–	914
Transfer from Development reserve	3,221	3,283
Dividends paid:		
2004 final dividend/2003 special and final dividends	(496,620)	(2,202,898)
Dividend on shares issued for employee share options exercised after declaration of 2004 final dividend/2003 special and final dividends	(1,597)	(15,661)
	(498,217)	(2,218,559)
2004 interim dividend	–	(454,283)
Dividend on shares issued for employee share options exercised after declaration of 2004 interim dividend	–	(8)
	–	(454,291)
At 30 Jun/31 Dec	2,244,076	2,174,584
Representing:		
Retained earnings	1,724,088	1,677,964
Proposed/declared dividends	519,988	496,620
At 30 Jun/31 Dec	2,244,076	2,174,584

- (a) The Group's profit for the period/year includes a net profit attributable to investment income net of expenses of the Clearing House Funds, Compensation Fund Reserve Account and CDMD Fund for an aggregate amount of \$6,308,000 (year ended 31 December 2004: deficit of \$2,182,000).
- (b) The CDMD Fund reserve was fully utilised in 2004 for funding initiatives that were for the development and betterment of the Cash and Derivatives Markets in Hong Kong.

26. Notes to the Condensed Consolidated Cash Flow Statement

(a) Reconciliation of profit before taxation to net cash inflow from operating activities:

	Unaudited Six months ended 30 Jun 2005 \$'000	As restated Unaudited Six months ended 30 Jun 2004 \$'000
Profit before taxation	676,582	598,617
Adjustments for:		
Net interest income	(88,722)	(34,157)
Dividends from available-for-sale financial assets	–	(1,070)
Net realised and unrealised gains and interest income on financial assets at fair value through profit or loss	(30,879)	(34,543)
Amortisation of lease premium for land	273	274
Fair value gain of an investment property	(2,600)	–
Depreciation	85,680	91,578
Employee share option benefits	11,345	5,902
(Reversal of provision for)/provision for impairment losses of trade receivables	(372)	130
Changes in provisions	1,609	159
Share of profits less losses of associates	(8,635)	(6,144)
Loss on disposal of fixed assets	–	150
Operating profit before working capital changes	644,281	620,896
Net decrease in financial assets and financial liabilities at fair value through profit or loss	104,551	582,608
Settlement of amount transferred from retained earnings to Clearing House Funds and Compensation Fund Reserve Account	(6,308)	(1,421)
Settlement of amount transferred from CDMD Fund reserve to retained earnings	–	243
Decrease in accounts receivable, prepayments and deposits	316,381	2,432,539
Decrease in other current liabilities	(348,355)	(2,478,468)
Net cash inflow from operations	710,550	1,156,397
Interest received	68,571	7,828
Cash received on financial assets at fair value through profit or loss	41,188	45,364
Interest paid	(19,204)	(25)
Hong Kong Profits Tax paid	(107,349)	(36)
Net cash inflow from operating activities	693,756	1,209,528

26. Notes to the Condensed Consolidated Cash Flow Statement *(Continued)*

(b) Analysis of cash and cash equivalents

	Unaudited Six months ended 30 Jun 2005 \$'000	As restated Unaudited Six months ended 30 Jun 2004 \$'000
Time deposits with original maturity within three months	929,961	593,200
Cash at bank and in hand	128,827	151,963
Cash and cash equivalents at 30 Jun	1,058,788	745,163

(c) The net assets of the Clearing House Funds, Compensation Fund Reserve Account and Margin Funds are held in segregated accounts for specific purposes. Movements in individual items of the net assets of the funds during the period therefore do not constitute any cash or cash equivalent transactions to the Group.

27. Commitments

Commitments in respect of capital expenditures:

	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
Contracted but not provided for	8,503	4,484
Authorised but not contracted for	135,543	73,554
	144,046	78,038

The commitments in respect of capital expenditures were mainly for the refurbishment of the Trading Hall and the development and purchases of computer systems.

28. Contingent Liabilities

- (a) The Compensation Fund is a fund set up under the repealed SO for the purpose of compensating any person (other than a Stock Exchange Participant) dealing with a Stock Exchange Participant for any pecuniary losses suffered as a result of a default by the Stock Exchange Participant. According to section 109(3) of the SO, the maximum compensation amount is \$8 million for each Stock Exchange Participant's default. Under section 113(5A) of the SO, the Stock Exchange may, upon satisfying certain conditions, and with the approval of the SFC, allow an additional payment to successful claimants before apportionment. Under section 107(1) of the SO, the Stock Exchange has contingent liabilities to the Compensation Fund as it is obligated to replenish the Compensation Fund upon the SFC's request. The amounts to be replenished should be equal to the amount paid in connection with the satisfaction of the claims, including any legal and other expenses paid or incurred in relation to the claims but capped at \$8 million per default. As at 30 June 2005, there were outstanding claims received in respect of 9 Stock Exchange Participants (31 December 2004: 10).

Pursuant to the SFO, the Stock Exchange issued a notice on 3 April 2003 inviting claims against the Compensation Fund in relation to any default of a Stock Exchange Participant occurring before 1 April 2003. The claims period expired on 3 October 2003 and no claims were received in response to that notice. Claims made after the claims period are, unless the Stock Exchange otherwise determines, barred. As at 30 June 2005, no such claims had been received in response to the said notice.

Following the implementation of the new compensation arrangements under the SFO, an Investor Compensation Fund has been established to replace the existing Compensation Fund, the Commodity Exchange Compensation Fund and the Dealers' Deposit Schemes for non-exchange participant dealers. Pursuant to the SFO, Exchange Participants are no longer required to make deposits to the Investor Compensation Fund and the Stock Exchange is not required to replenish the Investor Compensation Fund. Hence, deposits to the Commodity Exchange Compensation Fund were returned to the Futures Exchange by the SFC in January 2004. The Futures Exchange had in turn reimbursed holders of Futures Exchange Trading Rights their contributions to the Commodity Exchange Compensation Fund. Similarly, deposits to the Compensation Fund would be returned to the Stock Exchange in accordance with the SFO pending completion of any determination of outstanding claims and replenishment to the Compensation Fund.

- (b) The Stock Exchange has undertaken to indemnify the Collector of Stamp Revenue against any loss of revenue resulting from any underpayment or default or delay in payment of stamp duty by its Participants, up to \$200,000 in respect of the default of any one Participant. In the unlikely event that all of its 425 trading Participants as at 30 June 2005 (31 December 2004: 434) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to \$85 million (31 December 2004: \$87 million).

28. Contingent Liabilities *(Continued)*

- (c) HKEx gave an undertaking on 6 March 2000 in favour of HKSCC to contribute an amount not exceeding \$50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the debts and liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs, charges and expenses of winding up.
- (d) In May 2005, the Court of Appeal issued its judgement in the New World Development Company Limited (“New World”) judicial review appeal case. The Court allowed the appeal and quashed the direction of the Chairman of the Listing (Disciplinary) Committee in the New World disciplinary proceedings that legal advisers not be permitted to address the Listing (Disciplinary) Committee. New World was awarded costs which are estimated to be in the region of \$4 million. The Stock Exchange has lodged an application for appeal to the Court of Final Appeal. In the opinion of external legal counsel, the Stock Exchange has valid grounds for an appeal, a reasonable prospect of success and consequently it is not probable that the Stock Exchange will be required to bear the costs incurred by New World in the legal proceedings. Accordingly, no provision for such costs has been made in the accounts.

29. Non-cash Collateral Received from Participants

As at 30 June 2005, the following non-cash collateral had been received from Clearing Participants for covering part of their obligations:

	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
Clearing House Funds		
Bank guarantees	78,640	322,724
Margin Funds		
Equity securities, listed in Hong Kong	549,800	610,318
US Treasury Bills	540,523	504,287
	1,090,323	1,114,605
Total	1,168,963	1,437,329

30. Material Related Party Transactions

Certain Directors of HKEx are investor participants of HKSCC (“Investor Participants”) or directors and/or shareholders of (i) Stock Exchange Participants and Futures Exchange Participants (“Exchange Participants”), Clearing Participants and Investor 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, Clearing Participants and Investor 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, Clearing Participants and Investor Participants, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

In addition to the above, the Group has entered into the following transactions with related parties:

(a) An associate

	Unaudited Six months ended 30 Jun 2005 \$'000	Unaudited Six months ended 30 Jun 2004 \$'000	Unaudited Three months ended 30 Jun 2005 \$'000	Unaudited Three months ended 30 Jun 2004 \$'000
Income received and receivable from/(expenses paid and payable to) an associate, CHIS:				
– Dividend income	12,668	6,000	7,868	3,600
– Share registration service fees	(269)	(172)	(111)	(65)

(b) Related companies with common directors

	Unaudited Six months ended 30 Jun 2005 \$'000	Unaudited Six months ended 30 Jun 2004 \$'000	Unaudited Three months ended 30 Jun 2005 \$'000	Unaudited Three months ended 30 Jun 2004 \$'000
Rental payments (including air conditioning and cleaning service charges) to Shine Hill Development Limited (“Shine Hill”) (note i)	2,668	1,980	1,337	1,300

30. Material Related Party Transactions (Continued)

- (i) On 5 February 2003, the Futures Exchange as the tenant entered into a tenancy agreement (“Lease”) with Shine Hill as the landlord. The Lease expired on 31 December 2004 and was subsequently renewed for a further term of two years commencing 1 January 2005 (“New Lease”). The Futures Exchange is a wholly-owned subsidiary of HKEx. Shine Hill is a subsidiary of Great Eagle Holdings Limited (“Great Eagle”). Dr LO Ka Shui is an independent non-executive Director of HKEx and the deputy chairman, managing director and substantial shareholder of Great Eagle. The Lease and the New Lease were arm’s length transactions entered into on normal commercial terms.

- (c) Key management personnel compensation

	Unaudited Six months ended 30 Jun 2005 \$'000	Unaudited Six months ended 30 Jun 2004 \$'000	Unaudited Three months ended 30 Jun 2005 \$'000	Unaudited Three months ended 30 Jun 2004 \$'000
Salaries and other short-term employee benefits	25,968	24,487	13,353	13,184
Employee share option benefits	4,864	3,966	2,505	2,172
Termination benefits	–	750	–	750
Retirement benefit costs	2,754	2,665	1,377	1,301
	33,586	31,868	17,235	17,407

- (d) Amounts due from/(to) related parties

	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
Amounts due from:		
– An associate	7,868	–
– Related companies with common directors	867	867
Amounts due to:		
– An associate	(71)	(55)
– Related companies with common directors	(142)	(144)
– Key management personnel	(3,542)	(5,894)

- (e) Post-retirement benefit plans

For details of transactions with the Group’s post-retirement benefit plans, please refer to note 8.

- (f) Save as aforesaid, the Group has entered into other transactions in the ordinary course of business with companies where there are common directors but the amounts were immaterial.

31. Financial Risk Management

The Group's investment policy is to prudently invest all funds managed by the Group in a manner which will satisfy liquidity requirements, safeguard financial assets, manage risks while optimising return on investments.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and equity price risk), credit risk, liquidity risk, fair value interest rate risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

The investment of the funds comprises three main categories: Corporate Funds (mainly share capital and retained earnings of the Group), Clearing House Funds and Margin Funds received (which exclude non-cash collateral and contributions receivable from Participants).

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rates relating to investments denominated in foreign currencies. When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency deposits have been used to hedge the currency exposure of the Group's non-HKD investments and liabilities to mitigate risks arising from fluctuations in exchange rates. As at 30 June 2005, the aggregate net open foreign currency positions amounted to HK\$1,916 million, of which HK\$140 million were non-USD exposures (31 December 2004: HK\$1,996 million, of which HK\$170 million were non-USD exposures), and the total nominal value of outstanding forward foreign exchange contracts amounted to HK\$509 million (31 December 2004: HK\$358 million). All forward foreign exchange contracts mature within four months (31 December 2004: one month).

The Group's foreign currency margin deposits received are hedged by investments in the same currencies.

(ii) Equity and commodity price risks

The Group is exposed to equity price risk as equities are held as part of the Corporate Fund's investments. Equity price risk is capped by an asset allocation limit. The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's Investment Policy.

Risk management techniques, such as Value-at-Risk ("VaR") and portfolio stress testing, are used to identify, measure and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by HKEx) at a given confidence level (95 per cent confidence interval is adopted by HKEx) based on historical data (one year is used by HKEx).

31. Financial Risk Management *(Continued)*

(b) Credit risk

(i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are made for losses that have been incurred at the balance sheet date. The Group limits its exposure to credit risk by rigorously selecting the counterparties (i.e. deposit-takers and issuers) and by diversification. As at 30 June 2005, all bonds held were of investment grade. Deposits are placed only with the note-issuing banks in Hong Kong and investment grade licensed banks and restricted licence banks approved by the Board from time to time. All investments are subject to a maximum concentration limit predetermined by the Board. The Group mitigates its exposure to risks relating to accounts receivables from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

(ii) Clearing and settlement-related off balance sheet risk

In the normal course of business, the clearing houses of the Group, HKSCC, SEOCH and HKCC, act as the counterparties to eligible trades concluded on the Stock Exchange and the Futures Exchange through the novation of the obligations of the buyers and sellers. HKSCC is also responsible for the good title to the securities deposited and accepted in the CCASS depository. As a result, the Group has considerable market risk and credit risk since the Participants' ability to honour their obligations in respect of their trades and securities deposited may be adversely impacted by economic conditions affecting the Cash and Derivatives Markets. If the Participants default on their obligations on settlement or there are defects in the title of securities deposited and accepted in the CCASS depository, the Group could be exposed to potential risks not otherwise accounted for in these accounts.

The Group mitigates its exposure to risks described above by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants, monitoring compliance with risk management measures such as position limits established by the Group and requiring Clearing Participants to contribute to the Clearing House Funds set up by HKSCC, SEOCH and HKCC. HKSCC also retains recourse against those Participants whose securities are deposited and accepted in the CCASS depository. Moreover, insurance has been taken out by the Group to cover the risks.

Position limits are imposed by HKCC to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. As of 30 June 2005, bank guarantees of \$935,400,000 were accepted (31 December 2004: \$902,500,000) for such purpose.

In addition to the above, the Group has set aside \$1,500 million of retained earnings for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

31. Financial Risk Management *(Continued)*

(c) Liquidity risk

Due to the dynamic nature of the Group's underlying businesses, investments are kept sufficiently liquid to meet operating needs and possible liquidity requirements of the Clearing House Funds and Margin Funds. In addition, banking facilities have been put in place for contingency purposes. As at 30 June 2005, the Group's total available banking facilities amounted to \$1,608 million (31 December 2004: \$1,608 million), of which \$1,500 million were repurchase facilities to augment the liquidity of Margin Funds.

(d) Fair value and cash flow interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks.

The table below summarises the Group's exposure to fair value interest rate risk. Included in the table are the Group's financial assets and financial liabilities whose interest rate is reset within the buckets as shown below (categorised by the earlier of contractual repricing or maturity dates) and their related effective interest rates.

31. Financial Risk Management (Continued)**(d) Fair value and cash flow interest rate risks (Continued)**

	Unaudited at 30 Jun 2005							
	Overnight \$'000	>Overnight to 1 month \$'000	>1 month to 1 year \$'000	>1 year to 3 years \$'000	>3 years \$'000	Non-interest bearing \$'000	Total \$'000	Effective interest rate of interest bearing items
Non-current assets								
Clearing House Funds Compensation Fund Reserve Account	1,052,931	48,104	154,849	101,703	-	(10,461)	1,347,126	3.51%
Time deposit with maturity over one year	38,944	-	-	-	-	-	38,944	N/A *
Other non-interest bearing non-current assets	-	-	-	-	-	438,645	438,645	N/A
	1,092,089	77,457	173,026	101,703	-	418,014	1,862,289	
Current assets								
Accounts receivable, prepayments and deposits	-	-	-	-	-	4,327,370	4,327,370	N/A
Margin Funds on derivatives contracts	4,220,185	2,952,407	2,519,007	1,486,827	-	588	11,179,014	2.85%
Financial assets at fair value through profit or loss	-	110,895	772,354	974,882	479,937	262,502	2,600,570	3.36%
Time deposits with original maturity over three months	4,831	402	204,033	-	-	-	209,266	2.11%
Cash and cash equivalents	672,829	370,041	15,918	-	-	-	1,058,788	2.63%
Other non-interest bearing current assets	-	-	-	-	-	568	568	N/A
	4,897,845	3,433,745	3,511,312	2,461,709	479,937	4,591,028	19,375,576	
Current liabilities								
Margin deposits from Clearing Participants on derivatives contracts	11,179,014	-	-	-	-	-	11,179,014	0.83%
Accounts payable, accruals and other liabilities	144,631	-	-	-	-	4,502,015	4,646,646	0.96%
Other non-interest bearing current liabilities	-	-	-	-	-	402,491	402,491	N/A
	11,323,645	-	-	-	-	4,904,506	16,228,151	
Non-current liabilities								
Participants' contributions to Clearing House Funds	309,425	-	-	-	-	471,923	781,348	3.20%
Other non-interest bearing non-current liabilities	-	-	-	-	-	125,575	125,575	N/A
	309,425	-	-	-	-	597,498	906,923	
Net (liabilities)/assets	(5,643,136)	3,511,202	3,684,338	2,563,412	479,937	(492,962)	4,102,791	

* The time deposit is a structured range accrual deposit. The effective interest rate of this deposit is not readily determinable as interest is paid only for those days where the agreed floating interest rate benchmark falls within a predetermined range.

31. Financial Risk Management (Continued)

(d) Fair value and cash flow interest rate risks (Continued)

Audited at 31 Dec 2004

	Overnight \$'000	>Overnight to 1 month \$'000	>1 month to 1 year \$'000	>1 year to 3 years \$'000	>3 years \$'000	Non-interest bearing \$'000	Total \$'000	Effective interest rate of interest bearing items
Non-current assets								
Clearing House Funds	1,550,359	51,060	114,321	157,858	-	(12,111)	1,861,487	0.60%
Compensation Fund Reserve Account	400	28,737	-	18,831	-	(10,517)	37,451	1.21%
Time deposit with maturity over one year	38,941	-	-	-	-	-	38,941	N/A*
Other non-interest bearing non-current assets	-	-	-	-	-	485,370	485,370	N/A
	1,589,700	79,797	114,321	176,689	-	462,742	2,423,249	
Current assets								
Accounts receivable, prepayments and deposits	-	-	-	-	-	4,691,846	4,691,846	N/A
Margin Funds on derivatives contracts	4,220,879	2,761,283	1,524,730	1,988,113	-	34,687	10,529,692	0.65%
Financial assets at fair value through profit or loss	10,031	154,413	912,981	1,002,374	436,440	245,354	2,761,593	2.80%
Time deposits with original maturity over three months	-	402	938	-	-	-	1,340	0.94%
Cash and cash equivalents	541,776	465,397	27,872	-	-	-	1,035,045	0.27%
Other non-interest bearing current assets	-	-	-	-	-	639	639	N/A
	4,772,686	3,381,495	2,466,521	2,990,487	436,440	4,972,526	19,020,155	
Current liabilities								
Margin deposits from Clearing Participants on derivatives contracts	10,529,692	-	-	-	-	-	10,529,692	0.00%
Accounts payable, accruals and other liabilities	148,946	-	-	-	-	4,753,404	4,902,350	0.04%
Other non-interest bearing current liabilities	-	-	-	-	-	522,637	522,637	N/A
	10,678,638	-	-	-	-	5,276,041	15,954,679	
Non-current liabilities								
Participants' contributions to Clearing House Funds	931,427	-	-	-	-	367,325	1,298,752	0.07%
Other non-interest bearing non-current liabilities	-	-	-	-	-	137,830	137,830	N/A
	931,427	-	-	-	-	505,155	1,436,582	
Net (liabilities)/assets	(5,247,679)	3,461,292	2,580,842	3,167,176	436,440	(345,928)	4,052,143	

* The time deposit is a structured range accrual deposit. The effective interest rate of this deposit is not readily determinable as interest is paid only for those days where the agreed floating interest rate benchmark falls within a predetermined range.

31. Financial Risk Management *(Continued)***(d) Fair value and cash flow interest rate risks** *(Continued)*

The Group's exposure to cash flow interest rate risk is summarised below. Included in the table are the Group's floating rate interest bearing financial assets and financial liabilities whose cash flows vary with changes in interest rates (e.g. interest income and interest expenses) and their interest rate reset dates (categorised by the earlier of contractual repricing or maturity dates).

	Unaudited at 30 Jun 2005					Total \$'000
	Overnight \$'000	>Overnight to 1 month \$'000	>1 month to 1 year \$'000	>1 year to 3 years \$'000	>3 years \$'000	
Non-current assets						
Clearing House Funds	1,052,931	-	-	-	-	1,052,931
Compensation Fund						
Reserve Account	214	-	-	-	-	214
Time deposit with maturity over one year	38,944	-	-	-	-	38,944
	1,092,089	-	-	-	-	1,092,089
Current assets						
Margin Funds on derivatives contracts	4,220,185	50,073	100,228	-	-	4,370,486
Financial assets at fair value through profit or loss	-	81,878	197,911	15,739	25,336	320,864
Time deposits with original maturity over three months	4,831	-	-	-	-	4,831
Cash and cash equivalents	672,829	-	-	-	-	672,829
	4,897,845	131,951	298,139	15,739	25,336	5,369,010
Current liabilities						
Margin deposits from Clearing Participants on derivatives contracts	11,179,014	-	-	-	-	11,179,014
Accounts payable, accruals and other liabilities	144,631	-	-	-	-	144,631
	11,323,645	-	-	-	-	11,323,645
Non-current liabilities						
Participants' contributions to Clearing House Funds	309,425	-	-	-	-	309,425
	309,425	-	-	-	-	309,425

31. Financial Risk Management *(Continued)***(d) Fair value and cash flow interest rate risks** *(Continued)*

	Audited at 31 Dec 2004				Total \$'000
	Overnight \$'000	>Overnight to 1 month \$'000	>1 month to 1 year \$'000	>1 year to 3 years \$'000	
Non-current assets					
Clearing House Funds	1,550,359	-	-	-	1,550,359
Compensation Fund Reserve Account	400	-	-	-	400
Time deposit with maturity over one year	38,941	-	-	-	38,941
	1,589,700	-	-	-	1,589,700
Current assets					
Margin Funds on derivatives contracts	4,220,879	180,965	100,249	-	4,502,093
Financial assets at fair value through profit or loss	10,031	103,520	173,208	28,610	315,369
Cash and cash equivalents	541,776	-	-	-	541,776
	4,772,686	284,485	273,457	28,610	5,359,238
Current liabilities					
Margin deposits from Clearing Participants on derivatives contracts	10,529,692	-	-	-	10,529,692
Accounts payable, accruals and other liabilities	148,946	-	-	-	148,946
	10,678,638	-	-	-	10,678,638
Non-current liabilities					
Participants' contributions to Clearing House Funds	931,427	-	-	-	931,427
	931,427	-	-	-	931,427

31. Financial Risk Management *(Continued)*

(e) Fair values of financial assets and financial liabilities not reported at fair value

The following table summarises the carrying amounts and fair values of financial assets and financial liabilities not presented on the Group's balance sheet at their fair value. The carrying amounts of short-term receivables (i.e. accounts receivable, deposits and cash and cash equivalents) and short-term payables (i.e. accounts payable and other liabilities) approximate their fair values, and accordingly no disclosure of the fair values of these items is presented.

	Carrying amount in balance sheet		Fair value	
	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000	Unaudited at 30 Jun 2005 \$'000	Audited at 31 Dec 2004 \$'000
Financial assets				
Time deposit with maturity over one year	38,944	38,941	37,831	37,808
Other financial assets included in other non-current assets (note i)	9,802	9,935	9,690	9,833
Financial liabilities				
Participants' admission fees received included in non-current liabilities (note i)	80,900	82,850	78,289	82,306
Participants' contributions to Clearing House Funds:				
– Minimum contributions (note i)	344,300	337,250	333,188	335,035
– Participants' additional deposits	437,048	961,502	437,048	961,502

- (i) The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets/liabilities, adjusted by an estimated credit spread. Assets/liabilities without a contractual maturity are assumed to mature exactly one year after the balance sheet date. The discount rates used range from 3.34 per cent to 3.60 per cent as at 30 June 2005 (31 December 2004: 0.66 per cent to 1.30 per cent).

32. Comparative Figures

The comparative figure of accommodation income on cash margin deposits in non-contract settlement currencies and securities deposited by Participants as alternatives to cash deposits of the Margin Funds has been reclassified from investment income to other income in order to conform with current period's presentation.

Audit Committee Report

The Audit Committee (“AC”) comprises a total number of five members, all of whom are independent non-executive Directors. Messrs Fong Hup, Marvin Cheung and Vincent Lee are Certified Public Accountants with extensive experience in financial matters. None of them is employed by or otherwise affiliated with the former or existing auditors of Hong Kong Exchanges and Clearing Limited (“HKEx”). External auditors are invited to attend the AC meetings, as and when necessary.

The AC assists the Board to fulfill its oversight responsibility by, among others, examining any matter relating to accounting principles and practices adopted by the Group, and discussing auditing and internal control issues, information systems and financial reporting matters. It is scheduled to meet at least four times a year to review audit reports, status of the Group’s audits, internal controls, and the interim and final accounts of the Group prior to recommending them to the Board for approval.

The AC has undertaken an evaluation of HKEx’s system of internal control. Using a globally recognised framework, the evaluation was facilitated by Internal Audit based on the representations made by individual divisions and departments. In general, the AC was satisfied with the effectiveness of HKEx’s system of internal control governing the principal business activities and operations. To the best of its ability, the AC was not aware of any significant failing or weakness in internal control.

AC has reviewed the Group’s unaudited interim accounts for the six months ended 30 June 2005 in conjunction with HKEx’s external auditors. It has also reviewed the accounting principles and practices adopted by the Group, and the independent review report of the external auditors as set out on page 80.

Based on these reviews, and discussions with the management and external auditors, the AC endorses the accounting treatment adopted by HKEx, and has to the best of its ability assured itself that the disclosure of the financial information in this report complies with the applicable accounting standards and the Appendix 16 of the Listing Rules. The AC therefore recommended the Board to approve the unaudited financial statements for the six months ended 30 June 2005 for public release.

Members of the Audit Committee

STRICKLAND, John Estmond (*Chairman*)

FONG Hup (*Deputy Chairman*)

CHEUNG Kin Tung, Marvin

FAN Hung Ling, Henry

LEE Kwan Ho, Vincent Marshall

Hong Kong, 12 August 2005

Independent Review Report to the Board of Directors of Hong Kong Exchanges and Clearing Limited

Introduction

We have been instructed by Hong Kong Exchanges and Clearing Limited to review the interim financial report for the six months ended 30 June 2005 set out on pages 36 to 78.

Respective Responsibilities of Directors and Auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the Directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review Work Performed

We conducted our review in accordance with Statement of Auditing Standard 700 “Engagements to review interim financial reports”, issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group’s management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of control and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review Conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 17 August 2005

Other Information

(Financial figures are expressed in Hong Kong Dollar)

Board of Directors

Dr Kwok Chi Piu, Bill and Mr Lee Kwan Ho, Vincent Marshall were successfully re-elected by shareholders at the Annual General Meeting held on 12 April 2005 (“2005 AGM”) and their service terms will be approximately three years from 12 April 2005 until the conclusion of the annual general meeting to be held in 2008. On the same day, the Financial Secretary appointed Dr Cheung Kin Tung, Marvin, and re-appointed Messrs Fan Hung Ling, Henry and Fong Hup as Government Appointed Directors each for a term of approximately two years from 12 April 2005 until the conclusion of the annual general meeting to be held in 2007. Mr Leong Ka Chai, a Government Appointed Director, retired after the conclusion of the 2005 AGM. The Board takes this opportunity to express its appreciation to Mr Leong for his invaluable contributions, advice, and support rendered to Hong Kong Exchanges and Clearing Limited (“HKEx”) over the past years.

Members of the Board are independent non-executive Directors with the exception of the Chief Executive who is an ex-officio Board member and the only executive Director of HKEx. Four of the independent non-executive Directors are Certified Public Accountants with substantial experience in financial matters and three of them are members of the Audit Committee.

Interim Dividend

The Board of Directors has resolved to declare an interim dividend of \$0.49 per share (2004: \$0.43 per share) for the year ending 31 December 2005, amounting to a total of about \$520 million (2004: \$454 million).

Share Option Schemes

On 31 May 2000, the Pre-Listing Share Option Scheme (“Pre-Listing Scheme”) and the Post-Listing Share Option Scheme (“Post-Listing Scheme”) were approved by shareholders under which the Directors of HKEx may, at their discretion, offer any employee (including any executive Director) of HKEx or of any of its subsidiaries, options to subscribe for shares in HKEx subject to the terms and conditions stipulated in the two schemes.

The Post-Listing Scheme was subsequently amended by shareholders on 17 April 2002 to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) effective 1 September 2001.

As at 30 June 2005, the total number of shares available for issue, save for those granted but yet to be exercised, under the Pre-Listing Scheme and the Post-Listing Scheme, was 62,376,484 which represented about 5.88 per cent of the issued share capital of HKEx.

Details of the share options outstanding as at 30 June 2005 under the Pre-Listing Scheme and the Post-Listing Scheme were as follows:

Pre-Listing Scheme

Date of Grant	Exercise Price	Number of shares issuable under the options granted			As at 30 June 2005	Exercise Period
		As at 1 January 2005	Issued upon subscription during the six months ended 30 June 2005	Lapsed during the six months ended 30 June 2005		
Employees (note 1)						
20 June 2000	\$6.88	6,680,000	3,742,000 (note 2)	–	2,938,000	6 March 2002- 30 May 2010 (note 3)

No further options can be, or have been, issued under the Pre-Listing Scheme from 27 June 2000, the date of listing of HKEx on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

Post-Listing Scheme

Date of Grant	Exercise Price	Number of shares issuable under the options granted			As at 30 June 2005	Exercise Period (note 5)	
		As at 1 January 2005	Granted during the six months ended 30 June 2005	Issued upon subscription during the six months ended 30 June 2005			Lapsed during the six months ended 30 June 2005
Director (note 4)							
2 May 2003	\$8.28	3,280,000	–	820,000 (note 6)	–	2,460,000	2 May 2005- 1 May 2013
Employees (note 1)							
14 August 2003	\$12.45	1,094,000	–	–	–	1,094,000	14 August 2005- 13 August 2013
18 August 2003	\$12.49	1,968,000	–	–	–	1,968,000	18 August 2005- 17 August 2013
15 January 2004	\$17.30	1,094,000	–	–	–	1,094,000	15 January 2006- 14 January 2014
31 March 2004	\$16.96	5,582,000	–	–	66,000	5,516,000	31 March 2006- 30 March 2014
17 May 2004	\$15.91	200,000	–	–	–	200,000	17 May 2006- 16 May 2014
26 January 2005	\$19.25 (note 7)	–	5,884,000	–	–	5,884,000	26 January 2007- 25 January 2015

No option granted under these two share option schemes was cancelled during the six months ended 30 June 2005.

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 \$19.90.*
3. *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.*
4. *The option was granted to Mr Chow Man Yiu, Paul, a Director and the Chief Executive of HKEx.*
5. *Options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of grant.*
6. *The closing price immediately before the date on which the option was exercised was \$19.15.*
7. *The closing price immediately before the date of grant was \$19.05.*
8. *HKEx has used the Binomial Option Pricing Model for estimating the fair value of options issued under the Post-Listing Scheme. The assumptions used in the calculation are:*
 - *Risk-free rate of return – the yield of 10-year Exchange Fund Notes*
 - *Expected volatility of share price – annualised volatility for 1 year immediately preceding the grant date*
 - *Expected dividend yield – annual dividend (excluding special dividend) of the most recent financial year and the closing price on grant date*

The amount written off in the profit and loss account for the six months ended 30 June 2005 was \$11,345,000 (30 June 2004: \$5,902,000).

According to the Binomial Option Pricing Model, the value of the option granted on 26 January 2005 was \$26,183,800. For details, please refer to note 22 to the condensed consolidated accounts.

The Binomial Option Pricing Model was 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.

Directors' and Chief Executive's Interests and Short Positions

As at 30 June 2005, the Directors, the Chief Executive and their respective associates had the following 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"):

(A) Interests in the shares and underlying shares of HKEx

Name of Director	Number of Shares/Underlying Shares Held				Total	% of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Chow Man Yiu, Paul	3,280,000 (note 1)	–	–	–	3,280,000	0.31
Lee Jor Hung, Dannis	–	–	1,610,000 (note 2)	–	1,610,000	0.15
Lee Kwan Ho, Vincent Marshall	–	–	–	820,000 (note 3)	820,000	0.08
John Estmond Strickland	18,000 (note 4)	–	–	–	18,000	0.00
David Michael Webb	2 (note 5)	2 (note 6)	6 (note 7)	–	10	0.00

Notes:

1. Mr Chow, a Director and the Chief Executive of HKEx, has beneficial interests in 820,000 shares, and 2,460,000 underlying shares in respect of the share option granted to him pursuant to the Post-Listing Scheme on 2 May 2003. The said option is exercisable between 2 May 2005 and 1 May 2013 at an exercise price of \$8.28 per share. The number of shares issuable under the option granted and the exercise price had been adjusted in accordance with the resolution passed by shareholders at the annual general meeting held in 2004.
2. 1,610,000 shares were owned by DL Brokerage Limited, a private company beneficially wholly-owned by Mr Lee.
3. Mr Lee has interest in 560,000 shares, and 260,000 underlying shares through listed derivatives (physically settled options), held by a corporation controlled by Lee Tung Hai Family Trust, a discretionary trust of which Mr Lee is a beneficiary.
4. The shares were held by Mr Strickland as beneficial owner.
5. The shares were held by Mr Webb as beneficial owner.
6. The shares were owned by the spouse of Mr Webb.
7. The shares were owned by Fundamental Consultants Limited, Member One Limited and Member Two Limited which are under the control of Mr Webb.

(B) Short positions in the shares and underlying shares of HKEx

As at 30 June 2005, Mr Lee Kwan Ho, Vincent Marshall was, under the SFO, interested in an aggregate short positions of 560,000 underlying shares of HKEx, representing 0.05 per cent of the total issued share capital of HKEx, which arose through certain listed equity derivatives (physically settled options) held by a corporation controlled by Lee Tung Hai Family Trust, a discretionary trust of which Mr Lee is a beneficiary.

Save for those 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 the 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 Issuers (“Model Code”) 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 June 2005, 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 June 2005, the Directors are not aware of any party who was directly or indirectly interested in five 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 Section 61 of 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 five per cent or more of the voting power at any general meeting of the recognised exchange controller, except with the approval in writing of the SFC after consultation with the Financial Secretary.

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 June 2005, the Minority Controllers were in aggregate holding 54.7 per cent of the issued share capital of HKEx (30 June 2004: 52.9 per cent).

Corporate Governance

HKEx is committed to building and maintaining high standards of corporate governance. HKEx applied the principles and complied with all requirements set out in the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 of the Listing Rules, with certain deviations from code provisions A.4.1 and A.4.2 in respect of the service term and rotation of Directors, throughout the review period.

The code provisions A.4.1 and A.4.2 provide that (a) non-executive directors should be appointed for specific terms, subject to re-election, and (b) all directors appointed to fill casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Details of the deviations were set out in the Corporate Governance Report of HKEx’s 2004 Annual Report issued in March 2005.

To ensure stricter compliance with the CG Code, relevant amendments to the Articles of Association were proposed and approved by shareholders at the 2005 AGM and subsequently approved by the SFC on 18 April 2005 pursuant to Section 67 of the SFO.

Following the effectiveness of the amendments to the Articles, and shareholders’ resolutions passed at the 2005 AGM, HKEx fully complies with the CG Code.

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group. In the preparation of the accounts for the year ended 31 December 2004, HKEx has early adopted various new Hong Kong Financial Reporting Standards which are aligned with the requirements of the International Financial Reporting Standards in all material respects. The accounting policies and methods of computation used in the preparation of the accounts for the six months ended 30 June 2005 are consistent with those used in the annual accounts for the year ended 31 December 2004.

The Board acknowledges its ultimate responsibility for setting up a robust internal control system for the Group to safeguard the shareholders’ investment and its assets. According to the CG Code, the Board has annually conducted review of the effectiveness of HKEx’s system of internal control. The Audit Committee has been considering alternative approaches to formalise such annual review framework. The Board is satisfied that the Group has fully complied with the code provisions on internal controls in the first half of 2005 as set forth in the CG Code.

Corporate Governance Assessments

In March 2005, GovernanceMetrics International announced the new ratings of HKEx, the scores so assigned to HKEx were 7.0 (Global, 2004: 6.0) and 9.5 (Home Market, 2004: 9.0) out of the full score of 10.0.

In the joint announcement issued by FTSE and Institutional Shareholders Services (“ISS”) on 14 April 2005 regarding the newly introduced FTSE ISS Corporate Governance Index Series, HKEx was mentioned as one of the five companies in Asia, which exhibited highly ranked corporate governance practice. The ratings covered over 2,200 companies from 24 countries.

In addition, the scores under the ISS Corporate Governance Quotient (CGQ) ratings recently assigned to HKEx on 9 August 2005 were 92.6 (Index ranking, as at 8 January 2005: 80.5) and 96.3 (Industry ranking, as at 8 January 2005: 84.1). The scores suggested that HKEx outperformed 92.6% of the companies in the ISS Development Ex-US Universe Index and 96.3% of the companies in the Diversified Financial group.

HKEx had been mentioned as one of the top best performing companies under the HKIoD Corporate Governance Score-card organised by The Hong Kong Institute of Directors and executed by the City University of Hong Kong in 2004. The project aimed at assessing the quality of corporate governance practices of Hong Kong listed companies and had involved 168 major companies in Hong Kong.

HKEx, as the exchange controller, would continue to work closely with the Government, the SFC, listed issuers, market participants and users to promote and implement corporate governance reforms in Hong Kong.

Succession Plan for Senior Executives and Organisational Changes

As part of HKEx's succession plan, a number of senior executives have been assigned new responsibilities to further enrich their exposures and management experience:

- Mr Bryan Chan (formerly Deputy Head of Clearing Division) has been appointed Head of Information Services;
- Mr Roger Lee (formerly Head of Information Services Department) has been appointed Senior Vice President of Cash Market; and
- Mr Derek Tam (formerly Senior Vice President of Cash Market) has been appointed Senior Vice President of Participant Admission and Surveillance.

In addition, in anticipation of the increasing investor services and preparation for the expanded public exhibition area in the Trading Hall, the Investor Services Department under the Business Development and Investor Services Division ("BDIS") has been transferred to the Corporate Communications Department in order to streamline the provision of services to investors and the general public.

BDIS has been renamed Business Development Division effective 1 August 2005 with the focus on marketing and liaison functions, in particular through the Beijing Representative Office and the special representatives in Shanghai and Guangzhou.

Compliance with the Model Code

HKEx has adopted the Model Code as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by HKEx, that they fully complied with the Model Code throughout the review period.

Purchase, Sale or Redemption of HKEx's Listed Securities

During the six months ended 30 June 2005, 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, 17 August 2005

Information for Stakeholders

(Financial figures are expressed in Hong Kong Dollar)

INTERIM REPORT

This interim report is printed in English and Chinese and is available on the corporate website of Hong Kong Exchanges and Clearing Limited (“HKEx”) at www.hkex.com.hk under the “Investor Relations Corner”. Printed copies in either or both languages are posted to shareholders in accordance with their indicated preference. Shareholders may at any time choose to change their choice of language or means of receipt of the Company’s corporate communications free of charge by notice in writing to the Company Secretary or HKEx’s registrar, Hong Kong Registrars Limited.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 7 September 2005 to Friday, 9 September 2005, both dates inclusive, during which period, no transfer of shares will be registered. Dividend warrants will be despatched to shareholders on or about Thursday, 15 September 2005. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with HKEx’s registrar, Hong Kong Registrars Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 6 September 2005.

REGISTERED OFFICE

Address: 12th Floor, One International Finance Centre,
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Telephone number: +852 2522 1122
Fax number: +852 2295 3106
Email address: info@hkex.com.hk
Website: <http://www.hkex.com.hk>

REPRESENTATIVE OFFICE IN BEIJING

Address: Suite 1002, Tower W2, Oriental Plaza,
No. 1, East Chang An Ave, Dong Cheng District, Beijing
Postal code: 100738
Telephone number: +8610 8518 3088
Fax number: +8610 8518 3288
Email address: bj@hkex.com.hk

GUANGZHOU SPECIAL REPRESENTATIVE

Address: Room C, 12th Floor, Guangdong International Building, Annex A,
339 Huanshi Dong Lu, Guangzhou
Postal code: 510098
Telephone number: +8620 2237 3166
Fax number: +8620 2237 3167

SHANGHAI SPECIAL REPRESENTATIVE

Address: Room 012, 14th Floor, HSBC Tower,
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Fax number: +8621 6841 0938

OUR CONTACT DETAILS

Business Development

Name: Mr Lawrence Fok, Head of Business Development Division

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Telephone number: +852 2840 3050

Fax number: +852 2521 7060

Corporate Communications and Investor Services

Name: Mr Henry Law, Head of Corporate Communications Department

Address: 12th Floor, One International Finance Centre,
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Telephone number: +852 2840 3861

Fax number: +852 2868 4084

Issuer Services

Name: Mr Peter Curley, Senior Vice President, Listing Division

Address: 11th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Telephone number: +852 2840 3787

Fax numbers: +852 2295 0198/ +852 2295 0590/ +852 2295 3599

Participant Services

Name: Mr Derek Tam, Senior Vice President, Exchange Division

Address: 17th Floor, Worldwide House,
19 Des Voeux Road Central, Hong Kong

Telephone number: +852 2840 3633

Fax number: +852 2810 9712

Secretarial Services

Name: Mr Joseph Mau, Company Secretary,
Head of Secretarial Services Department

Address: 12th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Telephone number: +852 2840 3872

Fax number: +852 2878 7029

HKEx'S REGISTRAR AND TRANSFER OFFICE

Name: Hong Kong Registrars Limited
 Address: 46th Floor and Rooms 1712-1716, 17th Floor, Hopewell Centre,
 183 Queen's Road East, Wanchai, Hong Kong
 Telephone number: +852 2862 8628
 Fax numbers: +852 2865 0990/ +852 2529 6087

FINANCIAL CALENDAR

2005 annual general meeting	12 April 2005
Announcement of first quarter results	11 May 2005
Announcement of interim results	17 August 2005
Announcement of third quarter results	November 2005 *
Announcement of final results	February 2006 *

* *To be advised*

DIVIDEND

Interim dividend	\$0.49 per share
Ex-dividend date for interim dividend	5 September 2005
Book closing dates for interim dividend	7-9 September 2005
Record date for interim dividend	9 September 2005
Payment date for interim dividend	on or about 15 September 2005

SHARE INFORMATION

Share Listing

HKEx's shares were first listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 27 June 2000.

Stock Code

Stock Exchange	388
Access to Reuters	0388.HK
Access to Bloomberg	388 HK Equity

Board lot

2,000 shares

PRICE AND TURNOVER HISTORY

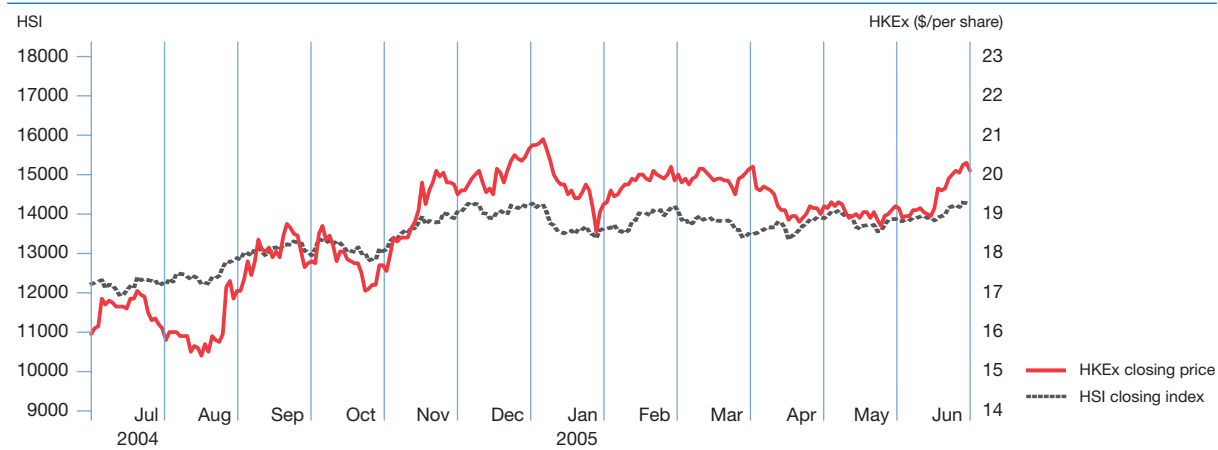
Year	Price per Share		Turnover (in millions)	
	High (\$)	Low (\$)	(Shares)	(\$)
2004				
July	17.10	15.70	75.07	1,242.12
August	17.45	15.40	111.13	1,804.11
September	18.95	17.10	104.14	1,872.08
October	18.95	16.80	66.23	1,178.57
November	20.15	17.45	104.29	1,998.13
December	20.85	19.40	71.13	1,425.36
2005				
January	20.95	18.50	93.63	1,827.06
February	20.50	19.35	51.44	1,022.60
March	20.20	19.45	72.19	1,435.47
April	20.25	18.75	75.75	1,460.45
May	19.40	18.70	51.90	987.69
June	20.40	18.75	81.27	1,589.67

MARKET CAPITALISATION

Public Float Capitalisation as at 30 June 2005 \$21,330 million

(Issued capital: 1,061,200,846 shares; closing price at 30 June 2005: \$20.10 per share)

SHARE PRICE OF HKEx COMPARED WITH HANG SENG INDEX (“HSI”)



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