香港交易所

11 August 2004

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

2004 Interim Results

The Directors of Hong Kong Exchanges and Clearing Limited (HKEx) submit the unaudited consolidated results of HKEx and its subsidiaries (the Group) for the six-month period ended 30 June 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
(Financial figures are expressed in Hong Kong dollars)

	Note	**Unaudited Six months ended 30 Jun 2004 $'000**	Unaudited Six months ended 30 Jun 2003 $'000
INCOME	2		
Trading fees and trading tariff		**347,172**	184,509
Stock Exchange listing fees		**182,970**	160,059
Clearing and settlement fees		**185,950**	92,312
Depository, custody and nominee services fees		**125,157**	94,593
Income from sale of information		**158,340**	126,253
Investment income	3	**80,371**	178,290
Other income	4	**86,902**	71,032
	2	**1,166,862**	907,048
OPERATING EXPENSES			
Staff costs and related expenses		**259,251**	266,861
Information technology and computer maintenance expenses		**110,017**	137,453
Premises expenses		**38,971**	42,833
Product marketing and promotion expenses		**5,696**	3,342
Legal and professional fees		**5,484**	20,991
Depreciation and amortisation		**92,520**	93,025
Payment to SFC under dual filing regime		**10,000**	5,000
Other operating expenses	5	**43,688**	91,186
	2	**565,627**	660,691
OPERATING PROFIT	2	**601,235**	246,357
SHARE OF PROFITS OF ASSOCIATED COMPANIES	2	**6,165**	3,263
PROFIT BEFORE TAXATION	2	**607,400**	249,620
TAXATION	2/6	**(102,407)**	(35,234)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	2	**504,993**	214,386
DIVIDEND		**454,283**	188,452
Earnings per share	7	**$0.479**	$0.205
Interim dividend declared per share		**$0.43**	$0.18
Dividend payout ratio		**90%**	88%

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CONDENSED CONSOLIDATED BALANCE SHEET

(Financial figures are expressed in Hong Kong dollars)

	Note	**Unaudited at 30 Jun 2004 $'000**	Audited at 31 Dec 2003 $'000
NON-CURRENT ASSETS			
Fixed assets		**527,348**	585,627
Investments in associated companies		**32,822**	34,002
Clearing House Funds		**1,142,014**	1,551,330
Compensation Fund Reserve Account		**36,899**	36,859
Cash and Derivatives Market Development Fund		**672**	925
Non-trading securities		**76,076**	77,258
Time deposits with maturity over one year		**85,999**	393,456
Deferred tax assets		**537**	-
Other assets		**13,163**	4,814
		1,915,530	2,684,271
CURRENT ASSETS			
Margin funds on derivatives contracts		**8,888,934**	7,874,510
Accounts receivable, prepayments and deposits	8	**2,173,389**	4,644,680
Taxation recoverable		**1,145**	1,558
Trading securities		**2,589,771**	3,212,998
Bank balances and time deposits		**743,534**	1,384,247
		14,396,773	17,117,993
CURRENT LIABILITIES			
Bank loans		**-**	50,286
Margin deposits and securities received from Clearing Participants on derivatives contracts		**8,888,934**	7,874,510
Accounts payable, accruals and other liabilities	8	**2,409,698**	4,779,904
Participants' admission fees received		**1,150**	4,100
Deferred revenue		**155,639**	257,068
Taxation payable		**166,456**	57,370
Provisions		**24,178**	25,011
		11,646,055	13,048,249
NET CURRENT ASSETS		**2,750,718**	4,069,744
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,666,248**	6,754,015
NON-CURRENT LIABILITIES			
Participants' admission fees received		**86,000**	84,950
Participants' contributions to Clearing House Funds		**574,896**	984,045
Deferred tax liabilities		**49,563**	58,665
Provisions		**24,084**	23,092
		734,543	1,150,752
NET ASSETS		**3,931,705**	5,603,263
CAPITAL AND RESERVES			
Share capital		**1,056,473**	1,048,999
Share premium		**103,058**	54,338
Revaluation reserves		**32,245**	46,431
Designated reserves		**687,676**	689,657
Retained earnings	9	**1,597,970**	1,560,940
Proposed and declared dividends	9	**454,283**	2,202,898
SHAREHOLDERS' FUNDS		**3,931,705**	5,603,263

Notes:

1. These unaudited condensed consolidated interim accounts should be read in conjunction with the 2003 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 2003.

2. The Group's turnover comprises trading fees and trading tariff from securities and options traded on The Stock Exchange of Hong Kong Limited (the Stock Exchange) and derivatives contracts traded on Hong Kong Futures Exchange Limited (the 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.

   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 2004				
	Cash Market $'000	**Derivatives Market $'000**	**Clearing Business $'000**	**Information Services $'000**	**Group $'000**
Income	**513,727**	**149,239**	**344,266**	**159,630**	**1,166,862**
Costs	**265,151**	**70,924**	**191,931**	**37,621**	**565,627**
Segment results	**248,576**	**78,315**	**152,335**	**122,009**	**601,235**
Share of profits of associated companies	**2**	**-**	**6,163**	**-**	**6,165**
Segment profits before taxation	**248,578**	**78,315**	**158,498**	**122,009**	**607,400**
Taxation					**(102,407)**
Profit attributable to shareholders					**504,993**

	Unaudited Six months ended 30 Jun 2003				
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Group $'000
Income	360,924	162,867	255,583	127,674	907,048
Costs	320,647	104,803	181,759	53,482	660,691
Segment results	40,277	58,064	73,824	74,192	246,357
Share of profits of associated companies	35	-	3,228	-	3,263
Segment profits before taxation	40,312	58,064	77,052	74,192	249,620
Taxation					(35,234)
Profit attributable to shareholders					214,386

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 Listing Function (which were previously included under the Others Segment) are treated as segment costs under the Cash Market Segment. Comparatives for 2003 have been reclassified retrospectively to conform to this practice.

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 Segment** is responsible for developing and promoting e-commerce products, compiling and developing index and statistical data, and sales and business development of market data. Its income comprises primarily income from sale of Cash Market and Derivatives Market information. Since Information Services activities share similar business risks as the Cash and Derivatives Market segments, results of Information Services activities were previously grouped under the two business segments based on the nature of their business risks (e.g., income from sales of Cash Market information under the Cash Market). As Information Services activities generate a significant amount of income for the Group, from year ended 31 December 2003 onwards, their results are disclosed under a separate Information Services Segment. Accordingly, comparatives for 2003 have been reclassified to conform to the new disclosure.

In addition to the above, central income (mainly investment income of Corporate Funds) and central costs (mainly costs of the support functions that centrally provide services to all of the business segments) are allocated to the business segments and included in the segment income and costs. Accordingly, comparatives for 2003 have been reclassified to conform to this practice.

3. Investment income

	Unaudited Six months ended 30 Jun 2004 $'000	Unaudited Six months ended 30 Jun 2003 $'000
Interest income		
- bank deposits	**9,028**	33,116
- listed securities	**18,625**	21,933
- unlisted securities	**45,028**	56,566
	72,681	111,615
Interest expenses	**(119)**	(969)
Net interest income	**72,562**	110,646
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	**3,789**	8,669
Non-interest investment income		
Net realised and unrealised gain/(loss) on investments (note a)		
- listed trading and non-trading securities	**10,490**	23,230
- unlisted trading and non-trading securities	**(5,814)**	13,547
- exchange difference	**(5,078)**	19,210
	(402)	55,987
Dividend income		
- non-trading securities	**1,070**	1,049
- trading securities	**3,352**	1,939
	4,422	2,988
Total non-interest investment income	**4,020**	58,975
Total investment income	**80,371**	178,290
Total investment income is derived from:		
Corporate Funds (note b)	**44,226**	124,312
Margin funds	**31,416**	43,088
Clearing House Funds	**4,729**	10,890
	80,371	178,290

(a) Includes net realised gain on disposal of non-trading securities of $101,000 (2003: $6,586,000), of which $101,000 (2003: $3,763,000) has been previously recognised in investment revaluation reserve.

(b) Corporate Funds include investment income of Compensation Fund Reserve Account of $263,000 (2003: $391,000) and Cash and Derivatives Market Development Fund (CDMD Fund) of $12,000 (2003: $44,000).

4. Other income

	Unaudited Six months ended 30 Jun 2004 $'000	Unaudited Six months ended 30 Jun 2003 $'000
Exchange network, terminal user, dataline and software sub-license fees	**55,574**	48,617
Participants' subscription and application fees	**17,230**	18,543
Share registration services fees	**1,030**	727
Brokerage on direct IPO applications	**8,382**	133
Miscellaneous income	**4,686**	3,012
	86,902	71,032

5. Other operating expenses

	Unaudited Six months ended 30 Jun 2004 $'000	Unaudited Six months ended 30 Jun 2003 $'000
Write-down of strategic investments (note a)	**-**	32,667
Retirement of redundant IT systems	**157**	9,846
Impairment of other property – revaluation deficit	**-**	4,411
Provision for doubtful debts	**130**	3,574
Insurance	**8,245**	5,984
Financial data subscription fees	**3,933**	4,504
Custodian and fund management fees	**3,963**	4,238
Bank charges	**3,959**	3,098
Repair and maintenance expenses	**3,389**	3,250
Other miscellaneous expenses	**19,912**	19,614
	43,688	91,186

(a) Write-down of strategic investments for 2003 includes a 100 per cent write-down ($32,303,000) of the Group's investment in BondsInAsia Limited under non-trading securities following a review of the Group's business strategy and operations.

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

	Unaudited Six months ended 30 Jun 2004 $'000	Unaudited Six months ended 30 Jun 2003 $'000
Provision for Hong Kong Profits Tax (note a)	**109,535**	37,352
Deferred taxation (note b)	**(8,473)**	(2,871)
	101,062	34,481
Share of taxation of associated companies	**1,345**	753
	102,407	35,234

(a) Hong Kong Profits Tax has been provided for at 17.5 per cent (2003: 17.5 per cent) on the estimated assessable profit for the period.

(b) Deferred taxation for 2003 includes a one-off deferred tax charge of $6,040,000, which arose from recomputing outstanding deferred tax liabilities carried forward from 2002 using the higher tax rate of 17.5 per cent and the adoption of Hong Kong Statement of Standard Accounting Practice (SSAP) 12: Income Taxes in 2003.

7. The calculation of basic earnings per share is based on the profit attributable to shareholders of $504,993,000 (2003: $214,386,000) and the weighted average of 1,053,391,703 shares (2003: 1,044,626,393) in issue during the six-month period. The employee share options outstanding did not have a material dilutive effect on the basic earnings per share.

8. The Group's accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities amounted to $2,173,389,000 (31 December 2003: $4,644,680,000) and $2,409,698,000 (31 December 2003: $4,779,904,000) respectively. These mainly represent the Group's Continuous Net Settlement (CNS) money obligations under the T+2 settlement cycle. The Group's CNS money obligations receivable represents 86 per cent (31 December 2003: 87 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations payable represents 78 per cent (31 December 2003: 84 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within two days as they are due for settlement two days after the trade date. The majority of the remaining accounts receivable, prepayments, deposits, accounts payable, accruals and other liabilities will mature within three months.

9. Retained earnings

	Unaudited at 30 Jun 2004 $'000	Audited at 31 Dec 2003 $'000
At 1 Jan		
Retained earnings	**1,560,940**	3,221,321
Proposed and declared dividends	**2,202,898**	448,740
Profit for the period/year (note a)	**504,993**	691,765
Investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves	**(1,158)**	(8,430)
Investment income net of expenses of Compensation Fund Reserve Account for the period/year transferred to Compensation Fund Reserve Account reserve	**(263)**	(714)
Transfer from CDMD Fund reserve	**243**	-
Transfer from Development reserve	**3,159**	49,226
Dividends paid:		
2003 interim dividend	**-**	(188,452)
2003 special and final dividends/2002 final dividends	**(2,202,898)**	(448,740)
Dividend on shares issued for employee share options exercised after declaration of 2003 special and final dividends/2002 final dividends	**(15,661)**	(647)
Dividend on shares issued for employee share options exercised after declaration of 2003 interim dividend	**-**	(231)
At 30 Jun/31 Dec	**2,052,253**	3,763,838
Representing:		
Retained earnings	**1,597,970**	1,560,940
Proposed and declared dividends	**454,283**	2,202,898
At 30 Jun/31 Dec	**2,052,253**	3,763,838

(a) The Group's profit for the period/year includes a net deficit attributable to investment income net of expenses of the Clearing House Funds, Compensation Fund Reserve Account and CDMD Fund for an aggregate amount of $1,631,000 (year ended 31 December 2003: surplus of $6,938,000).

10. Events after balance sheet date

Subsequent to 30 June 2004, the Group has disposed of its entire investment in Singapore Exchange Limited included under non-trading securities for a consideration of approximately $76 million and realised a profit over cost of $24.8 million.

INTERIM DIVIDEND AND CLOSE OF REGISTER

The Directors have resolved to declare an interim dividend of $0.43 per share (2003: $0.18 per share) for the year ending 31 December 2004, amounting to a total of about $454 million (2003: $188 million).

The share register will be closed from Tuesday, 7 September 2004 to Thursday, 9 September 2004, both dates inclusive, during which period no transfer of shares will be registered. Dividend warrants will be despatched to shareholders on or about Monday, 13 September 2004. 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 Monday, 6 September 2004.

FINANCIAL HIGHLIGHTS

(Financial figures are expressed in Hong Kong dollars)

	Unaudited for the six months ended 30 Jun			
	2004	2003		Change
KEY MARKET STATISTICS				
Average daily turnover value on the Stock Exchange	**$16.8 billion**	$7.1 billion		137%
Average daily number of derivatives contracts traded on the Futures Exchange	**57,651**	39,099		47%
Average daily number of stock options contracts traded on the Stock Exchange	**23,391**	14,614		60%
	$'000	$'000		
RESULTS				
Income	**1,166,862**	907,048		29%
Operating expenses	**565,627**	660,691		(14%)
Operating profit	**601,235**	246,357		144%
Share of profits of associated companies	**6,165**	3,263		89%
Profit before taxation	**607,400**	249,620		143%
Taxation	**(102,407)**	(35,234)		191%
Profit attributable to shareholders	**504,993**	214,386		136%
Shareholders' funds	**3,931,705**	5,603,263	Φ	(30%)
Total assets *	**16,312,303**	19,802,264	Φ	(18%)
Net assets per share # Ω	**$3.72**	$5.34	Φ	(30%)
Earnings per share	**$0.479**	$0.205		134%
Interim dividend declared per share	**$0.43**	$0.18		139%
Dividend payout ratio	**90%**	88%		

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

Φ Audited as at 31 December 2003.

Based on 1,056,472,846 shares issued and fully paid as at 30 June 2004 (31 December 2003: 1,048,998,846 shares).

Ω The drop in net assets per share is mainly attributable to the payment of 2003 special dividend of $1.68 per share and 2003 final dividend of $0.42 per share, totalling $2.10 per share.

BUSINESS REVIEW
(Financial figures are expressed in Hong Kong dollars)

Market Activity

Average daily turnover value on the Stock Exchange during the period under review was $16.8 billion, compared with $7.1 billion during the same period in 2003. There were 23 new equity listings on the Main Board, including one by a company formerly listed on GEM, and 15 new equity listings on GEM. In the first half of 2003, there were 16 new equity listings on the Main Board, including three by companies formerly listed on GEM, and 12 on GEM. Equity capital formation through initial public offering (IPO) and post-IPO fund-raising totalled $210.2 billion on the Main Board and $3.9 billion on GEM, compared with a total of $134.9 billion on the Main Board and $972.0 million on GEM in the first half of 2003. Funds raised by newly listed companies totalled $55.3 billion, compared with $7.2 billion in the first half of 2003.

The average daily number of derivatives contracts traded on the Futures Exchange and stock options traded on the Stock Exchange during the first six months of 2004 was 81,042, up from 53,713 in the first six months of 2003. Total open interest at the end of June 2004 was 697,178 contracts, compared with 537,185 contracts at the end of June 2003.

Listing

The influx of Mainland China issuers into Hong Kong, boosted by economic reforms, has accelerated the growth of the Hong Kong market.

A major element of HKEx's mission depends on demonstrating the effective discharge of its regulatory responsibilities. The Listing Division has a keen and continuing interest in demonstrating that it is discharging its responsibilities effectively and making itself more effective. HKEx welcomes the steady improvement of corporate governance in Mainland companies listed in Hong Kong and intends to do all it can to ensure that this improvement continues.

The Division's principal activities over the first six months of the year were to implement developments in regulatory policies and to review its working practices so as to be able to handle regulatory issues promptly and decisively by taking decisions at the right level. This work is ongoing. Below is an account of developments in the first half of the year.

Reorganisation of Listing Division

In January 2004, the Listing Division reorganised its operating structure to separate the review and processing of new listing applications from the ongoing monitoring of listed companies. The new operating structure was adopted so as to focus more attention on the substantive quality of these two related, but different, functions.

The organisational changes are a natural progression from the structure that existed prior to January 2004. In particular, almost all of the underlying procedures that the Listing Division follows in reviewing new listing applications and monitoring listed companies have been retained.

Enhancement of Corporate Governance and Market Quality

Amendments to the Main Board and GEM Listing Rules designed to enhance corporate governance and market quality came into effect on 31 March 2004. They included new provisions on notifiable transactions and connected transactions, revised classifications of notifiable transactions and connected transactions, revised definitions of the terms "reverse takeover", "connected person" and "associate" of a connected person, revised requirements for refreshment of general mandate and revised requirements on the disclosure of directors' remuneration in annual reports. In addition, there have been changes in the initial listing eligibility criteria, listed companies' continuing obligations and the disclosure requirements at the time of listing.

These rule amendments, along with the Code on Corporate Governance Practices and the disclosure requirements relating to the Report on Corporate Governance Practices that will be published later this year, represent the most comprehensive overhaul of the Listing Rules in over a decade.

Market Education on Rule Amendments

The Listing Division conducted market education seminars to promote a better understanding of the rule amendments. A total of six seminars (conducted in English, Putonghua and Cantonese) were held at the Hong Kong Convention and Exhibition Centre between 25 February and 5 March 2004 for listed companies and market practitioners and at the New Otani Hotel Beijing on 9 March 2004 for listed companies.

Entry to the seminars was free, and they were well attended. To address the range of questions posed, the Division published further guidance on the HKEx website by way of a table setting out frequently asked questions.

Another innovation introduced to promote a better understanding of the rules was a brochure of charts prepared for guidance purposes and published on the HKEx website. While the charts do not form part of the Listing Rules, they should help to steer the user through areas where a graphical depiction may facilitate an understanding of the requirements.

While in Beijing, members of the Listing Division visited the China Securities Regulatory Commission (CSRC) in March 2004 to brief members of the staff there on the Listing Rule amendments and to exchange views and discuss experiences with them.

In addition to its own seminars, the Division has also worked alongside other representative organisations to support the dissemination and comprehension of the new requirements, including providing speakers at seminars organised by other organisations.

Consultation Conclusions on Proposals to Enhance the Regulation of Listing

On 26 March 2004, the Government published its Consultation Conclusions on Proposals to Enhance the Regulation of Listing. The Government's recommendations included giving statutory backing to certain more important listing requirements, such as those covering financial reporting and other periodic disclosure, disclosure of price-sensitive information and shareholders' approval for notifiable transactions, and expanding the dual filing system. As for the regulatory structure, the published conclusions said the Stock Exchange would continue to receive and approve initial public offer applications, the Stock Exchange would remain responsible for administering the listing process, and it would continue to be the primary point of contact for listing applicants and their advisers. As for ongoing compliance of listed companies, the recommendation was that the Stock Exchange continues to enforce the non-statutory requirements in its Listing Rules.

HKEx will work closely with the Government and the Securities and Futures Commission (the SFC) on implementing the recommendations, which are aimed at raising the quality of Hong Kong's financial markets.

Transparency

HKEx considers that the major practices of the Listing Committees and the Listing Division should be transparent. In the "Consultation Conclusions on Proposals to Enhance the Regulation of Listing", the Government specifically invited HKEx to implement measures to enhance transparency in listing matters.

While expanding on its existing disclosure practices, the Division remains conscious of the confidentiality obligations owed to the parties concerned. It contemplates the following measures to enhance transparency in the short term: to increase the number of listing decisions to be published, with immediate effect; and to publish, on a regular basis, interpretations made by the Listing Division of provisions of the Listing Rules.

Furthermore, the "Listing Decisions" published on the HKEx website have been revised to include new formats to facilitate searching and to improve HKEx's ability to include additional Listing Decisions in the future.

The Main Board and GEM Listing Committees have jointly issued an Annual Report for the period to 30 April 2004. This is the first such report that has been issued. It is an account of the work of the Committees in contributing to the success of the Hong Kong listing regime. The report was prepared for the Boards of the Stock Exchange and HKEx. It has been forwarded to the SFC and the Financial Services and Treasury Bureau, and it has been published on the HKEx website.

Restructuring of Listing Committees

HKEx first considered the idea of restructuring the Listing Committees in 2002. Substantive drafting of the relevant rules and procedures had been undertaken prior to the project being put on hold pending greater clarity over the overall direction of listing regulation in Hong Kong.

The "Consultation Conclusions on Proposals to Enhance the Regulation of Listing" has since clarified the Government's position in this regard. The document also contains various suggestions from respondents on the composition and operation of the Listing Committees.

HKEx is looking into the various suggestions and reviewing the current operational arrangements with a view to considering any further improvements. HKEx will keep the market informed of progress in due course.

Regulation of Sponsors and Independent Financial Advisers

On 4 May 2004, HKEx invited Hong Kong sponsor and financial advisory firms to comment on draft amendments to the Main Board and GEM Listing Rules on the regulation of sponsors and independent financial advisers (IFAs). The draft amendments reflect the policies developed by HKEx and the SFC after extensive public consultation in conjunction with the release in May 2003 of the joint Consultation Paper on the Regulation of Sponsors and Independent Financial Advisers.

HKEx and the SFC have agreed to proceed with reforms to the regulation of sponsors and IFAs in two stages. The first stage involves amendments to the Main Board and GEM Listing Rules and the introduction of a revised statement on conduct to clarify HKEx's expectations with regard to due diligence. The second stage involves modification of the SFC licensing regime to create specific licensing requirements for sponsors. HKEx expects that the relevant rule amendments will become effective in the fourth quarter of the year.

Operations

IPO Transactions

Fifty-nine (22 Main Board, 37 GEM) new listing applications were carried over from 2003.

In the six months ended 30 June 2004, 67 (44 Main Board, 23 GEM) new listing applications were received and accepted for processing by the Listing Division. Forty-nine (34 Main Board, 15 GEM) new listing applications were approved in principle by the Listing Committees. Four (one Main Board, three GEM) new listing applications were rejected. Six new listing applications (all GEM) were withdrawn by the applicants. Thirty-six (14 Main Board, 22 GEM) new listing applications lapsed. Twenty-two (six Main Board, 16 GEM) lapsed applications were refiled within 90 days. Of the decisions made on new listing applications, two decisions (relating to a Main Board applicant) were subject to review (i.e. appealed).

As at 30 June 2004, the Listing Division was processing 49 (23 Main Board, 26 GEM) active applications. Seventeen (12 Main Board, five GEM) new listing applicants had been granted approval in principle by the Listing Committees but had not yet listed.

Compliance and Monitoring

In the six months ended 30 June 2004, Compliance and Monitoring (C&M) vetted 2,547 listed company announcements and 1,017 circulars. The Listing Division reviewed 12,923 press articles relating to listed companies of which 279 led to enquiries being made. C&M undertook 2,060 share price and trading volume monitoring actions, which resulted in 1,471 clarification announcements being published by listed companies. The Division continues to target its monitoring resources in those areas that it perceives to pose the biggest risks to the maintenance of a fair, orderly and well-informed market. In particular it pays close attention to companies' compliance with the rules governing the disclosure of price-sensitive information and the adequacy of financial reporting and compliance systems and procedures.

The Listing Division handled 140 complaints relating to listed companies and/or their directors, and 28 cases were referred to Listing Enforcement for further investigation.

Listing Enforcement

In the six months ended 30 June 2004, Listing Enforcement completed investigations of 77 cases involving possible breaches by listed companies, their directors and/or sponsors of the Listing Rules. Twelve formal disciplinary cases were completed. The Listing (Disciplinary) Committee issued one public censure, nine public statements involving criticism and two private reprimands. The public censure case related to a listed company's failure to inform the Stock Exchange and announce the presentation of a winding-up petition against the listed company's major subsidiary. The public statements cases related mainly to late financial reporting, and included one case involving a misstatement in a prospectus and another case relating to share repurchases. The private reprimand cases involved late financial reporting and non-disclosure of information.

In relation to disciplinary matters arising from late financial reporting, the Stock Exchange has adopted a 'fast-track' approach. Once a listed company is late in publishing its accounts it has breached the Listing Rules and therefore the main issue to consider is the sanction to be imposed on the company and directors having regard to any mitigating circumstances. Under the fast-track process, provided that certain conditions are met, public sanctions will be imposed against a listed company, and not its directors, for the late publication of accounts.

Cases deemed to involve less serious breaches of the Listing Rules were dealt with at Listing Division level. This led to issuance of 71 warning letters and 13 caution letters by Listing Enforcement.

In a formal disciplinary matter in which a listed company sought judicial review of procedural directions issued by the Chairman of the Listing (Disciplinary) Committee, the judicial review hearing was held in February 2004 and the judgment was handed down in May 2004. The company has appealed to the Court of Appeal against the ruling made by the Court of First Instance.

Exchange

Restructuring

The Exchange Division was established in May 2004 along with the Business Development and Investor Services Division as part of a corporate restructuring designed to further strengthen HKEx's regulatory and business operations, and raise the overall efficiency of its two exchanges and the associated clearing houses. The two divisions took up the responsibilities of the Exchange Unit, which was dissolved.

The Exchange Division manages trading and market operations, develops new products, conducts market surveillance, recruits new Exchange Participants and services and trains existing Exchange Participants.

The Business Development and Investor Services focuses on managing investor relations, attracting new listings and promoting HKEx and its markets to the general public through educational seminars.

New Products

H-shares Index Options were introduced on 14 June 2004 to complement the trading of H-shares Index Futures and provide an additional hedging and trading tool for investors in H shares and related derivatives. Four additional stock options and stock futures, all on H shares, were also added to the derivatives market on 14 June 2004. The new contracts are part of HKEx's efforts to meet the growing demand for China-related securities and derivatives instruments. H-shares Index Options' Open Interest rose to over 9,000 contracts in July 2004.

Proposed Narrowing of Trading Spreads for Some Securities

Discussions on the possible narrowing of trading spreads in the securities market were held with a wide range of market participants during the first half of the year. A consultation paper was issued on 6 August 2004 on proposals for narrowing the trading spreads and alternatives for implementing the proposed changes.

Internal Review of Market Operations

HKEx is conducting an internal review of the formula for calculating closing stock prices and has sought comments from the Cash Market Consultative Panel. The Exchange Division is examining options for calculating closing prices in rare occasions where there is insufficient price data to determine the closing price under the present formula.

Clearing

DCASS Launch

The Derivatives Clearing and Settlement System, DCASS, has been integrated with the clearing systems used by HKCC and SEOCH, and with the derivatives trading system. DCASS has been running smoothly with no major incidents since its launch on 6 April 2004. DCASS has introduced changes in certain business disciplines, including a revised fee structure, an earlier post trade input cut-off time for HKCC Participants and a new margining methodology known as PRiME (Portfolio Risk Margining System of HKEx) for both HKCC and SEOCH, which the clearing houses' Participants have adapted to quickly. Through the use of DCASS, the operational procedures and risk management processes of HKCC and SEOCH have been harmonised, resulting in improved efficiency.

Scripless Consultation Conclusions and Way Forward

There were 26 submissions in response to the Consultation Paper on a Proposed Operational Model for a Scripless Securities Market issued in October 2003. A consultation conclusions report summarising the views of the respondents and the issues they raised together with HKEx's comments was published on 31 May 2004. The report proposed maintaining CCASS, the Central Clearing and Settlement System, on a nominee basis under the Issuer Register Model. It also proposed a progressive approach on implementation whereby CCASS would start to dematerialise part of its holdings subject to the enactment of the enabling legislation and the readiness of the share registrars to support uncertificated shares. A progressive approach on implementation would allow time for the investing public and other market participants to adjust to the scripless environment, and it would allow market forces to determine the pace of further development.

New Features to Investor Participant Accounts

After reviewing the CCASS Investor Participant (IP) account service and identifying areas for improvement, in particular in the communication channels, HKEx has decided to upgrade the existing IP account service through new and enhanced features. The changes include extending the online window to 24 hours a day, seven days a week, allowing Internet access through user ID and password, using SMS (short-message service) text messages to communicate with IPs, making electronic voting functions more user-friendly and streamlining the stock transfer process by adding a simpler transfer instruction type. The enhanced services will be launched in the third quarter and there will be a series of promotion programmes before the rollout.

SI Matching Enhancements

After working closely with some major market participants, HKEx is preparing to enhance the existing Settlement Instructions (SI) matching functions to facilitate the pre-matching of SI between HKSCC Participants. The enhancements include adding a new "hold matched SI" function, inserting two additional SI matching runs, displaying unmatched SI field content and modifying the client account number field for matching. The enhanced SI matching facilities will be introduced in the fourth quarter and there will be briefing sessions for Participants before the launch.

Information Services

Real-time Information

At the end of June 2004, there were 62 real-time information vendors for the securities market, a decrease of one from the end of last year, and there were 34 vendors for the derivatives market, the same as at the end of last year.

Four real-time vendors signed up during the period, including two which replaced other vendors. The total real-time data services provided by all vendors rose from 353 to 356, while the total delayed data services rose from 98 to 111.

Sixteen information vendors participated in the extended Mainland China Promotion Programme that allows investors on the Mainland to subscribe for HKEx market data at a reduced, promotional price.

HKEx began disseminating real-time odd lot market information to information vendors in March 2004 to further increase market transparency and improve its services to investors, particularly retail investors. The information includes stock codes, order prices and both order quantities and the number of orders for the best five bid prices and the best five ask prices.

HKEx Website

Issuer News

In the first half of the year, the average number of Issuer News items released on the HKEx website each month increased 21 per cent from the corresponding period last year to 6,017. About 20 per cent of those items were submitted electronically through HKEx's Internet e-submission system.

The HKEx website's hit rate for Issuer News increased 87 per cent from the same period last year, showing that accessing Issuer News through the Internet is becoming increasingly popular with the investing public.

Disclosure of Interests and Reports on Share Repurchases

The Stock Exchange publishes information relating to the Disclosure of Interests (DI) according to the Securities and Futures Ordinance (SFO) which prescribes the manner in which the Stock Exchange receives the information and the ways of filing notices with the Stock Exchange.

In the first half of the year, the average number of DI filings released each month through the HKEx website increased by 24 per cent from the corresponding period last year to 2,680. (Note: A new disclosure regime which reduced the reporting threshold from 10 per cent to 5 per cent became effective on 1 April 2003.) HKEx's web-based DI disclosure system was used extensively in the first half of the year, with page views of DI information averaging 1,008,657 per month. During the same period last year, which comprised three months under the old disclosure regime and three months under the new regime, there was an average of about 191,000 page views per month.

To further enhance the electronic information provided through the HKEx website, historical share repurchase reports dating back to 1991 were converted from archived microfilm to electronic images in May 2004.

Investment Service Centre

There were several enhancements to the Investment Service Centre (ISC) section of the HKEx website in late March 2004. They included increased search capabilities on stock/company information; links between data on related securities; enriched information in the company/securities profiles; an advanced charting mechanism; and an upgraded email alert service.

The ISC also has information now on H-share companies with A shares listed on the Mainland.

Market Data and Statistics

The Data & Statistics section of the HKEx website was also enhanced in late March 2004. Archives of key market statistics going back to 1986 have been added along with a new sub-section of data that highlight the contribution of Mainland enterprises to the Hong Kong market.

Internal Operations

The Electronic Mail Stock Information Services (EMSIS) were upgraded in June 2004 for the early July 2004 migration of its delivery platform to the in-house Online Data Products System. EMSIS has been in place since 1990 to provide snapshots of market data and related information at different times of the day, mainly to the media.

The historical stock price database was moved in June 2004 from the Stock Statistics & Charting System to the Stock Market Database (SMD) to make the database more accessible. The SMD supports compilations of data products and regular data publications, and it facilitates the data distribution via the HKEx website.

Information Technology

System Development to Support New Products and Market Development Initiatives

The Information Technology (IT) Division managed and supported the April 2004 rollout of DCASS and the derivatives component of the Common Collateral Management System. It also supported the March 2004 introduction of the real-time odd lot market information feed for information vendors. In addition, the Division delivered technical solutions for the HKEx website revamp project in late March 2004. In line with the website revamp project and the rapid growth in demand for external access to the website, the Division upgraded the bandwidth and capacity of the HKEx website early in the year.

Ongoing projects include system upgrades for the enhancements to the IP accounts in CCASS and CCASS/3 (the next generation of the Central Clearing and Settlement System) upgrades to support the pre-matching of SI prior to actual settlement and provide more detailed and timely information for follow-up on unmatched SI.

IT Infrastructure, Operations and Support

In the first half of the year, all major market systems, including the trading, clearing and settlement, and market data systems for the securities and derivatives markets successfully achieved 100 per cent availability for more than 12 consecutives months.

The Hong Kong Productivity Council was appointed early in the year to assess the Quality Management System of HKEx's IT Computer Operations and it concluded that the IT Computer Operations were effective and compliant with the ISO 9001:2000 requirements.

A review is being conducted on the feasibility of consolidating the existing market systems network from Frame Relay to Optical Ethernet to achieve cost savings without sacrificing the network service quality and serviceability, and a study is being conducted on the feasibility of consolidating the backup data centres.

In managing the various new market development initiatives in the securities and derivatives markets, ongoing comprehensive system capacity monitoring and planning of the existing market system and infrastructure are conducted to deal with any potential growth of system capacity requirements in a timely and effective manner. As part of ongoing system modernisation and upkeep, HKEx plans to upgrade or replace obsolete hardware and software in three of its major market systems and fine-tune another system to further strengthen its stability and functionality.

Finance

The Finance Department supervises the investment of funds, which can be divided into three main categories: Corporate Funds (comprising mainly share capital and retained earnings of the Group), Clearing House Funds and margin funds received (which excludes contributions receivable from Participants and securities deposited by Participants as alternatives to cash deposits of margin funds).

An Investment Advisory Committee, comprised of non-executive directors of HKEx and an external member from the financial community, advises the Board on portfolio management and monitors the risk and performance of HKEx's investments. A Treasury team in the Finance Department is dedicated to the day-to-day management and investment of the funds. Three external fund managers have also been appointed to manage part of the Corporate Funds since July 2001.

Investment and fund management is governed by investment policies and risk management parameters approved by the Board. Investment restrictions and guidelines form an integral part of risk control. Fund-specific restrictions and guidelines are set according to the investment objectives of each fund. In addition, specific limits are set for each fund to control risk (e.g. permissible asset type, asset allocation, liquidity, credit, counterparty concentration, maturity, foreign exchange, interest rate and market risks) of the investments.

The investment objective of the Corporate Funds is the provision of liquidity for funding ongoing operations and long-term capital preservation. Accordingly, the funds can be invested in cash, money market instruments, bonds, collective investment schemes and equities. Only the external fund managers are permitted, subject to compliance with guidelines on conflict of interest and to limits forming part of the investment policies, to invest in equities, which include convertible bonds. For Clearing House Funds and margin funds, the investment objective of which is to satisfy liquidity requirements and safeguard the financial assets of the funds, their portfolios only consist of cash, money market instruments and bonds.

In the first half of the year, the average amount of funds available for investment increased by 55 per cent or $5.10 billion to $14.30 billion (first half of 2003 average: $9.20 billion), mainly due to a rise in margin funds received from Participants as a result of increased open interest in futures and options contracts. Following the payment of the 2003 special and final dividends of $2.22 billion on 14 April 2004, the amount of Corporate Funds available for investment was reduced and, comparing with 31 March 2004, the overall fund size as of 30 June 2004 decreased by 19 per cent or $2.85 billion to $12.52 billion (31 March 2004: $15.37 billion).

As at 30 June 2004 and 31 March 2004, details of the asset allocation were as follows:

	Fund size $ billion		**Bonds**		**Cash or bank deposits**		**Global equities**	
	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar
Corporate Funds	3.46	5.61	68%	39%	25%	55%	7%	6%
Margin funds	7.96	8.17	41%	39%	59%	61%	0%	0%
Clearing House Funds	1.10	1.59	11%	8%	89%	92%	0%	0%
Total	12.52	15.37	46%	36%	52%	62%	2%	2%

Investments of the three funds 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 ($0.24 billion as at 30 June 2004 and $0.32 billion as at 31 March 2004), which do not have a maturity date, the maturity profile of the remaining $12.28 billion and $15.05 billion of investments as at 30 June 2004 and 31 March 2004 was 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	3.22	5.29	17%	27%	11%	30%	22%	13%	36%	22%	14%	8%
Margin funds	7.96	8.17	45%	54%	8%	4%	12%	7%	35%	35%	0%	0%
Clearing House Funds	1.10	1.59	76%	72%	0%	11%	10%	7%	14%	10%	0%	0%
Total	12.28	15.05	40%	46%	9%	14%	14%	9%	33%	28%	4%	3%

In the maturity profile above, Corporate Funds with maturity of up to one month decreased by 29 per cent during the second quarter mainly on account of the payment of the 2003 special and final dividends mentioned above.

Credit exposure was well diversified. As at 30 June 2004, all bonds held were of investment grade and had a weighted average credit rating of Aa2 (31 March 2004: Aa2) and a weighted average maturity of 1.6 years (31 March 2004: 1.7 years). Deposits were placed only with the note-issuing banks in Hong Kong and licensed banks and restricted licence banks with a minimum credit rating of A3 by Moody's or equivalent 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 the first quarter and second quarter 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	16.26	16.65	17.56	18.33	14.02	15.47
Margin funds	16.85	14.00	17.44	16.93	15.67	10.27
Clearing House Funds	1.15	1.15	1.24	1.22	1.01	1.03

For details of HKEx's investment income, please refer to the Overall Performance section.

Business Development and Investor Services

Beijing Representative Office and Business Development Department

Beijing Office

To further support HKEx's efforts in strengthening Hong Kong's position as the premier international capital formation centre for China, the Beijing Representative Office continued to explore opportunities to strengthen communications between HKEx and the Mainland authorities, and promote HKEx's markets to potential listing candidates.

In April 2004, the CSRC approved HKEx's stationing of representatives from the Beijing Representative Office in the Mainland cities of Guangzhou and Shanghai to capture the robust economic growth in the Pearl River Delta and Yangtze River Delta regions.

Listing Promotion for Mainland Companies and Government Authorities

During the first half of the year, HKEx organised or co-organised listing conferences and seminars in Changchun, Chongqing and Beijing which attracted a total of more than 850 representatives from 335 Mainland enterprises. Marketing efforts helped identify 140 Mainland companies which are interested in listing in Hong Kong. Twenty-three of the 38 new listings during the first half of the year were Mainland enterprises which raised a total of $46 billion, or 83 per cent of the funds raised through new listings.

The Business Development Department hosted meetings with Mainland business delegations visiting Hong Kong to promote HKEx's markets, and the Department assisted Mainland groups in organising listing conferences in Hong Kong. One of the events, the Hong Kong-Zhejiang Week in Hong Kong, had more than 200 participants, including representatives from a number of potential listing candidates.

The Beijing Representative Office and the Business Development Department had a total of 88 meetings in the first half of the year with government authorities from the Mainland as part of their liaison and communications efforts.

Two training programmes were conducted for Hong Kong-listed Mainland companies and potential listing applicants from the Mainland to improve their understanding of corporate governance issues and promote listing in Hong Kong. These programmes were co-organised with the State Council's Office of Hong Kong and Macau Affairs, the National Science and Technology Venture Capital Development Centre, the Hong Kong Institute of Company Secretaries and the Hong Kong Securities Institute.

Investor Services Department

The Investor Services Department is a new department established to maintain and develop relationships with HKEx's existing and new shareholders, and attract more funds to HKEx's markets. In addition, the Department is responsible for investor education.

A three-week trial run of SIMart, the Simulated Investment Market, was completed in the middle of May 2004. Nearly 700 players participated in all three game sessions. SIMart is an online educational platform operated by HKEx for individuals who want to gain a better understanding of securities trading. Players trade selected securities from the Stock Exchange using delayed market data.

Forty educational seminars were organised in the first half of the year. They comprised 21 Continuous Professional Training courses for Exchange Participants and 19 public seminars for individual investors.

Research and Planning

During the first half of the year, HKEx released the findings of two market surveys for the reference of market participants and the general public.

Cash Market Transaction Survey 2002/03 (released on 9 March 2004)

The survey for the 12 months to September 2003 indicated that overseas institutional investors surpassed local retail investors for the third year in a row to be the largest investor group by turnover value in the HKEx securities market. There was also an increase in the contribution from local institutional investors for the third consecutive year.

Omnibus Retail Investor Survey 2003 (released on 6 April 2004)

The survey revealed that the number of Hong Kong retail investors investing in stocks and/or derivatives traded on the HKEx markets is close to one million and stock investors traded twice as frequently in 2003 as in 2002.

Corporate Communications

Enquiries and Complaints

The Corporate Communications Department handled 7,610 enquiries and complaints in the first half of the year, compared with 4,426 in the first six months of 2003. They covered a variety of issues. Most of the initial contacts were by telephone, about 15 per cent were through email and a few were via letter or fax.

Revamped HKEx Website

Visits to the HKEx website, which was revamped in late March 2004 in a project led by the Department, rose in the first half of the year to 9,182,324 from 5,107,875 in the same period last year. Page views were also up, rising to 116,765,240 from 52,654,263 in the first half of 2003.

Internal Audit

The Internal Audit Department conducted various audit reviews in the first half of the year. The reviews covered areas related to finance, operations and information systems, and the Department was not aware of any significant deficiencies.

The Department conducted quality assurance reviews of the annual, quarterly and interim financial reports prior to their review by the Audit Committee.

In June 2004, the Department followed up on the status of the agreed audit recommendations raised this year together with those brought forward from the last status review. It concluded that the measures taken were effective and adequate in improving controls and reducing risks.

OVERALL PERFORMANCE

The Group recorded a profit attributable to shareholders of $505 million for the interim period (2004 first quarter: $314 million; 2004 second quarter: $191 million), compared with $214 million for the same period in 2003 (2003 first quarter: $89 million; 2003 second quarter: $125 million).

Income increased on the back of a continuing high level of activity in cash and derivatives markets in 2004, which has resulted in an increase in trading fees and trading tariff, and clearing and settlement fees in comparison with the same period in 2003. This was partly offset by a drop in investment income mainly due to reduced interest income during the period on account of lower interest rates and, in April 2004, the decline in bond and equity prices as the markets reacted negatively to concerns over interest rate hikes and macro economic measures by Mainland authorities to slow credit growth in certain sectors.

Total operating expenses for the first six months decreased by $95 million or 14 per cent to $566 million (2003:$661 million), which was mainly due to the non-recurring one-off costs incurred in 2003 ($52 million less tax deduction of $1 million) and savings in information technology and computer maintenance expenses and legal and professional fees during the current period. Taxation in 2003 also included a one-off increase in deferred tax charge of $6 million following the implementation of the new SSAP 12: Income Taxes and the hike in Profits Tax rate.

Income

Total income (including share of profits of associated companies) for the period increased by $263 million or 29 per cent to $1,173 million (2003: $910 million).

Improved market sentiment, which started in the second half of 2003, continued into 2004. In spite of the anxiety brought about by the macro economic measures introduced to adjust the Mainland economy, high oil prices and the interest rate rise in the United States, which has caused trading activities on the cash market to edge down in the second quarter, the average daily turnover on the Stock Exchange for the six-month period rose by 137 per cent to $16.8 billion compared with $7.1 billion in the corresponding period last year. Average daily number of stock options contracts traded on the Stock Exchange during the first six months of 2004 increased by 60 per cent compared to the same period of 2003. Moreover, the average daily number of derivatives contracts traded on the Futures Exchange increased by 47 per cent, which was mainly attributable to the increase in the trading of Hang Seng Index (HSI) Futures contracts and the launch of H-Shares Index Futures in December 2003. Consequently, trading fees and trading tariff rose by $162 million or 88 per cent to $347 million (2003: $185 million).

Listing fee income increased by $23 million or 14 per cent to $183 million (2003: $160 million), primarily because of an increase in initial listing fees mainly arising from an increase in the number of newly listed derivative warrants to 595 in 2004 (2003: 216), and a rise in annual listing fees due to a higher number of listed securities. There were 23 (2003: 16) and 15 (2003 : 12) new listings on the Main Board and GEM respectively during the six-month period ended 30 June 2004. As at 30 June 2004, 12 Main Board and five GEM (31 December 2003: three Main Board and five GEM) IPO applications had obtained approval in principle from the Listing Committees for listing, and 23 Main Board and 26 GEM applications were under processing (31 December 2003: 19 Main Board and 32 GEM). As at 30 June 2004, there were 869 companies listed on the Main Board and 199 on GEM (31 December 2003: 852 and 185 respectively).

In line with the growth in cash market activities, clearing and settlement fee income increased by 101 per cent or $94 million to $186 million in the first six months (2003: $92 million), and depository, custody and nominee services fees increased by 32 per cent or $30 million to $125 million during the six-month period ended 30 June 2004 (2003: $95 million).

Income from sale of information for the first six months increased by $33 million or 25 per cent to $159 million (2003: $126 million), as demand for information increased in tandem with the activities of cash and derivatives markets.

Investment income comprises income from investments supervised by the Finance Department, investment in Singapore Exchange Limited and accommodation income from Participants. Total investment income for the period decreased by $98 million or 55 per cent to $80 million (2003: $178 million), predominantly due to the absence of market gains, and lower interest rates during the period.

For investments supervised by the Finance Department, income for the period amounted to $75 million, 55 per cent or $93 million lower than the $168 million for the same period in 2003. In 2003, there was a gain of $56 million, reflecting market movements in the period; in 2004, there was no net gain, again reflecting markets. Also, net interest income was lower at $72 million (2003: $110 million) due to lower interest rates.

During the period under review, the average 6-month Hong Kong Exchange Fund Bill rate dropped from 1.13 per cent in 2003 to 0.31 per cent in 2004, and the average 90-day US Treasury Bill rate declined from 1.1 per cent to 1.0 per cent.

For the six months ended 30 June 2004, the Finance Department achieved a positive return on investments of 1.06 per cent (2003: 3.64 per cent). The Corporate Funds returned 1.92 per cent (2003: 5.31 per cent), the margin funds 0.67 per cent (2003: 1.90 per cent), and the Clearing House Funds 0.64 per cent (2003: 2.15 per cent). Therefore, the overall portfolio recorded a spread of 75 basis points (2003: 251 basis points), with Corporate Funds registering a spread of 161 basis points (2003: 418 basis points), the margin funds 36 basis points (2003: 77 basis points) and the Clearing House Funds 33 basis points (2003:102 basis points) above the 6-month Hong Kong Exchange Fund Bill yield.

The average amount of funds available for investment during the period increased by 55 per cent or $5.1 billion to $14.3 billion (2003: $9.2 billion), primarily due to a rise in margin funds received from Participants as a result of increased open interest in futures and options contracts, which was partly offset by the reduction in Corporate Funds following the $2.2 billion payment of 2003 special and final dividends on 14 April 2004. As at 30 June 2004, 52 per cent (31 December 2003: 59 per cent) of the funds were invested in cash and bank deposits, 46 per cent (31 December 2003: 39 per cent) in high-grade bonds with an average credit rating of Aa2, and 2 per cent (31 December 2003: 2 per cent) in global equities. For more details of the investment portfolio, please refer to the Finance section under Business Review.

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 by 56 per cent or $5 million to $4 million (2003: $9 million). Income from the investment in Singapore Exchange Limited for the first six months increased by $0.1 million or 20 per cent to $0.8 million (2004: dividend of $1.1 million less foreign exchange loss of $0.2 million and interest expense of $0.1 million for funding the investment; 2003: dividend of $1.0 million, foreign exchange gain of $0.1 million less interest expense of $0.4 million). The investment in Singapore Exchange Limited was disposed of in July 2004 at a profit over cost of $24.8 million.

Other income increased by $16 million or 22 per cent to $87 million (2003: $71 million), mainly due to a $8 million increase in brokerage on direct IPO applications, and an increase in terminal, dataline and network usage fees and software sub-license fees of $7 million.

Share of profits of associated companies increased by $3 million or 89 per cent to $6 million (2003: $3 million), due to the improved performance of one of the associated companies, Computershare Hong Kong Investor Services Limited, during the period under review.

Operating Expenses

Total operating expenses for the period under review decreased by 14 per cent or $95 million to $566 million (2003: $661 million).

Staff costs and related expenses decreased by 3 per cent or $8 million to $259 million (2003: $267 million), largely due to the $9 million of one-off severance costs incurred following the reorganisation and streamlining of the Group's operations in May 2003. Savings in salaries as a result of reduced headcount was offset by an accrual for performance bonus on account of the Group’s improved performance in 2004.

Information technology and computer maintenance expenses for the first six months fell by $27 million or 20 per cent to $110 million in 2004 (2003:$137 million), mainly attributable to lower hardware and software rental. During the period under review, capital expenditures on computer systems, hardware and software amounted to $11 million (2003: $16 million).

Premises expenses fell by 9 per cent or $4 million to $39 million (2003: $43 million) as lower rental was negotiated upon the renewal of certain leases and savings from reduced floor area leased during the first six months of 2004.

Product marketing and promotion expenses increased by $2 million or 70 per cent to $6 million (2003: $4 million). The increase was mainly attributable to the advertising campaigns and incentive programmes launched for the introduction and promotion of the H-shares Index Futures and H-shares Index Options.

Legal and professional fees for the period decreased by $16 million or 74 per cent to $5 million (2003: $21 million). The decrease was mainly attributable to professional fees incurred for several one-off consulting projects in the first half of 2003.

Depreciation and amortisation costs remained fairly stable at $93 million (2003: $93 million). The increase in depreciation attributable to the rollout of DCASS in April 2004 was offset by the decrease as a result of revising the estimated useful life of the hardware of trading and clearing systems from three years to five years to better reflect the useful life of the equipment.

Payment to the SFC was $10 million for the first six months of 2004 (2003: $5 million) under the dual filing regime, which started from 1 April 2003.

Other operating expenses dropped by $47 million or 52 per cent to $44 million (2003: $91 million), mainly attributable to certain one-off costs incurred in 2003 ($32 million for the write-down of the Group's investment in BondsInAsia Limited and $10 million of retirement of redundant IT systems following the review of its business strategy and operations in May 2003), as well as a devaluation deficit of $4 million of one of the Group’s properties charged to the profit and loss account in 2003. Provision for doubtful debts fell by $3 million or 96 per cent compared with 2003.

Taxation

The Group's taxation charge rose by $67 million or 191 per cent to $102 million (2003: $35 million), principally by reason of a $62 million rise in tax charge arising from an increase in profit before taxation in 2004, a $11 million increase in tax charge due to a lower deferred tax credit from utilisation of tax losses of certain entities of the Group, but partly offset by a one-off deferred tax charge of $6 million recognised in 2003 due to an increase in tax rate from 16.0 per cent in 2002 to 17.5 per cent in 2003 and the first time adoption of SSAP 12: Income Taxes, effective from 1 January 2003.

Comparison of 2004 second quarter performance with 2004 first quarter results

Profit attributable to shareholders was $191 million for the second quarter of 2004, $123 million or 39 per cent lower than the $314 million registered in the first quarter of 2004. The reduction was mainly attributable to a $130 million or 20 per cent reduction in income. Investment income fell from $93 million in the first quarter to a negative $13 million in the second quarter mainly due to the fall in the bond and equity markets and exchange losses which occurred in April. The decline in activities of the cash market in the second quarter has also led to a decrease in trading fees and trading tariff of $38 million and clearing and settlement fees of $27 million compared with the first quarter. The decrease was partly offset by $50 million of higher depository, custody and nominee services fee on account of an increase in dividend collection and scrip fee income.

Total operating expenses has remained fairly stable at $282 million for the second quarter of 2004 (first quarter of 2004: $283 million).

Tax charge fell by $7 million mainly due to a decrease of $22 million in tax charge arising from lower profit before taxation in the second quarter, which was partly offset by an additional tax charge of $5 million due to reduced non-taxable income net of expenses, and a $10 million rise in tax charge due to a lower deferred tax credit from utilisation of tax losses of certain entities of the Group in the second quarter.

Liquidity, Financial Resources and Capital Commitments

Working capital fell by $1,319 million or 32 per cent to $2,751 million as at 30 June 2004 (31 December 2003: $4,070 million). The decline was primarily due to the payment of the 2003 special and final dividends of $2,219 million in April 2004, which was partly offset by a reduction in time deposits with maturity over one year and the profit generated during the period.

Although the Group has consistently been in a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. As at 30 June 2004, the Group's total available banking facilities amounted to $2,763 million (31 December 2003: $2,764 million), of which $1,500 million were repurchase facilities to augment the liquidity of the margin funds and $1,100 million were for meeting the Group's CNS money obligations of HKSCC in the CCASS in circumstances where CCASS Participants default on their payment obligations. Borrowings of the Group have been very rare and, if required, are mostly event driven, with little seasonality. As at 30 June 2004, the Group did not have any bank borrowings (31 December 2003: SGD11 million, equivalent to HK$50 million, with a maturity of less than 1 year was used for the purpose of hedging the currency exposure of the Group’s investment in Singapore Exchange Limited).

As at 30 June 2004, the Group had zero gearing (31 December 2003: gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders’ equity, was less than 1 per cent).

As at 30 June 2004, the Group's capital expenditure commitments, mainly in respect of its ongoing investments in facilities and technology, amounted to $49 million (31 December 2003: $91 million). The Group has adequate financial resources to fund its commitments on capital expenditures from its existing cash resources and cash flows generated from its operations.

As at 30 June 2004, 94 per cent (31 December 2003: 98 per cent) of the Group's cash and cash equivalents (comprise cash on hand, bank balances and time deposits within three months of maturity when acquired) were denominated in HKD and USD.

Charges on Assets

The Group did not have any charges on assets as at 30 June 2004 and 31 December 2003.

Significant Investments Held and Material Acquisitions and Disposals of Subsidiaries

The Group has been holding 1 per cent of the issued ordinary share capital of Singapore Exchange Limited since November 2000 (cost: $49.1 million; and market value: $76.1 million), 24 per cent of Computershare Hong Kong Investor Services Limited since May 2002 (cost: $26.5 million; and book value:$31.5 million) and 30 per cent of ADP Wilco Processing Services Limited since May 2002 (cost: $1.8 million; and book value: $1.3 million).

There were no material acquisitions or disposals of investments and subsidiaries during the six-month period but the investment in Singapore Exchange Limited was disposed of in July 2004.

Exposure to Fluctuations in Exchange Rates and Related Hedges

When seeking to optimise returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. During the period, the Singapore dollar credit facility (31 December 2003: S$11 million or HK$50 million) used to hedge the currency exposure of the Group's investment in shares of Singapore Exchange Limited was fully repaid. Thereafter, only forward foreign exchange contracts are used to hedge the currency exposure of the Group's non-HKD investments to mitigate risks arising from fluctuations in exchange rates. As at 30 June 2004, aggregate net open foreign currency positions amounted to HK$1,679 million, of which HK$207 million were non-USD exposures (31 December 2003: HK$1,663 million, of which HK$204 million were non-USD exposures). The Group's foreign currency liabilities, in the form of margin deposits or collateral received, are hedged by investments in the same currencies.

Contingent Liabilities

The Unified Exchange Compensation Fund (Compensation Fund) is a fund set up under the repealed Securities Ordinance (SO) for the purpose of compensating any person dealing with a Stock Exchange Participant (other than another Stock Exchange Participant) for any pecuniary losses suffered as a result of a default of the Stock Exchange Participant. According to section 109(3) of the SO, the maximum compensation amount is $8 million for each Stock Exchange Participant's default. Under section 113(5A) of the SO, the Stock Exchange may, upon satisfying certain conditions, with the approval of the SFC, allow an additional payment to the successful claimants before apportionment. Under section 107(1) of the SO, the Stock Exchange has contingent liabilities to the Compensation Fund as it shall replenish the Compensation Fund upon the SFC's request to do so. The amounts to be replenished should be equal to the amount paid in connection with the satisfaction of the claims, including any legal and other expenses paid or incurred in relation to the claims but capped at $8 million per default. As at 30 June 2004, there were outstanding claims received in respect of 12 defaulted Stock Exchange Participants (31 December 2003: 13).

Pursuant to the SFO, the Stock Exchange issued a notice on 3 April 2003 inviting for claims against the Compensation Fund in relation to any default of a Stock Exchange Participant occurring before 1 April 2003. The claims period expired on 3 October 2003 and no claims had been received in response to that notice. Claims made after the claims period shall, unless the Stock Exchange otherwise determines, be barred. Until 30 June 2004, no claims had been received.

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 had been returned to the Futures Exchange by the SFC in January 2004. The Futures Exchange had in turn reimbursed holders of Futures Exchange Trading Rights their contributions to the Commodity Exchange Compensation Fund. Similarly, deposits to the Compensation Fund would be returned to the Stock Exchange in accordance with the SFO pending completion of the determination of the outstanding claims and replenishment to the Compensation Fund.

The Stock Exchange has undertaken to indemnify the Collector of Stamp Revenue against any loss of revenue resulting from any underpayment or default or delay in payment of stamp duty by its Participants, up to $200,000 in respect of default of any one Participant. In the unlikely event that all of its 436 trading Participants as at 30 June 2004 (31 December 2003: 437) default, the maximum contingent liability of the Stock Exchange under the indemnity will amount to $87 million (31 December 2003: $87 million).

HKEx gave an undertaking on 6 March 2000 in favour of HKSCC to contribute an amount not exceeding $50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the debts and liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs, charges and expenses of winding up.

Employees

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

Share options may further be granted to Chief Executive and employees of the Group to subscribe for shares in HKEx in accordance with the terms and conditions of the Post-Listing Share Option Scheme approved by the shareholders of HKEx at an extraordinary general meeting held on 31 May 2000.

Following the merger of the businesses of the Stock Exchange Group, the Futures Exchange Group and the HKSCC Group in 2000, HKEx has succeeded in streamlining its workforce and the number of employees fell from 1,052 (including 88 temporary staff) prior to the merger to 780 (including 31 temporary staff) as at 30 June 2004. For the two semi-annual periods under review, total employees' cost decreased by 3 per cent to $259 million (2003: $267 million), mainly due to one-off severance costs incurred following the reorganisation and streamlining of the Group's operations in May 2003.

There are no significant changes to the policies relating to remuneration, bonus, share option schemes and training schemes from the information disclosed in the 2003 annual report.

PROSPECTS

As a substantial part of HKEx's income comprises trading fees, clearing and settlement fees, listing fees and interest income, the performance of the Group is heavily affected by external factors including, in particular, market sentiment, the level of activity on the Stock Exchange and the Futures Exchange, and movements in interest rates.

Following the significant rebound in trading volume on the securities market, which started in the second half of 2003, trading appears to have peaked temporarily in the first quarter of 2004 before easing back to a level similar to that of the third quarter of 2003, as investors watched from the sidelines the likely impact of the macro economic adjustments in Mainland China, high oil prices and the beginning of a rising interest rate cycle in the United States. It is likely that market sentiment will continue to be affected by the uncertainties created by these issues.

HKEx will continue to exercise stringent control over its costs and target its resources at market needs. It will strive to improve the quality of its markets by strengthening market supervision and risk management, and adopting more world-class regulatory practices and market infrastructure. The revised organisational structure announced in May 2004 will further improve HKEx's efficiency and strengthen its regulatory, risk management and market operations.

HKEx will continue to develop new products and services to diversify revenue sources and attract more high quality companies to list in Hong Kong. It will also remain focused on seizing opportunities arising from the economic reform and development in Mainland China. These efforts will be supported by the recent stationing of representatives in Guangzhou and Shanghai, which enables HKEx to have a wider reach as it seeks potential listing candidates in these two key economic zones of Mainland China. With the concerted efforts of the Government, supervisory bodies and professional market practitioners to jointly promote its securities and derivatives markets, Hong Kong is well positioned to capitalise on the immense opportunities brought about by Mainland China's economic growth and strengthen its position as a major international financial centre in the region.

CORPORATE GOVERNANCE

HKEx is committed to maintaining and building high standards of corporate governance. 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. Three of the independent non-executive directors are qualified accountants with substantial experience in financial matters.

None of the directors of HKEx is aware of information that would reasonably indicate that HKEx is not, or was not for any part of the six-month period to 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

Disclosure of financial information in this announcement complies with Appendix 16 of the Listing Rules. The Audit Committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2004 in conjunction with HKEx's external auditors, and endorses the accounting treatment adopted by HKEx.

For the six-month period to 30 June 2004, HKEx has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the Model Code) as set out in Appendix 10 to the Listing Rules. HKEx has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2004, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

CONTINUING CONNECTED TRANSACTION

On 5 February 2003, the Futures Exchange as the tenant entered into a tenancy agreement with Shine Hill Development Limited (Shine Hill) as the landlord (the 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 managing director of Great Eagle. Pursuant to the revised Listing Rules that took effect from 31 March 2004, Shine Hill becomes an associate of Dr LO Ka Shui. The Lease was entered into in the ordinary and usual course of business of HKEx for a period of two years commencing 1 January 2003. The premises of Suites 501-3 (including the store room on the 5th Floor), 1101 & 1109-11, Asia Pacific Finance Tower, Citibank Plaza, 3 Garden Road, Hong Kong (the Premises) under the Lease are used by the Futures Exchange as offices. The lettable area of the Premises is in a total of 10,348 square feet. The rent and management charges payable to Shine Hill per calendar month are respectively $285,604.80 and $62,812.36 (subject to increase at any time during the continuance of the Lease).

The Lease constitutes a continuing connected transaction under Rule 14A.14 of the Listing Rules (the Transaction). The Transaction was an arm's length transaction entered into on normal commercial terms. The rental payments, including air conditioning and cleaning service charges, for 2003 and the six-month period ended 30 June 2004 amounted to $4,487,432 (as reported in the 2003 Annual Report under "Material Related Party Transactions") and $1,980,100 respectively (six months ended 30 June 2003: $1,929,427). Since the total annual rental payment under the Lease represents less than 2.5 per cent of the applicable percentage ratios of HKEx as defined in the Listing Rules, the Transaction is exempt from the requirement of having to seek independent shareholders' approval and will be reported in the next published annual report and accounts in accordance with Rule 14A.34 of the Listing Rules, and included in the results announcement for the six months ended 30 June 2004.

PURCHASE, SALE OR REDEMPTION OF HKEx'S LISTED SECURITIES

During the six months ended 30 June 2004, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold any of HKEx's listed securities.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of Directors of HKEx comprises 12 independent non-executive directors, namely Mr LEE Yeh Kwong, Charles (Chairman), Mr FAN Hung Ling, Henry, Mr FONG Hup, Mr FRESHWATER, Timothy George, Dr KWOK Chi Piu, Bill, Mr LEE Jor Hung, Dannis, Mr LEE Kwan Ho, Vincent Marshall, Mr LEONG Ka Chai, Dr LO Ka Shui, Mr STRICKLAND, John Estmond, Mr WEBB, David Michael, Mr WONG Sai Hung, Oscar, and one executive director, Mr CHOW Man Yiu, Paul who is also the Chief Executive.

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

Hong Kong, 11 August 2004

This results announcement is published on the Stock Exchange's website (http://www.hkex.com.hk) and the interim report will be available from the same website on or before 26 August 2004.

Please also refer to the printed version of this announcement in South China Morning Post on 12 August 2004.