香 港 交 易 所

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) (Stock Code: 388)

2004 Final Results

FINANCIAL HIGHLIGHTS

(Financial figures are expressed in Hong Kong dollars)

	2004	2003		Change
KEY MARKET STATISTICS				
Average daily turnover value on the Stock Exchange	**$16.0 billion**	$10.4 billion		54%
Average daily number of derivatives contracts traded on the Futures Exchange	**56,752**	41,889		36%
Average daily number of stock options contracts traded on the Stock Exchange	**22,720**	17,122		33%
		As restated		
	$'000	$'000		
RESULTS				
Income	**2,393,937**	2,019,825		19%
Operating expenses	**1,156,296**	1,223,727		(6%)
Operating profit	**1,237,641**	796,098		55%
Share of profits less losses of associates	**12,884**	8,642		49%
Profit before taxation	**1,250,525**	804,740		55%
Taxation	**(193,641)**	(112,054)		73%
Profit attributable to shareholders	**1,056,884**	692,686		53%
Shareholders' funds	**4,052,143**	5,614,125	Φ	(28%)
Total assets *	**21,443,404**	19,807,976	Φ	8%
Net assets per share # Ω	**$3.83**	$5.35		(28%)
Earnings per share	**$1.00**	$0.66		52%
Interim dividend per share	**$0.43**	$0.18		139%
Final dividend per share	**$0.47**	$0.42		12%
	$0.90	$0.60		50%
Dividend payout ratio	**90%**	91%		
Special dividend per share	-	$1.68		

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

Φ *Audited and restated (shareholders' funds up by $11 million and total assets up by $6 million) as at 31 December 2003 due to the adoption of the new Hong Kong Financial Reporting Standards.*

Based on 1,056,638,846 shares issued and fully paid as at 31 December 2004 (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, 2003 final dividend of $0.42 per share and 2004 interim dividend of $0.43 per share, totalling $2.53 per share, but partly offset by profit for the year.*

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The Directors of Hong Kong Exchanges and Clearing Limited ("HKEx") submit the audited results of HKEx and its subsidiaries ("the Group") for the year ended 31 December 2004 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004
(Financial figures are expressed in Hong Kong dollars)

	Note	**2004** **$'000**	As restated 2003 $'000
INCOME	2		
Trading fees and trading tariff		**682,293**	485,211
Stock Exchange listing fees		**378,427**	333,786
Clearing and settlement fees		**356,274**	254,907
Depository, custody and nominee services fees		**251,722**	211,726
Income from sale of information		**307,633**	264,239
Investment income	3	**228,587**	296,952
Other income	4	**189,001**	173,004
	2	**2,393,937**	2,019,825
OPERATING EXPENSES			
Staff costs and related expenses		**545,654**	528,344
Information technology and computer maintenance expenses		**221,624**	246,648
Premises expenses		**78,833**	84,581
Product marketing and promotion expenses		**11,263**	7,891
Legal and professional fees		**11,083**	28,873
Depreciation		**183,400**	181,739
Payment to SFC under dual filing regime		**20,000**	15,000
Other operating expenses	5	**84,439**	130,651
	2	**1,156,296**	1,223,727
OPERATING PROFIT	2	**1,237,641**	796,098
SHARE OF PROFITS LESS LOSSES OF ASSOCIATES	2	**12,884**	8,642
PROFIT BEFORE TAXATION	2	**1,250,525**	804,740
TAXATION	2 / 6	**(193,641)**	(112,054)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	2	**1,056,884**	692,686
DIVIDENDS		**950,911**	629,263
SPECIAL DIVIDEND		**-**	1,762,318
		950,911	2,391,581
Earnings per share	7	**$1.00**	$0.66
Dividends per share			
Interim dividend paid		**$0.43**	$0.18
Final dividend proposed/declared		**$0.47**	$0.42
		$0.90	$0.60
Dividend payout ratio		**90%**	91%
Special dividend per share		**-**	$1.68

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2004
(Financial figures are expressed in Hong Kong dollars)

	Note	2004 $'000	As restated 2003 $'000
NON-CURRENT ASSETS			
Fixed assets		**324,300**	482,927
Investment property		**13,300**	10,000
Lease premium for land		**94,670**	95,218
Investments in associates		**38,731**	36,648
Clearing House Funds		**1,861,487**	1,551,330
Compensation Fund Reserve Account		**37,451**	36,859
Cash and Derivatives Market Development Fund		**-**	925
Non-trading securities		**-**	77,258
Time deposits with maturity over one year		**38,941**	393,456
Deferred tax assets		**1,227**	-
Other assets		**13,142**	4,814
		2,423,249	2,689,435
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	8	**4,691,846**	4,644,680
Lease premium for land		**548**	548
Taxation recoverable		**91**	1,558
Margin Funds on derivatives contracts		**10,529,692**	7,874,510
Financial assets at fair value through profit or loss		**2,761,593**	-
Trading securities		**-**	3,212,998
Time deposits with original maturity over three months		**1,340**	28,857
Cash and cash equivalents		**1,035,045**	1,355,390
		19,020,155	17,118,541
CURRENT LIABILITIES			
Bank loans		**-**	50,286
Margin deposits and securities received from Clearing Participants on derivatives contracts		**10,529,692**	7,874,510
Accounts payable, accruals and other liabilities	8	**4,902,350**	4,779,904
Financial liabilities at fair value through profit or loss		**10,749**	-
Participants' admission fees received		**4,850**	4,100
Deferred revenue		**284,148**	257,068
Taxation payable		**199,678**	57,370
Provisions		**23,212**	25,011
		15,954,679	13,048,249
NET CURRENT ASSETS		**3,065,476**	4,070,292
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,488,725**	6,759,727
NON-CURRENT LIABILITIES			
Participants' admission fees received		**82,850**	84,950
Participants' contributions to Clearing House Funds		**1,298,752**	984,045
Deferred tax liabilities		**30,876**	53,515
Provisions		**24,104**	23,092
		1,436,582	1,145,602
NET ASSETS		**4,052,143**	5,614,125
CAPITAL AND RESERVES			
Share capital		**1,056,639**	1,048,999
Share premium		**104,034**	54,338
Employee share-based compensation reserve		**17,061**	2,771
Revaluation reserves		**18,829**	36,499
Designated reserves		**680,996**	689,657
Retained earnings	9	**1,677,964**	1,578,963
Proposed/declared dividends	9	**496,620**	2,202,898
SHAREHOLDERS' FUNDS		**4,052,143**	5,614,125

Notes:

1. The Hong Kong Institute of Certified Public Accountants ("HKICPA", formerly the Hong Kong Society of Accountants) has undertaken to converge by 1 January 2005 all Hong Kong Financial Reporting Standards ("HKFRSs") with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board. As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects as at 31 December 2004. The accounts have been prepared in accordance with HKFRSs issued by the HKICPA.

   In 2004, the Group has early adopted all HKFRSs issued up to 31 December 2004 pertinent to its operations. The applicable HKFRSs are set out below and the 2003 accounts have been restated in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKAS-INT 15	Operating Leases - Incentives
HKAS-INT 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

   The accounting policies which have a material impact on the Group are set out below:

   The early adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. Prior to this, the provision of share options to employees did not result in a charge to the profit and loss account. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods to the profit and loss account. HKFRS 2 has been applied retrospectively for all equity instruments granted to employees after 7 November 2002 and not vested at 1 January 2004.

   The early adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Until 31 December 2003, investments of the Group were classified into non-trading securities and trading securities, and were stated in the balance sheet at fair value. Bank deposits with embedded derivatives for yield enhancement were treated as bank deposits and stated at cost. Non-cash collateral deposited by Participants was recorded on balance sheet at market value.

   In accordance with the provisions of HKAS 39, the investments have been classified into available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables (which include bank deposits and cash and cash equivalents). The classification depends on the purpose for which the investments were held. For debt securities and bank deposits with embedded derivatives for yield enhancement, where the economic characteristics and the risks of such derivatives are not closely related to the bank deposits and debt securities, all such bank deposits, debt securities and the embedded derivatives are designated as financial assets at fair value through profit or loss with changes in fair value recognised in the profit and loss account. Interest income for financial assets at fair value through profit or loss is included as net realised and unrealised gains/(losses) and interest income of financial assets at fair value through profit or loss. Non-cash collateral deposited by Participants is no longer recognised on the balance sheet.

   The transitional provisions of HKAS 39 are as follows:

   - recognise all derivatives at fair value in the balance sheet on 1 January 2004 and adjust the balance to retained earnings;
   - redesignate all investments into available-for-sale financial assets, financial assets through profit or loss and loans and receivables (which include bank deposits and cash and cash equivalents) on 1 January 2004;
   - remeasure those financial assets or financial liabilities that should be measured at fair value and those that should be measured at amortised cost and adjust the balance to retained earnings at 1 January 2004;
   - prospective application for the derecognition of financial assets.

The effect of adopting HKAS 32, HKAS 39 and HKFRS 2 on the consolidated profit and loss account for the year ended 31 December 2004 and 31 December 2003 and on the consolidated balance sheet as at 31 December 2004 and 31 December 2003 are shown below:

Effect of adopting HKAS 32, HKAS 39 and HKFRS 2 on consolidated profit and loss account

	2004		2003	
	HKFRS 2 $'000	**HKAS 32 & HKAS 39 $'000**	HKFRS 2 $'000	HKAS 32 & HKAS 39 $'000
Increase in investment income	**-**	**367**	-	-
Increase in staff costs and related expenses	**(14,290)**	**-**	(2,771)	-
Increase in other operating expenses	**-**	**(661)**	-	-
Increase in taxation	**-**	**(60)**	-	-
Total decrease in profit	**(14,290)**	**(354)**	(2,771)	-
Decrease in basic earnings per share	**(1.36 cents)**	**(0.03 cents)**	(0.26 cents)	-

Effect of adopting HKAS 32, HKAS 39 and HKFRS 2 on consolidated balance sheet

	2004		2003	
	HKFRS 2 $'000	**HKAS 32 & HKAS 39 $'000**	HKFRS 2 $'000	HKAS 32 & HKAS 39 $'000
Increase / (decrease) in assets				
Clearing House Funds	**-**	**(322,724)**	-	-
Time deposits (non-current)	**-**	**78**	-	-
Margin Funds on derivatives contracts	**-**	**(1,114,605)**	-	-
Accounts receivable, prepayments and deposits	**-**	**(70,686)**	-	-
Financial assets at fair value through profit or loss	**-**	**2,761,593**	-	-
Trading securities	**-**	**(2,691,657)**	-	-
Time deposits (current)	**-**	**5**	-	-
Cash and cash equivalents	**-**	**401**	-	-
Increase / (decrease) in liabilities / equity				
Margin deposits and securities received from Clearing Participants on derivatives contracts	**-**	**(1,114,605)**	-	-
Accounts payable, accruals and other liabilities	**-**	**(10,749)**	-	-
Financial liabilities at fair value through profit or loss	**-**	**10,749**	-	-
Taxation payable	**-**	**60**	-	-
Participants' contributions to Clearing House Funds	**-**	**(322,724)**	-	-
Employee share-based compensation reserve	**17,061**	**-**	2,771	-
Retained earnings	**(17,061)**	**(326)**	(2,771)	-

For details of the effect of changes in the adoption of other new HKFRSs, please refer to note 2(b) to the Consolidated Financial Statements in the annual report.

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 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, results, assets, liabilities, capital expenditures and non-cash expenses for the year by business segments is as follows:

	2004					
	Cash Market $'000	**Derivatives Market $'000**	**Clearing Business $'000**	**Information Services $'000**	**Others $'000**	**Group $'000**
Income	**1,058,306**	**327,430**	**698,052**	**310,149**	**-**	**2,393,937**
Costs	**543,972**	**145,128**	**389,288**	**77,908**	**-**	**1,156,296**
Segment results	**514,334**	**182,302**	**308,764**	**232,241**	**-**	**1,237,641**
Share of profits less losses of associates	**(12)**	**-**	**12,896**	**-**	**-**	**12,884**
Segment profits before taxation	**514,322**	**182,302**	**321,660**	**232,241**	**-**	**1,250,525**
Taxation						**(193,641)**
Profit attributable to shareholders						**1,056,884**
Segment assets	**2,131,971**	**11,402,930**	**7,802,747**	**65,707**	**1,318**	**21,404,673**
Investments in associates	**1,309**	**-**	**37,422**	**-**	**-**	**38,731**
	2,133,280	**11,402,930**	**7,840,169**	**65,707**	**1,318**	**21,443,404**
Segment liabilities	**580,410**	**10,571,605**	**5,949,260**	**33,617**	**256,369**	**17,391,261**
Segment capital expenditures	**5,445**	**2,221**	**14,225**	**3,028**	**-**	**24,919**
Segment depreciation and amortisation	**90,326**	**15,594**	**68,202**	**9,826**	**-**	**183,948**
Segment provision for/ (reversal of) impairment loss	**156**	**30**	**39**	**(1,000)**	**-**	**(775)**
Segment other non-cash expenses	**6,724**	**1,383**	**4,889**	**792**	**-**	**13,788**

	2003 (As restated)					
	Cash Market $'000	**Derivatives Market** $'000	**Clearing Business** $'000	**Information Services** $'000	**Others** $'000	**Group** $'000
Income	847,074	317,421	589,017	266,313	-	2,019,825
Costs	591,879	175,017	362,585	94,246	-	1,223,727
Segment results	255,195	142,404	226,432	172,067	-	796,098
Share of profits less losses of associates	17	-	8,625	-	-	8,642
Segment profits before taxation	255,212	142,404	235,057	172,067	-	804,740
Taxation						(112,054)
Profit attributable to shareholders						692,686
Segment assets	2,407,960	9,179,742	8,099,835	82,233	1,558	19,771,328
Investments in associates	1,321	-	35,327	-	-	36,648
	2,409,281	9,179,742	8,135,162	82,233	1,558	19,807,976
Segment liabilities	551,468	7,948,646	5,543,371	30,070	120,296	14,193,851
Segment capital expenditures	13,154	5,493	12,430	5,170	-	36,247
Segment depreciation and amortisation	90,772	20,993	57,613	12,909	-	182,287
Segment impairment loss	18,322	15,955	223	832	-	35,332
Segment other non-cash expenses	5,748	3,191	3,796	820	-	13,555

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.

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.

Assets and liabilities under the **Others Segment** represent mainly taxation recoverable and payable, deferred tax liabilities and unclaimed dividends.

3. Investment income

	2004	As restated 2003
	$'000	$'000
Interest income (note a)		
- bank deposits	**26,481**	57,638
- listed trading and non-trading securities	**-**	40,187
- unlisted trading and non-trading securities	**-**	105,612
- listed available-for-sale financial assets	**4,401**	-
- unlisted available-for-sale financial assets	**52,292**	-
	83,174	203,437
Interest expenses	**(1,309)**	(2,153)
Net interest income	**81,865**	201,284
Net realised and unrealised gains on investments (note b)		
- listed trading and non-trading securities	**-**	43,000
- unlisted trading and non-trading securities	**-**	6,387
- exchange difference	**-**	28,167
	-	77,554
Net realised and unrealised gains and interest income on financial assets at fair value through profit or loss		
- bank deposits with embedded derivatives	**3,529**	-
- listed securities	**76,834**	-
- unlisted securities	**33,465**	-
- exchange difference	**530**	-
	114,358	-
Gains/(losses) on disposal and maturity of available-for-sale financial assets		
- listed securities (note c)	**24,841**	-
- unlisted securities	**101**	-
- exchange difference	**(192)**	-
	24,750	-
Dividend income		
- listed non-trading securities	**-**	14,096
- listed trading securities	**-**	4,018
- listed available-for-sale financial assets	**1,070**	-
- listed financial assets at fair value through profit or loss	**6,378**	-
	7,448	18,114
Other exchange difference	**166**	-
Total investment income	**228,587**	296,952
Total investment income is derived from:		
Corporate Funds (note d)	**148,781**	214,869
Margin Funds	**69,313**	64,377
Clearing House Funds	**10,493**	17,706
	228,587	296,952

(a) Following the adoption of HKAS 32 and HKAS 39 in 2004, investments previously classified as trading securities, and deposits and non-trading securities with embedded derivatives that are not closely related to the host deposits or non-trading securities have been redesignated as financial assets at fair value through profit or loss. Accordingly, interest from such investments amounting to $73,332,000 is no longer disclosed as interest income but included as net realised and unrealised gains and interest income in that year. As a result, interest income shown in 2004 is not directly comparable with that in 2003.

(b) Included net realised gains on disposal of non-trading securities of Margin Funds and Clearing House Funds in 2003 of $6,852,000, of which $3,763,000 had been previously recognised in investment revaluation reserve. There is no such item in 2004 as all such securities have been redesignated as available-for-sale financial assets.

(c) Relates to profit on sale of investment in Singapore Exchange Limited in July 2004.

(d) Investment income derived from Corporate Funds includes investment income of Compensation Fund Reserve Account of $576,000 (2003: $714,000) and Cash and Derivatives Market Development Fund ("CDMD Fund") of $20,000 (2003: $56,000).

4. Other income

	2004 $'000	As restated 2003 $'000
Network, terminal user, dataline and software sub-license fees	**120,261**	101,491
Participants' subscription and application fees	**34,341**	36,227
Share registration services fees	**1,828**	1,600
Brokerage on direct IPO applications	**17,586**	11,618
Fair value gain of an investment property	**3,300**	-
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	**5,133**	14,355
Miscellaneous income	**6,552**	7,713
	189,001	173,004

5. Other operating expenses

	2004 $'000	As restated 2003 $'000
Write-down of strategic investments (note a)	**-**	32,683
Retirement of redundant IT systems	**165**	10,133
(Reversal of provision for)/provision for impairment losses of trade receivables	**(850)**	1,789
Insurance	**16,401**	11,780
Financial data subscription fees	**7,414**	8,978
Custodian and fund management fees	**7,772**	8,445
Bank charges	**7,889**	7,135
Repair and maintenance expenses	**6,984**	7,373
Other miscellaneous expenses	**38,664**	42,335
	84,439	130,651

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

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

	2004 $'000	As restated 2003 $'000
Provision for Hong Kong Profits Tax for the year (note a)	**219,086**	125,503
(Over)/under provision in respect of prior years	**(79)**	1,170
	219,007	126,673
Deferred taxation (note b)	**(25,366)**	(14,619)
Taxation charge	**193,641**	112,054

(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 year.

(b) Deferred taxation for 2003 included a one-off deferred tax charge of $6,184,000, 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 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 $1,056,884,000 (2003: $692,686,000) and the weighted average of 1,054,985,321 shares (2003: 1,046,494,819) in issue during the year. The employee share options outstanding do 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 amount to $4,691,846,000 (2003: $4,644,680,000) and $4,902,350,000 (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 91 per cent (2003: 87 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations payable represents 87 per cent (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 (including proposed and declared dividend)

	2004 **$'000**	As restated 2003 $'000
At 31 Dec 2003/31 Dec 2002		
Retained earnings, as previously reported	**1,560,940**	3,221,321
Proposed and declared dividend	**2,202,898**	448,740
	3,763,838	3,670,061
Effect of changes in accounting policies	**18,023**	17,102
At 31 Dec 2003/31 Dec 2002		
Retained earnings, as restated	**3,781,861**	3,687,163
Effect of initial adoption of HKAS 39	**28**	-
At 1 Jan		
Retained earnings, as restated	**3,781,889**	3,687,163
Profit for the year	**1,056,884**	692,686
Deficit/(surplus) of investment income net of expenses of Clearing House Funds transferred to Clearing House Funds reserves	**5,040**	(8,430)
Investment income net of expenses of Compensation Fund Reserve Account transferred to Compensation Fund Reserve Account reserve	**(576)**	(714)
Transfer from CDMD Fund reserve	**914**	-
Transfer from Development reserve	**3,283**	49,226
Dividends paid:		
2003 special and final dividends/ 2002 final dividend	**(2,202,898)**	(448,740)
Dividend on shares issued for employee share options exercised after declaration of 2003 special and final dividends/2002 final dividend	**(15,661)**	(647)
	(2,218,559)	(449,387)
2004/2003 interim dividend	**(454,283)**	(188,452)
Dividend on shares issued for employee share options exercised after declaration of 2004/2003 interim dividend	**(8)**	(231)
	(454,291)	(188,683)
At 31 Dec	**2,174,584**	3,781,861
Representing:		
Retained earnings	**1,677,964**	1,578,963
Proposed/declared dividends	**496,620**	2,202,898
At 31 Dec	**2,174,584**	3,781,861

(a) The Group's profit after taxation includes a net deficit attributable to the investment income net of expenses of the Clearing House Funds, Compensation Fund Reserve Account and CDMD Fund for an aggregate amount of $2,182,000 (2003: surplus of $6,938,000).

CHIEF EXECUTIVE'S REVIEW

The mission of HKEx is to operate a world-class marketplace for Hong Kong and Mainland securities. In pursuit of this mission, HKEx developed a three-year strategic plan (2004-2006) in the latter part of 2003 which focuses on three main areas: (1) consolidation; (2) becoming a Mainland partner; and (3) building a quality market.

Consolidation

Consolidation achieved through organisational restructuring, cost rationalisation, and prioritisation of projects has underpinned our strength and has helped better allocate our available resources to meet the challenges ahead.

The organisational structure was revised in May 2004 to streamline HKEx's regulatory and business operations and improve overall efficiency. The responsibilities of several former units were reorganised so as to further sharpen HKEx's focus on the five key components of its markets: listed issuers, intermediaries, investors, infrastructure, and information dissemination.

Cost rationalisation has successfully lowered the Group's total operating expenses for the year by 6 per cent as compared with those of previous year. In particular, information technology and computer maintenance expenses, a significant component in the Group's expenditure structure dropped by 10 per cent in 2004 against those in 2003.

Becoming a Mainland Partner

We continue to build on the strengths which have established Hong Kong as one of the world's leading equity markets and the premier international capital formation centre for the Mainland. In becoming a Mainland partner, our principal objective is to contribute to, and benefit from, the continued and robust growth of the Mainland economy and capital market.

Further to the establishment of our Beijing Representative Office in November 2003, staff members from the Beijing Representative Office were appointed to station in Guangzhou and Shanghai during 2004 to bolster HKEx's presence on the Mainland, strengthen our relationships with the Mainland government authorities and regulatory bodies, and enhance our liaison work with potential Mainland issuers. Our direct presence on the Mainland also facilitates our provision of listing conferences, seminars, and training sessions on the Mainland. Apart from Mainland state-owned enterprises and privately-owned companies, foreign-controlled joint venture companies on the Mainland have also expressed interest in raising capital in Hong Kong.

On product development, HKEx successfully launched the H-shares Index Options and four stock options on H-shares during 2004 following the launch of the H-shares Index Futures in December 2003. HKEx will continue to develop and gear up its marketing effort to promote new Mainland-related products to complement the existing H-share Index Futures and Options.

HKEx and the Securities and Futures Commission ("SFC") have from time to time jointly offered training to secondees from the China Securities Regulatory Commission. During 2004, four secondees were sponsored to attend training in Hong Kong. To further strengthen HKEx's ties with its counterparts on the Mainland, a Memorandum of Understanding was signed in September 2004 with the China Securities Depository and Clearing Corporation Limited on the exchange of information and cooperation on staff training. HKEx has also expanded its Mainland Discount Programme to information vendors for the dissemination of Hong Kong market data in major Mainland cities.

Building a Quality Market

As the recognised exchange controller in Hong Kong, HKEx is committed to operating a fair, open and transparent market through the continuing improvement of market infrastructure, issuer regulation, market regulation, and risk management.

Market Infrastructure

HKEx operates central marketplaces for the trading and the clearing and settlement of cash and derivatives products. In 2004, the infrastructure for these marketplaces operated to the highest standards of integrity, reliability and efficiency. All major market systems, including the Third Generation Automatic Order Matching and Execution System ("AMS/3"), which is a core part of HKEx's market infrastructure, achieved 100 per cent uptime throughout 2004.

A core value of HKEx is to ensure that its technology is able to meet market demand in an effective and cost-efficient manner. As such, we are particularly delighted that AMS/3 received two awards in 2004, namely the Gold Award (highest honour) for the Application Category of the Hong Kong Computer Society's 6th IT Excellence Award, and a Certificate of Merit for the Financial Application Category of the 2004 Asia Pacific Information and Communications Technology Award.

Derivatives Clearing and Settlement System ("DCASS"), the integrated clearing and settlement system for all futures and options traded on HKEx's markets, was successfully rolled out in April 2004. The system offers improved risk management capabilities, enhances operational efficiency and delivers higher flexibility to traders and intermediaries. HKEx will continue to seek to maintain 100 per cent availability of DCASS and will also gear up its capacity, when appropriate, to match future business growth in the derivatives market.

In late 2004, the Board approved the proposed consolidation of the existing four market system networks, namely AMS/3, Hong Kong Futures Automated Trading System ("HKATS"), DCASS, Central Clearing and Settlement System ("CCASS") as well as Market Data Feed ("MDF"), into a consolidated network to further enhance capacity, cost effectiveness and reliability. The network consolidation will be implemented in phases, starting from 2005 and is scheduled to be completed by the end of 2007. However, cost savings to HKEx and the Cash Market Exchange Participants ("EPs") have been achieved through reduced network tariffs of about 20 per cent starting from January 2005.

HKEx will continue to explore the possibility of upgrading the host capacity of the major market systems to accommodate the increasing system demand resulting from increased market turnover. Technology and system software will be replaced as they become obsolete, including all second terminals installed at EPs' offices. A comprehensive review of the AMS/3 satellite applications will also be conducted to identify opportunities for possible enhancement, consolidation and where appropriate, retirement.

On the clearing and settlement front, HKEx continues to support the Government's initiative in developing a scripless market in Hong Kong. In May 2004, HKEx recommended the Issuer Register Model and a progressive approach to implementing the scripless initiative. Pending the completion of the enabling legislation by the Government and the revision of the clearing fee structure to accommodate the scripless market, CCASS dematerialisation of listed shares of locally incorporated companies is scheduled to take place in 2006.

HKEx has also introduced enhanced features for the Investor Participant ("IP") accounts in CCASS to make operation of the accounts more convenient and user-friendly. Promotional programmes were rolled out during the period August to December 2004 to increase public awareness of the IP account service. A steady increase in new IP accounts has been noted. Further enhancements to CCASS services will be implemented progressively in 2005 starting with a total of 19 enhancements set for introduction in March 2005.

HKEx began disseminating real-time odd lot market information, including order prices, and the aggregated order quantity and order size of the five best bid and ask prices, to information vendors in March 2004 to increase market transparency. We will continue to recruit information vendors and review the reporting and compliance regime applicable to our existing information vendors.

Issuer Regulation

As the frontline regulator of listed issuers in Hong Kong, HKEx is committed to playing a leading role in the maintenance and enhancement of market quality. New regulatory arrangements have been adopted to implement the Government's recommendations resulting from the Consultation Conclusions on Proposals to Enhance the Regulation of Listing.

In order to enhance the transparency of the decisions made by the SFC and HKEx in IPO-related listing matters, the Listing Division has been announcing listing decisions and interpretations of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Main Board Listing Rules") and the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM Listing Rules") (collectively the "Listing Rules") on a regular basis. A total of 16 listing decisions and their interpretations were published in 2004, aiming at providing a more user-friendly reference to market users. Since December 2004, HKEx has also published the Rejection Letters Series on the HKEx website to provide the market and prospective applicants with even higher transparency in listing decisions and interpretations of the Listing Rules. Moreover, in July 2004, the Listing Committees issued their first annual report to provide an account of the work of the Committees, which is also posted on the HKEx website for public information. As a recommendation in the Consultation Conclusions on Proposals to Enhance the Regulation of Listing, HKEx has proposed a revamp of the role of the Listing Committees to facilitate a simpler and more efficient decision-making process. A consultation paper on the new structure for listing decision-making was published in February 2005 and the consultation period will end on 22 April 2005.

In January 2005, the Government and the SFC have respectively published a public consultation paper aiming at giving statutory backing to major listing requirements in the Listing Rules to further enhance the regulation of listed issuers. HKEx is preparing a response to each of the consultation papers.

An annual review is being conducted by the SFC on HKEx's performance of its listing functions, including the procedures and practices of HKEx's Listing Division and the operation of the Listing Committees. It is intended that the SFC's report on their 2005 review will published around the end of June 2005.

Securities regulation is continually progressing in response to changing local environment, emerging issues, and evolving best practices. In this regard, amendments to the Listing Rules in relation to corporate governance issues, initial listing criteria, and continuing listing obligations took effect on 31 March 2004. Training seminars were held in Hong Kong and Beijing to explain the amendments, and additional guidance materials were published on the HKEx website. The Code on Corporate Governance Practices ("CG Code") and the Rules on Corporate Governance Report ("CG Report") were released in November 2004 and took effect on 1 January 2005, with the exception of the code provisions on internal controls and the proposed disclosure requirements relating to internal controls in the CG Report that will take effect on 1 July 2005.

Sponsors and Independent Financial Advisers ("IFAs") bring transactions to the market and investors rely to a great extent on their judgement and integrity. Their role is of particular importance to the Hong Kong securities market due to the large proportion of listed issuers and listing applicants whose domiciles and main operations are located outside Hong Kong. Amendments to the Listing Rules relating to the regulation of sponsors and IFAs were announced in October 2004 and took effect on 1 January 2005, which set out clearly the requirements expected of sponsors, compliance advisers, and IFAs. HKEx will continue to co-operate with the SFC to ensure that any failure to meet the standards is addressed promptly and effectively.

Market Regulation

At the end of 2004, there were 490 Stock EPs and 126 Futures EPs. Under the Securities and Futures Ordinance ("SFO"), securities and derivatives market intermediaries in Hong Kong are subject to a common regulatory framework. Accordingly, a review was conducted in 2004 to align HKEx's existing disciplinary regimes for EPs. Internal surveillance systems for the derivatives market, in particular, the monitoring of large open positions, have been strengthened.

HKEx has completed its review of the narrowing of trading spreads. The consultation conclusions on reducing trading spreads were published on the HKEx website in February 2005, and the first phase is expected to be implemented in mid-2005. The second phase would only be considered subject to a close examination of the results of and market feedback on the phase one changes. HKEx has continued the review of other related trading parameters such as quotation rule and order types, and has tightened the obligations of market makers for Exchange Traded Funds ("ETFs"). In order to enhance investor education, we have launched the Simulated Investment Market ("SIMart") and organised training seminars for investors and EPs. During 2004, HKEx organised or co-organised more than 30 training seminars for investors, issuers and market participants in Hong Kong and participated in about 10 educational seminars and conferences held on the Mainland and in Macau.

Risk Management

Prudent risk management is essential to uphold market confidence. In 2004, HKEx implemented a number of new risk management measures. In respect of the clearing function, risk management measures such as restrictions on accepting bank guarantees, harmonisation of settlement bank eligibility criteria, and revision of the risk management policies of HKCC and SEOCH were implemented to reduce HKEx's risk concentration.

HKEx participated in a market-wide rehearsal for the financial services sector at the end of January 2004 to test market contingency plans and inter-organisation communications in the event of significant market disruption. Other than HKEx, participants included the Financial Services and Treasury Bureau, the Hong Kong Monetary Authority and the SFC. The results of the rehearsal showed that HKEx could handle contingency scenarios well in accordance with the procedures set out in the contingency plans, and communicate with internal and external parties effectively and efficiently during critical situations.

As part of our corporate mission, HKEx will continue to enhance the Cash and Derivatives market surveillance systems. In addition, HKEx will conduct a comprehensive review of the existing risk management regime to further improve our risk management capability and to ensure that risks across HKEx are always managed in an adequate, timely, and effective manner.

Staffing

We strongly believe that a team of dedicated staff members is one of the contributing factors to achieve consistent and sustained performance. We were delighted to welcome Gerald Greiner to join us as our Deputy Chief Operating Officer and Head of Exchange Division in May 2004, Archie Tsim as the Special Adviser to the Head of the Listing Division in October 2004, and Vic Tham as Head of the Risk Management Department in November 2004. These appointments add vital expertise and experience to our organisation. The appointments reflect our commitment to further strengthening the operational and regulatory functions of HKEx. We will continue to retain good performers and recruit talent from the financial services industry to add to our existing quality management team.

HKEx considers its staff its greatest assets. As such, we are always a strong advocate of life-long learning and career development. During 2004, on average, each staff member received more than 19 training hours or attended more than three training courses. To enhance the competitiveness of HKEx, we will devote more resources to sponsor and encourage staff members to pursue various self-improvement and corporate-sponsored initiatives. To achieve this, the training budget for 2005 has been increased by 50 per cent against that for 2004. In addition, a Career Development and Training Committee was set up in March 2004 with staff representatives from different departments and levels to recommend ways to enhance the career development and training culture within HKEx. The recommended initiatives are currently being implemented.

Moving Ahead

Moving ahead, we will strive to achieve our goals through the continued implementation in 2005 of the three-year strategic plan (2004-2006). We will need support from all our stakeholders, including our shareholders, our market users and participants, our employees, our fellow regulators, the Government, and the investing public at large, in achieving our goals.

We strongly believe that ensuring market quality, strengthening investor confidence, attracting order flow, and increasing liquidity are the key drivers of a successful Cash and Derivatives market. The senior management team has formulated action and operational plans to achieve the strategic target of operating a world-class marketplace for the Hong Kong and the Mainland securities and derivatives. We will continue to focus on "Building a Quality Market" to ensure that HKEx and its markets meet international standards of quality in infrastructure, regulation and operations. This includes but is not limited to substantial investment in the capacity and technology upgrade of market systems, and the review of the operation and regulatory policy of the GEM. Moreover, we will continue our efforts in promoting new products and services to the market, including the introduction of Callable Bull/Bear Certificates, and futures and options on the FTSE/Xinhua China 25 Index, the strengthening of HKEx's nominees services in respect of its CCASS Depository, and the expansion of the dissemination of the Hong Kong market information on the Mainland and in other selected regional markets. In addition, HKEx will continue its work on promoting Hong Kong as a major venue within the region for the listing of debts.

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

Overall Performance

The financial performance of the Group is summarised below:

Analysis of results by quarter

	As restated* Q1 2004 $ million	As restated* Q2 2004 $ million	As restated* Q3 2004 $ million	Q4 2004 $ million	Total 2004 $ million
Income	649	515	571	659	2,394
Operating expenses	285	286	286	299	1,156
Operating profit	364	229	285	360	1,238
Share of profits less losses of associates	3	3	3	4	13
Profit before taxation	367	232	288	364	1,251
Taxation	(54)	(47)	(40)	(53)	(194)
Profit attributable to shareholders	313	185	248	311	1,057

	As restated* Q1 2003 $ million	As restated* Q2 2003 $ million	As restated* Q3 2003 $ million	As restated* Q4 2003 $ million	As restated* Total 2003 $ million
Profit attributable to shareholders	90	126	190	287	693

* Following the adoption of certain new HKFRSs in the fourth quarter of 2004, certain figures previously reported have been restated to conform to the new standards.

Following the fall in the stock and bond markets in the second quarter, the markets rebounded strongly in the third quarter, and this recovery continued into the fourth quarter as the macro-economic adjustments to the economy in China started to show some positive results, and the interest rate hikes in the US did not propagate to Hong Kong due to the abundant money market liquidity resulting from an influx of foreign funds.

Activity on the Stock Exchange and the Futures Exchange increased significantly, which culminated in several new records being achieved in the Cash and the Derivatives markets in 2004, including the highest annual turnover of the cash market, highest annual turnover of H Shares and derivative warrants and the highest annual turnover of futures and options contracts traded. In addition, Hong Kong retained its position as the global leader in terms of annual turnover of listed warrants among member exchanges of the World Federation of Exchanges for the second consecutive year. As a result, total income of the Group increased significantly compared with 2003, in particular as a result of increases in trading fees and clearing and settlement fees.

The increase in market income was partly offset by a decrease in investment income mainly due to lower interest rates and reduced investment portfolio following the distribution of the 2003 special and final dividends of $2.2 billion in the second quarter of 2004.

Total operating expenses for the year decreased by $68 million or 6 per cent to $1,156 million (2003:$1,224 million) despite taking into account additional expenses of $12 million following an early adoption of the new HKFRSs, in particular the requirement to expense employee share options under HKFRS 2 – Share-based Payment, and an additional $5 million paid to the SFC as a result of the full year operation of the dual filing regime against the partial year payment made in 2003. If such additional expenses were excluded, total operating expenses fell by $85 million or 7 per cent compared with 2003. The decrease was mainly due to non-recurring one-off restructuring costs ($52 million before tax) incurred in the second quarter 2003, and effective cost controls.

The HKICPA has undertaken to converge by 1 January 2005 all HKFRSs with IFRSs issued by the International Accounting Standards Board. As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects as at 31 December 2004. The accounts have been prepared in accordance with HKFRSs issued by the HKICPA.

Income

(A) Income directly affected by market turnover

	2004	2003	Change
	$'000	$'000	
Trading fees and trading tariff	**682,293**	485,211	41%
Clearing and settlement fees	**356,274**	254,907	40%
Depository, custody and nominee services fees	**251,722**	211,726	19%

The key business drivers of the significant increase in turnover-related income are:

Key market turnover

	2004	2003	Change
Average daily turnover value on the Stock Exchange	**$16.0 billion**	$10.4 billion	54%
Average daily number of derivatives contracts traded on the Futures Exchange	**56,752**	41,889	36%
Average daily number of stock options contracts traded on the Stock Exchange	**22,720**	17,122	33%

(B) Stock Exchange listing fees

	2004	2003	Change
	$'000	$'000	
Annual listing fees	**252,358**	238,451	6%
Initial and subsequent issue listing fees	**119,468**	88,668	35%
Others	**6,601**	6,667	(1%)
	378,427	333,786	13%

The increase in fees was attributable to the overall increase in the number of new listings (in particular, derivative warrants) and the higher number of companies listed on the Stock Exchange.

Key drivers for initial and subsequent issue listing fees

	2004	2003	Change
Number of newly listed derivative warrants	**1,259**	678	86%
Number of new listings on the Main Board	**49**	46	7%
Number of new listings on GEM	**21**	27	(22%)

	As at 31 Dec 2004	As at 31 Dec 2003	Change
Key drivers for annual listing fees			
Number of companies listed on Main Board	**892**	852	5%
Number of companies listed on GEM	**204**	185	10%

(C) Investment income

	2004	As restated 2003	Change
	$'000	$'000	
Income from:			
Investments supervised by the Finance Department	**202,955**	283,594	(28%)
Investment in Singapore Exchange Limited	**25,632**	13,358	92%
Total investment income	**228,587**	296,952	(23%)

The average market interest rates and the average amount of funds available for investment are as follows:

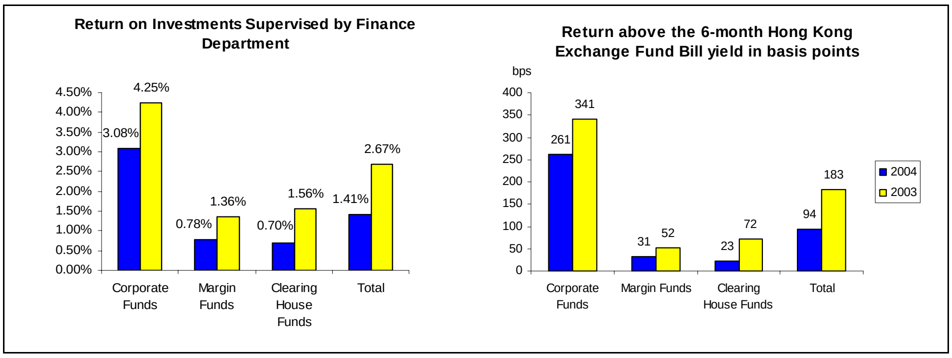
	2004	2003	Change
Interest rates:			
Average 6-month Hong Kong Exchange Fund Bill rate	**0.47%**	0.84 %	(37) basis pts
Average 90-day US Treasury Bill rate	**1.38%**	1.02 %	36 basis pts
	$ billion	**$ billion**	
Average amount of funds available for investment			
Corporate Funds	**4.0**	4.7	(15%)
Margin Funds	**8.9**	4.8	85%
Clearing House Funds	**1.5**	1.1	36%
Total	**14.4**	10.6	36%

The increase in the average amount of Margin Funds available for investment during the year reflected 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 the average amount of Clearing House Funds available for investment during the year reflected the increase in additional contributions from Participants in response to market fluctuations and increased risk exposure.

The drop in income from investments supervised by the Finance Department reflected lower interest rates, the reduced amount of Corporate Funds available for investment, and a drop in foreign exchange gains of $28 million during 2004.

The performance of funds supervised by the Finance Department is as follows:



During the third quarter 2004, the investment in Singapore Exchange Limited was disposed of at a consideration of $76 million and a profit over cost of $24.8 million was recorded.

(D) Other operating income

	2004	As restated 2003	Change
	$'000	$'000	
Income from sale of information	**307,633**	264,239	16%
Other income			
Network, terminal user, dataline and software sub-license fees	**120,261**	101,491	18%
Participants' subscription and application fees	**34,341**	36,227	(5%)
Share registration services fees	**1,828**	1,600	14%
Brokerage on direct IPO applications	**17,586**	11,618	51%
Fair value gain of an investment property	**3,300**	-	NA
Accommodation income	**5,133**	14,355	(64%)
Miscellaneous income	**6,552**	7,713	(15%)
	189,001	173,004	9%

Income from sale of information increased as demand for information surged in line with the activity on the Cash and Derivatives markets.

Other income

Network, terminal user, dataline and software sub-license fees increased due to higher sales of additional throttles, the rise in software sub-licensing and an increase in the number of network lines used by Participants.

Accommodation income (ie, the 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) declined as margin deposits received from participants in non-contract settlement currencies or securities deposited dropped significantly during the year.

Operating expenses

	2004	As restated 2003	Change
	$'000	$'000	
Staff costs and related expenses	**545,654**	528,344	3%
Information technology and computer maintenance expenses	**221,624**	246,648	(10%)
Premises expenses	**78,833**	84,581	(7%)
Product marketing and promotion expenses	**11,263**	7,891	43%
Legal and professional fees	**11,083**	28,873	(62%)
Depreciation	**183,400**	181,739	1%
Payment to SFC under dual filing regime	**20,000**	15,000	33%
Other operating expenses	**84,439**	130,651	(35%)
Total operating expenses	**1,156,296**	1,223,727	(6%)

Staff costs and related expenses increased by $17 million during the year, mainly attributable to $12 million of higher employee options expensed and written-off in accordance with HKFRS 2, $1 million increase in training costs and a $34 million increase in the performance bonus pool as a result of the improved performance of the Group. The increase was partly offset by tighter control on staff costs resulting in savings of $21 million in 2004 and one-off severance costs of $9 million in 2003.

Information technology and computer maintenance expenses declined by $25 million. Cost of goods and services directly consumed by Participants increased to $61 million (2003: $51 million) due to increased hardware purchases and a higher number of network lines used and software licencing for derivatives trading and clearing systems. Excluding the goods and services directly consumed by Participants, the amount consumed by the Group was $161 million in 2004, a drop of $35 million against that of 2003 (2003: $196 million) mainly due to lower hardware rental and system maintenance costs. In 2004, capital expenditures on computer systems, hardware and software amounted to $23 million (2003: $30 million).

Premises expenses dropped as lower rental was negotiated upon the renewal of certain leases and savings achieved from reduced floor area leased during the year.

Product marketing and promotion expenses rose mainly attributable to higher expenditure on corporate marketing and advertising campaigns and incentive programmes launched for the introduction and promotion of the H-Shares Index Futures and Index Options.

Legal and professional fees fell mainly attributable to professional fees incurred on several one-off consulting projects in 2003.

Depreciation remained fairly stable during the year. The increase in depreciation following the roll out of DCASS in April 2004 was offset by the decrease arising from revising the estimated useful life of the hardware of trading and clearing systems from three years to five years to better reflect the actual useful life of equipment.

Payment to the SFC under the dual filing regime increased as the arrangement took effect from 1 April 2003, and the full year impact was recorded in 2004.

Other operating expenses dropped significantly 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 relating to the retirement of redundant IT systems following a business strategy and operations review conducted in May 2003). Provision for impairment loss of trade receivables also declined by $3 million with a net recovery of $1 million (2003: charge of $2 million).

Share of profits less losses of associates

	2004	As restated 2003	Change
	$'000	$'000	
Share of profits less losses of associates	**12,884**	8,642	49%

Share of profits less losses of associates (after taxation) increased due to the improved performance of one of the associates, Computershare Hong Kong Investor Services Limited.

Taxation

	2004	As restated 2003	Change
	$'000	$'000	
Taxation	**193,641**	112,054	73%

Taxation increased mainly attributable to an increase in operating profit and a drop in non-taxable investment income.

Liquidity, Financial Resources, Gearing and Capital Commitments

Working capital decreased by $1,005 million or 25 per cent to $3,065 million as at 31 December 2004 (2003: $4,070 million). This decline was primarily due to the payment of the 2003 special and final dividends of $2,219 million and the payment of 2004 interim dividend of $454 million, which was partly offset by the $1,057 million profit generated during the year, the proceeds on the sale of the investment in Singapore Exchange Limited of $76 million and $355 million of time deposits brought forward from 31 December 2003 with a maturity over one year that became current assets during the year due to the lapse of time, and the increase in other net current assets of $180 million.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. As at 31 December 2004, the Group's total available banking facilities amounted to $1,608 million (2003: $2,764 million), of which $1,500 million (2003: $1,500 million) represented repurchase facilities to augment the liquidity of the Margin Funds.

During the year, the $1,100 million of banking facilities for meeting the Group's CNS money obligations in CCASS expired and was not renewed as 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. Furthermore, the SGD 12 million banking facility of the bank loan for hedging the Group's investment in Singapore Exchange Limited was not renewed following the disposal of the investment.

Borrowings of the Group have been rare and are mostly event driven, with little seasonality. As at 31 December 2004, the Group had no bank borrowings (2003: SGD11 million, equivalent to HK$50 million, with a maturity of less than 1 year).

As at 31 December 2004, the Group had zero gearing (2003: gearing was less than 1 per cent).

The Group's capital expenditure commitments as at 31 December 2004, mainly in respect of its ongoing investments in facilities and technology, amounted to $78 million (2003: $91 million). The Group has adequate financial resources to fund its commitments on capital expenditures from internal resources.

As at 31 December 2004, 99 per cent (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 or USD.

Charges on Assets

None of the Group's assets was pledged as at 31 December 2004 and 31 December 2003.

Significant Investments Held and Material Acquisitions and Disposals of Investments and Subsidiaries

The Group has held a 24 per cent interest in Computershare Hong Kong Investor Services Limited since May 2002 (cost: $26.5 million; and book value: $37.4 million) and a 30 per cent interest in ADP Wilco Processing Services Limited ("AWPS") since May 2002 (cost: $1.8 million; and book value: $1.3 million).

The Group disposed of its entire investment in Singapore Exchange Limited in July 2004 at a profit over cost of approximately $24.8 million.

The Group resolved to liquidate its investment in AWPS in the fourth quarter 2004. As at 31 December 2004, the book value of AWPS, representing the Group's share of AWPS's net assets, which comprise predominantly cash and bank balances, amounted to $1.3 million (2003: $1.4 million). The liquidation proceeds are expected to approximate the investment book value. The voluntary liquidation of AWPS is in progress.

Apart from the above, there were no other material acquisitions or disposals of investments and subsidiaries during the year.

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 year, the Singapore dollar credit facility (2003: SGD11 million or $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 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 31 December 2004, aggregate net open foreign currency positions amounted to $1,996 million, of which $170 million were non-USD exposures (2003: $1,663 million, of which $204 million were non-USD exposures), and the total nominal value of outstanding forward foreign exchange contracts amounted to $358 million (2003: $ 322 million). All foreign exchange contracts mature within one month.

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 (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 31 December 2004, there were outstanding claims received in respect of 10 defaulted Stock Exchange Participants (2003: 13).

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 31 December 2004, no claims had been received in response to 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, EPs 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.

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 434 trading Participants as at 31 December 2004 (2003: 437) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity will amount to $87 million (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.

HKEx has given a guarantee to secure banking facilities granted to HKSCC since 13 December 2000. These facilities, on a committed basis of an aggregate amount of $1.1 billion, were granted to HKSCC by five banks to provide stand-by liquidity to meet potential obligations of HKSCC in CCASS in circumstances where CCASS Participants default on their payment obligations. None of these bank facilities had ever been utilised as at 31 December 2003. During the year, the bank facilities were not renewed and the guarantee given by HKEx expired.

HKEx has given a guarantee to secure banking facilities of SGD 12 million to HKEx (Singapore) Limited for financing its investments since 16 April 2001. During the year, the Singapore dollar credit facility (31 December 2003: SGD11 million or $50 million) was fully repaid, and the guarantee given by HKEx had expired.

PROSPECTS

The Hong Kong capital market is likely to benefit from another year of stable economic growth in Hong Kong and anticipated robust growth in the Mainland. However, increases in interest rates, macro-economic damping measures adopted in the Mainland, and sharp movements in global oil prices and the currency markets could adversely impact investor sentiment and activities in our markets. As a substantial portion of HKEx's income is derived from trading fees, clearing and settlement fees, listing fees, and interest income, the Group's performance is directly influenced by these external factors.

Looking ahead, HKEx will further enhance the quality of its markets by reinforcing its regulatory regime and strengthening its market infrastructure. It will also focus on improving its effectiveness as a market operator by consolidating its policies and procedures to raise operational efficiency, rationalise costs, and fortify risk management practices. Continued improvement of corporate governance practices in accordance with evolving global standards will be a key item on the agenda.

The commitment to provide a fair, quality, and reliable market will position HKEx well to capture the business opportunities arising from the economic growth in the Mainland. HKEx will further strengthen its co-operation with Mainland authorities as well as Mainland exchanges. HKEx will continually strive to attract the best quality Mainland enterprises to be listed in Hong Kong. We will also explore and introduce new Mainland-related products at appropriate times to meet investors' increasing interest and demand. With the Beijing Representative Office in full operation, and supported by representatives stationed in Guangzhou and Shanghai, HKEx has considerably widened its reach in the three key economic zones in the Mainland.

Vigorous promotional campaigns have been planned to introduce HKEx's services to Mainland potential listed issuers.

HKEx will proactively facilitate the bond market in providing an alternative financial channel for the Government infrastructural and other investment projects, as well as a channel for securing financing for commercial activities. The favourable responses to the recent global offering of the Government's $20 billion bond reflected international investors' confidence in the overall economic prospects of Hong Kong, which can help promote the development of the local retail bond market.

It is our key objective to deliver a world-class marketplace for Hong Kong and Mainland securities and derivatives products, and contribute towards maintaining Hong Kong as one of the pre-eminent international financial centres in the world.

FINAL DIVIDEND

The Board of Directors recommends a final dividend of $0.47 per share (2003: $0.42) for the year ended 31 December 2004 to shareholders. Together with the interim dividend of $0.43 per share (2003: $0.18), this will bring the total dividend distribution for the year to $0.90 per share (2003: $2.28, including a special dividend of $1.68).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Thursday, 7 April 2005 to Tuesday, 12 April 2005, both dates inclusive, during which period, no transfer of shares will be registered. Dividend warrants will be despatched to shareholders on or about Monday, 25 April 2005. In order to qualify for the proposed final 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 Wednesday, 6 April 2005.

ANNUAL GENERAL MEETING

The annual general meeting 2005 ("AGM") will be held at the Trading Hall of the Stock Exchange at 1st Floor, One and Two Exchange Square, Central, Hong Kong at 4:30 pm. on Tuesday, 12 April 2005. The Notice of AGM will be published in the South China Morning Post and Hong Kong Economic Times and despatched to shareholders on or about 9 March 2005.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Main Board Listing Rules have recently been amended by the Stock Exchange by replacing the Code of Best Practice in Appendix 14 by a new CG Code and adding a new Appendix 23 by which a CG Report is required to be included in annual reports of listed issuers. Subject to certain transitional arrangements, the amendments took effect on 1 January 2005.

Following a review of its corporate governance practices with reference to the CG Code, the Directors proposed to amend the Articles of Association at the AGM to: (a) specify that all Directors (Government Appointed Directors and Elected Directors), other than the Chief Executive who shall be subject to the term established under his employment contract with HKEx, will be appointed for a specific term of no more than three years, but be eligible for re-appointment upon retirement, and (b) require any Director appointed by the Board to fill a casual vacancy to retire at the first general meeting of HKEx after such Director's appointment, but be eligible for re-appointment.

ELECTION OF DIRECTORS

According to Articles 93(1) and (2) of the Articles of Association, at every annual general meeting after the annual general meeting in 2003, one-third of the Directors are subject to retirement by rotation, and the Government Appointed Directors and the Chief Executive are not subject to retirement by rotation. Article 93(3) further provides that the Directors to retire by rotation on each occasion shall be those who have been longest in office since their last appointment or re-appointment, but as between persons who became or were last re-appointed Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by drawing lots. Article 93(5) provides that a retiring Director is eligible for re-appointment. Pursuant to Article 93(3), lots have been drawn. Dr KWOK Chi Piu, Bill and Mr LEE Kwan Ho, Vincent Marshall shall retire at the conclusion of the AGM. Both of them are eligible for re-appointment. Shareholders are invited to elect up to two Elected Directors at the AGM to fill the vacancies available due to retirement of the two said Directors.

In light of the proposed amendments to the Articles of Association to provide that all Directors other than the Chief Executive of HKEx will be appointed for a specific term of no more than three years, it is proposed that the two Directors to be elected at the AGM be appointed for a specific term of three years expiring at the conclusion of the Company's annual general meeting to be held in 2008.

If a shareholder wishes to nominate a person to stand for election as a Director, the following documents must be validly served on the Secretary of the Company, namely (i) his or her notice of intention to propose a resolution and (ii) a notice executed by the nominated candidate of his or her willingness to be appointed or re-appointed together with his or her biographical information and written consent to the publication of his or her personal data. A circular containing, inter alia, the Notice of AGM to be held in 2005 and further information concerning election of Directors will be sent to shareholders on or around 9 March 2005. The Notice of AGM will be published in the newspapers on the same date. In order to ensure the smooth handling of shareholders' proposals, shareholders are urged to submit their proposals as early as practicable, after the despatch of the Notice of AGM and preferably before 23 March 2005 so that a supplementary circular containing particulars of the candidates proposed by shareholders can be despatched to shareholders, and an announcement can be placed in the newspapers on or about 24 March 2005.

CORPORATE GOVERNANCE

HKEx has fully complied with the Code of Best Practice, as set out in Appendix 14 to the Main Board Listing Rules throughout 2004.

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 and two of them are members of the Audit Committee.

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2004 in conjunction with HKEx's external auditors.

PURCHASE, SALE OR REDEMPTION OF HKEx'S LISTED SECURITIES

During the year ended 31 December 2004, HKEx had not redeemed and neither HKEx nor any of its subsidiaries had purchased or sold any of HKEx's listed securities.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Company's corporate website at www.hkex.com.hk and the website of The Stock Exchange of Hong Kong Limited. The Annual Report and the Notice of AGM will be despatched to shareholders of the Company on or about 9 March 2005 and will be available at the Company's website at the same time.

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, 28 February 2005

Please also refer to the printed version of this announcement in the South China Morning Post on 1 March 2005.