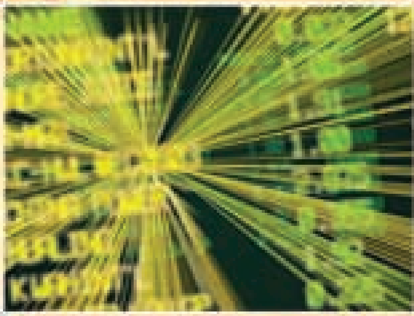
Hong Kong Exchanges and Clearing Limited
香港交易及結算所有限公司



2004 Annual Report

Mission

The mission of HKEx is to operate a world-class marketplace for Hong Kong and Mainland China securities and derivatives products. By offering access to international capital markets for issuers and an open, secure, fair, orderly, efficient and transparent marketplace for investors, issuers and intermediaries, HKEx contributes to Hong Kong's status as an international financial centre and the premier capital market for China. By servicing China's substantial long-term demand for capital and exchange services in accordance with international standards and practices, HKEx will further enhance its position as one of the world's pre-eminent exchanges.

Contents

FINANCIAL HIGHLIGHTS

	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%
	$'000	As restated $'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	

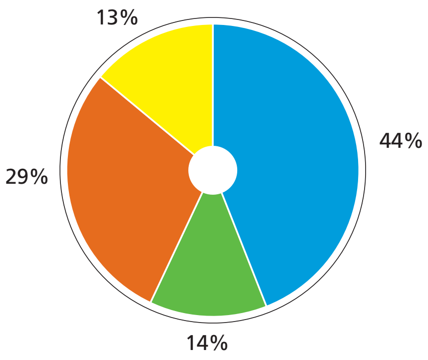
* *The Group's total assets include the Margin Funds received from Participants on futures and options contracts.*

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.*

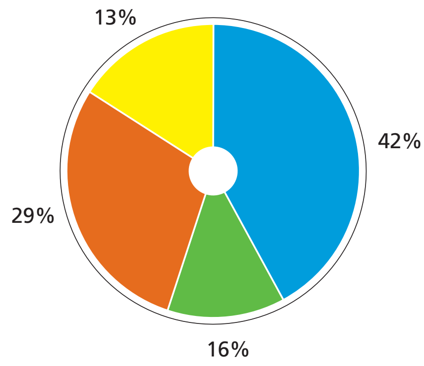
Based on 1,056,638,846 shares issued and fully paid as at 31 December 2004 (2003: 1,048,998,846 shares)

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.*

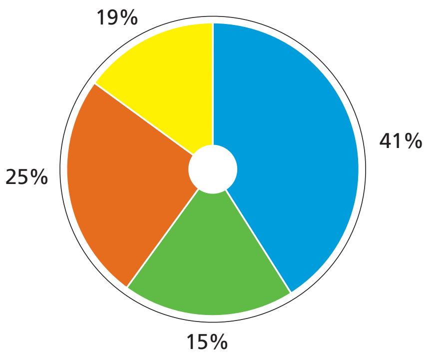
By Business Segment



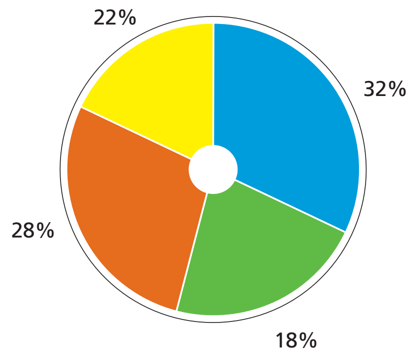
2004 Income



2003 Income



2004 Segment results



2003 Segment results

Cash Market   Derivatives Market   Clearing Business   Information Services

Please refer to note 4 to the accounts on pages 135 to 137 for details.

Highlights of the Year

Strengthening Regulatory Framework

14 January
Submitted views on the Government's consultation on proposals to enhance the regulation of listing in Hong Kong.

30 January
Announced amendments to the Listing Rules relating to corporate governance issues.

Published consultation conclusions on proposed amendments to the Main Board Listing Rules relating to initial listing criteria and continuing listing obligations.

4 May
Invited comments on draft rule amendments on sponsors and IFAs.

19 October
The Stock Exchange and the SFC jointly published consultation conclusions on the regulation of sponsors and IFAs. The Stock Exchange also published amendments to the Listing Rules consistent with the policy conclusions set out in the consultation conclusions.

19 November
The Stock Exchange announced amendments to the Listing Rules for the introduction of the CG Code.

Promoting HKEx's Markets and Building Relationships with the Mainland

5 January
Held a listing promotion conference in Changchun, the capital of Jilin province.

25 February – 9 March
Conducted several seminars in Hong Kong and Beijing for listed companies and market practitioners to promote a better understanding of the amendments to the Listing Rules aimed at raising corporate governance standards and market quality.

8 April
Obtained approval from the CSRC to station representatives from HKEx's Beijing Representative Office in Guangzhou and Shanghai.

27 – 28 April
Chief Executive Paul M Y Chow attended investment seminars in Tokyo to promote HKEx and Hong Kong's financial markets.

28 – 29 May
Held a listing promotion conference in the municipality of Chongqing.

31 May
Zhang Dejiang, member of the Political Bureau of the Central Committee of the Communist Party of China and the Secretary of the Guangdong Provincial Party Committee, visited HKEx and the Stock Exchange's Trading Hall.

21 – 24 June
Chief Executive Paul M Y Chow attended an investor forum in New York and met investors in New York and in London to promote HKEx, its markets and the listing of Mainland enterprises in Hong Kong.

2 September
HKEx and the Research Centre of the State-owned Assets Supervision and Administration Commission of the State Council co-organised a conference in Shanghai on the listing of state-owned enterprises in Hong Kong.

17 September
HKSCC signed a memorandum of understanding with the China Securities Depository and Clearing Corporation on the exchange of information and co-operation on staff training.

20 – 22 September
Participated in Hong Kong Financial Services Expo 2004 in Shanghai, an event organised by Hong Kong's Trade Development Council.

13 October
Participated in the 6th China Hi-Tech Fair in Shenzhen, a major international IT industry event on the Mainland.

27 October
Chairman Charles Y K Lee met Vice Premier Huang Ju, who reiterated the listing of Mainland enterprises in Hong Kong had been a win-win situation for Hong Kong and the Mainland.

29 – 30 October
Held a listing promotion conference in the municipality of Tianjin.

18 January 05
Xiang Huaicheng, the Chairman of the National Council for Social Security Fund, met Chairman Charles Y K Lee and Chief Operating Officer Patrick Conroy and discussed overseas investments by the Mainland fund.

Enhancing Market Infrastructure

25 March
Major securities and derivatives market systems, including those for trading, market data and clearing and settlement, reached the milestone of 100 per cent uptime for all systems for 12 consecutive months.

6 April
Introduced DCASS and the derivatives component of CCMS, the Common Collateral Management System.

31 May
Published consultation conclusions on a proposed operational model for a scripless securities market.

6 August
Issued a consultation paper on the reduction of minimum spreads to seek comment on proposals to reduce the minimum trading spreads in the cash market.

23 August
Introduced new features of the Investor Accounts in CCASS, as well as rewards programmes for new and existing account holders.

27 August
AMS/3 received the Gold Award in the Hong Kong Computer Society's 2004 IT Excellence Awards.

11 October
Introduced enhancements to pre-matching of Settlement Instructions.

5 November
The Board of Directors approved in principle a plan to retain the Trading Hall of the Stock Exchange and make it a multi-purpose facility.

8 November
Implemented amendments to the CCASS Rules and Operational Procedures which enable Participants to appoint third parties as Settlement Agents and to access CCASS from overseas.

10 December
AMS/3 was awarded a Certificate of Merit in the Finance Application Category of the 2004 Asia Pacific Information and Communications Technology Awards, an event that covers 14 economies in the region.

20 December
Announced EPs monthly user fees for the trading devices of AMS/3 would be reduced by 20 per cent starting from 1 January 2005.

IMPROVING MARKET TRANSPARENCY

8 March
Commenced dissemination of real-time odd lot information from the cash market to information vendors.

29 March
Introduced a revamped version of the HKEx website featuring enriched content and a new design for easy navigation.

28 July
The Listing Committees published their first annual report, which provided an account of their work from 6 May 2003 to 30 April 2004, to bolster the transparency of the regulatory functions discharged by the Committees and the Stock Exchange.

30 December
Published the first instalment of the new Interpretive Letters – Rejection Letters Series on the HKEx website as part of ongoing efforts to increase the transparency of decisions and interpretations under the Listing Rules.

INTRODUCING NEW PRODUCTS

14 June
Introduced H-shares Index Options, four additional stock options and four additional stock futures.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Independent Non-executive Chairman

1. LEE Yeh Kwong, Charles* GBS, JP
   (re-appointment effective on 1 April 2004)

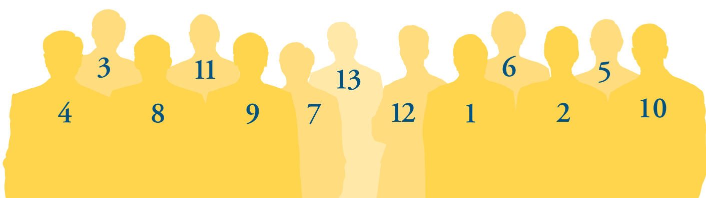
Executive Director, Chief Executive

2. CHOW Man Yiu, Paul JP

Independent Non-executive Directors

3. FAN Hung Ling, Henry* SBS, JP
4. FONG Hup*
5. FRESHWATER, Timothy George*
   (re-appointment effective on 1 April 2004)
6. KWOK Chi Piu, Bill
7. LEE Jor Hung, Dannis BBS
8. LEE Kwan Ho, Vincent Marshall
9. LEONG Ka Chai* JP
10. LO Ka Shui* GBS, JP
    (re-appointment effective on 1 April 2004)
11. STRICKLAND, John Estmond GBS, JP
    (elected on 31 March 2004)
12. WEBB, David Michael
13. WONG Sai Hung, Oscar
    (re-elected on 31 March 2004)

* *Government Appointed Directors*



AUDIT COMMITTEE

STRICKLAND, John Estmond *(Chairman)*
FONG Hup *(Deputy Chairman)*
FAN Hung Ling, Henry
LEE Kwan Ho, Vincent Marshall
WEBB, David Michael

EXECUTIVE COMMITTEE

LEE Yeh Kwong, Charles *(Chairman)*
CHOW Man Yiu, Paul
CONROY, Patrick Kevin
LEE Jor Hung, Dannis
LEONG Ka Chai

INVESTMENT ADVISORY COMMITTEE

FRESHWATER, Timothy George *(Chairman)*
WONG Sai Hung, Oscar *(Deputy Chairman)*
SUN, David
WEBB, David Michael

NOMINATION COMMITTEE

LEE Yeh Kwong, Charles *(Chairman)*
KWOK Chi Piu, Bill *(appointment effective on 1 April 2004)*
LO Ka Shui *(appointment up to 31 March 2004)*
WONG Sai Hung, Oscar

REMUNERATION COMMITTEE

LO Ka Shui *(Chairman)*
LEE Jor Hung, Dannis
LEE Kwan Ho, Vincent Marshall

RISK MANAGEMENT COMMITTEE

(established under Section 65 of the SFO)

LEE Yeh Kwong, Charles *(Chairman)*
DICKENS, Mark**
FAN Hung Ling, Henry
KWOK Chi Piu, Bill
LAM Kin**
LAU James H. Jr ** *(appointment up to 30 June 2004)*
LEONG Ka Chai**
OR Ching Fai, Raymond**
YUE Wai Man, Eddie** *(appointment effective on 1 July 2004)*

*** Appointed by the Financial Secretary under Section 65 of the SFO*

COMPANY SECRETARY

MAU Kam Shing, Joseph

AUTHORISED REPRESENTATIVES

CHOW Man Yiu, Paul
MAU Kam Shing, Joseph

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISORS

Allen & Overy

Chairman's Statement

LEE Yeh Kwong, Charles *Chairman*

Closer economic ties with the Mainland have led to a gradual recovery in Hong Kong's economy and market sentiment during 2004. Hong Kong has benefited from low interest rates, rising employment, firmer property prices, a sharp increase in retail sales resulting from the Mainland Individual Traveller Scheme, and an influx of liquidity. The rebounding economy, enhanced market transparency, improved trading information and increase in number of quality companies listed on the Stock Exchange have encouraged more retail investors to participate in the stock market and the derivatives market. According to a survey conducted in October 2004, the number of Hong Kong retail stock investors rose to a record 1.35 million. Meanwhile, Hong Kong has further reinforced its position as a leading market for the listing of Mainland enterprises.

These factors contributed to record highs being achieved in both market turnover and market capitalisation, and produced a positive impact on the Group's performance.

FINANCIAL RESULTS

HKEx achieved its highest income, net profits, and market capitalisation since its listing in 2000. Income for the year was $2,394 million, an increase of 19 per cent compared to 2003. Profit attributable to shareholders rose 53 per cent from the previous year to $1,057 million. The Group's market capitalisation reached a peak of $23 billion on 27 January 2004, and remained at $22 billion at the end of 2004, a rise of 24 per cent from that of last year.

As a result of cost rationalisation and prioritisation of projects, operating expenses for 2004 were successfully reduced by six per cent year on year to $1,156 million.

Your Board has recommended payment of a final dividend of $0.47 per share. Together with the interim dividend of $0.43 per share, the total dividend for the year amounted to $0.90 per share, in compliance with the Group's dividend policy of a 90 per cent payout ratio.

THE HONG KONG EXCHANGE: A PREFERRED LISTING VENUE

Hong Kong ranked third in capital formation among international exchanges in 2004. Total capital raised during 2004 amounted to $281 billion. Hong Kong was also chosen as the world's freest economy for the 11th consecutive year by the Heritage Foundation, a US-based think-tank. Supported by high professional standards and services, free flow of capital and information, a sound legal and regulatory framework, HKEx offers a fair, open, and orderly trading platform for companies to raise funds, and for individual and institutional investors to place their investments. Apart from serving local businesses, HKEx is the largest capital formation centre for Mainland enterprises. Of the total of 1,096 companies listed on the Stock Exchange at the end of 2004, 304 are Mainland enterprises with a market capitalisation of $2,021 billion, or about one-third of the market total. In 2004, funds raised by Mainland enterprises through IPO and post-IPO reached $114 billion amounting to about 41 per cent of the capital raised during the year. Average daily turnover of Mainland stocks rose to $6.7 billion accounting for about 49 per cent of the average daily turnover of equities.

Listing activities of Mainland enterprises are expected to continue as companies increasingly seek to access international pools of capital, and global investors look for investment opportunities in China. HKEx is committed to offering a range of services and products that meet market demand, which can be traded and cleared on efficient and reliable platforms.

Listed Mainland enterprises are subject to the same governance as well as accounting and reporting standards applicable to other publicly-listed companies in Hong Kong. Hence, the process of listing in Hong Kong contributes to the re-structuring and transformation of Mainland state-owned enterprises and private corporations into globally-orientated companies adopting international standards and best practices.

HIGH MARKET QUALITY: CRUCIAL FOR INVESTOR CONFIDENCE

HKEx strongly believes that high market quality is crucial for strengthening investor confidence and maintaining Hong Kong's leading position as the Asian hub in the global financial markets.

As the frontline regulator, HKEx has implemented a number of measures during 2004 to improve transparency in the listing approval process, and promulgated new chapters of the Listing Rules for better regulation of sponsors, IFAs, as well as listed issuers. Nevertheless, we believe that self-discipline of listed issuers is also a key to improving market quality. Enhancing a company's corporate governance standards can effectively underpin the company's competitive position, and Hong Kong as a pre-eminent international financial centre. HKEx is committed to taking a leadership role in setting and articulating corporate governance standards in Hong Kong. Our rules and regulations have been modelled on the best international standards. However, continued efforts will be made to monitor developments internationally and, where appropriate, consult market users on further enhancements.

HKEx supports the introduction of the new HKFRSs by the HKICPA, developed in conformity to the IFRSs. We believe that the enhancement of accounting and reporting standards of listed companies would further help safeguard public interest and the interest of the investing public. HKEx also supports the Government's proposed establishment of the Financial Reporting Council ("FRC") to regulate the accountancy profession for enhancing the accounting and reporting standards of listed companies. HKEx has agreed to contribute to the funding of, and participate in, the FRC to oversee the Audit Investigation Board and the Financial Reporting Review Committee(s).

MARKET REGULATION: STRENGTHENING THE LISTING REGULATION

HKEx welcomes and supports the Government's initiatives to strengthen the regulatory regime for Hong Kong's financial markets. Initiatives proposed in the Government's consultation on improving the listing regulatory structure have been gradually implemented. The dual filing system has been operating smoothly since its introduction in April 2003, and has been generally well received by market users as contributing to investors' confidence in the listing regime. Decisions relating to listing matters have been published for public information to enhance transparency and accountability. Complaint hotlines were established, and the first annual report was published by the Listing Committees in July 2004.

The Government and the SFC have published consultation papers on giving statutory backing to certain parts of the Listing Rules. HKEx believes that statutory backing for key portions of the Listing Rules will further reinforce the regulatory framework, and will be drawing up responses to the consultations.

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 the 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.

DIRECTORS AND STAFF

I would like to express my deep thanks to my fellow directors for their wise counsel and valuable contributions, and to senior executives and staff of HKEx for their dedication and good work during the year.

LEE Yeh Kwong, Charles
Chairman
Hong Kong, 28 February 2005

Chief Executive's Review

CHOW Man Yiu, Paul *Director and Chief Executive*

I am pleased to present a review of HKEx's achievements and operations for the year ended 31 December 2004.

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. The revised organisational structure is depicted on page 94.

Cost rationalisation has successfully lowered the Group's total operating expenses for the year by six 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 SFC have from time-to-time jointly offered training to secondees from the CSRC. 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 co-operation 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 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.

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, HKATS, DCASS, CCASS as well as 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 Stock 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 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 services. 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 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 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 CG Code and the Rules on the 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 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 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 regime 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 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

I 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 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 asset. 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 Divisions/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

Shareholders and investors are invited to refer to the Business and Financial Reviews under the Management Discussion and Analysis, where a comprehensive review of the 2004 achievements of HKEx in six key business functions, namely Listing, Trading, Clearing, Business Development and Investor Services, Information Services, and Information Technology, is presented through answers to frequently raised questions of Shareholders, research analysts and fund managers.

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 products. 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.

Lastly, I would like to take this opportunity to thank all staff members for the outstanding and dedicated efforts that they have made during the past year. I also express my sincere thanks to my fellow Directors for their leadership and guidance, and to our Shareholders for their continued support, interest and confidence in HKEx.

CHOW Man Yiu, Paul
Director and Chief Executive
Hong Kong, 28 February 2005

Board of Directors and Senior Management

BOARD OF DIRECTORS

INDEPENDENT NON-EXECUTIVE CHAIRMAN

LEE Yeh Kwong, Charles, GBS, JP *(Exco, NC and RMC)*

Aged 68, has been the Independent Non-executive Chairman of HKEx since 6 March 2000. Mr Lee is the chairman of the Mandatory Provident Fund Schemes Authority, and one of the founders of the solicitors' firm of Woo, Kwan, Lee & Lo in Hong Kong. He is a former member of the Council of SEHK (1988 to 1994) and a former chairman of SEHK (1992 to 1994). He held a number of Government appointments, including member of the Executive Council of Hong Kong (1997 to 2002), secretary to the Companies Law Revision Committee (1968 to 1973), and member of the Governor's Business Council (1992 to 1997), Hong Kong Affairs Adviser (1993 to 1997), and Selection Committee of Hong Kong in 1996. Mr Lee is also actively involved in numerous community activities, and was until 2003 a member of the Equal Opportunities Commission of Hong Kong, and a member of the Court of the Hong Kong Polytechnic University. He is currently the chairman of the Council of the Open University of Hong Kong, a member of the Court of the Hong Kong University of Science and Technology, the vice patron of the Community Chest, and the co-chairman of the Campaign Committee of the Community Chest. He is admitted as a solicitor in both Hong Kong and England & Wales, and is also a qualified accountant and chartered secretary. He has over 30 years of experience in the securities industry.

EXECUTIVE DIRECTOR, CHIEF EXECUTIVE

CHOW Man Yiu, Paul, JP *(Exco)*

Aged 58, was appointed the Chief Executive of HKEx on 1 May 2003. In this capacity, Mr Chow is also an *ex-officio* member of the Board and the Chairman and Director of various subsidiaries of HKEx. Mr Chow was the chief executive of SEHK from November 1991 to January 1997 and before then, he was the chief executive of HKSCC for two years. Before joining HKEx in 2003, Mr Chow was the chief executive, Asia Pacific ex-Japan Region, of HSBC Asset Management (Hong Kong) Limited from April 1997 to April 2003, and the chairman of the Hong Kong Investment Fund Association during January 2000 to September 2001. Mr Chow is a director of Hong Kong Cyberport Management Company Limited, the Community Chest of Hong Kong, and the World Federation of Exchanges. He is also a member of the Digital 21 Strategy Advisory Committee of the Government, the Advisory Committee of the SFC, the Standing Committee on Company Law Reform, and the Council and Court of the University of Hong Kong, and an appointed member of the HKICPA Council. Mr Chow is a Distinguished Fellow of The Hong Kong Computer Society and holds a Bachelor of Science degree in Mechanical Engineering, a Diploma in Management Studies and an MBA degree from the University of Hong Kong, and a Diploma in Finance (Distinction) from the Chinese University of Hong Kong. Mr Chow has over 30 years of business and management experience, and has worked in a number of industries, including information technology, securities, banking and fund management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

FAN Hung Ling, Henry, SBS, JP *(AC and RMC)*

Aged 56, was appointed an INED of HKEx on 15 November 2003. Mr Fan is the managing director of CITIC Pacific Limited, a deputy chairman of Cathay Pacific Airways Limited, and a director and chairman of the executive committee of Hong Kong Dragon Airlines Limited. Mr Fan also serves on various public bodies. He is a deputy chairman of the Takeovers and Mergers Panel of the SFC, a member of the Standing Committee on Judicial Salaries and Conditions of Service, a director of the Hong Kong Science and Technology Parks Corporation, and the treasurer and chairman of the Finance Committee of the University of Hong Kong. In addition, he is a member of the Zhejiang Province Committee of the Chinese People's Political Consultative Conference and the Hong Kong-United States Business Council, and a racing steward of the Hong Kong Jockey Club. He graduated from the University of Hong Kong in 1969 with an honours degree in Economics and Business Management, and holds a Bachelor of Laws degree from the University of Beijing. He was called to the Bar by Lincoln's Inn, England, and subsequently admitted to the Bar in Hong Kong where he practised as a barrister. He is also an attorney and counsellor at Law in the State of California, U.S.A.

FONG Hup *(AC)*

Aged 60, has been an INED of HKEx since 16 April 2003. Mr Fong is the senior advisor of Deloitte Touche Tohmatsu. Prior to that, he was a senior partner of Kwan Wong Tan & Fong, and a senior assurance and advisory partner of Deloitte Touche Tohmatsu. Mr Fong is currently a member of the Process Review Panel for the SFC, the Securities and Futures Appeals Tribunal, and the Supervisory Committee of the Tracker Fund of Hong Kong. Mr Fong was formerly a member of the Council and the Listing Committee of SEHK. He was also a former director of each of HKSCC and SEOCH. Mr Fong is a fellow of both the Institute of Chartered Accountants in England & Wales and the HKICPA, and holds a Bachelor degree in Business Administration from the Boston University. He has over 30 years of experience in the accounting profession as well as in the securities industry.

FRESHWATER, Timothy George *(IAC)*

Aged 60, has been an INED of HKEx since 3 April 2000. Mr Freshwater is vice-chairman of Goldman Sachs (Asia) L.L.C. Before joining Goldman Sachs in 2001, he was the chairman of Jardine Fleming (1999), with regional responsibility for the Jardine Fleming group's businesses in 14 countries in the Asia-Pacific region. Mr Freshwater is a non-executive director of Liu Chong Hing Bank Limited and an INED of Pacific Century Insurance Holdings Limited. He was a member of the Hong Kong Takeovers Panel from 1997 to 1999 and the Hong Kong Securities and Futures Appeals Panel from 1999 to 2004. Mr Freshwater is admitted as a solicitor in England & Wales and in Hong Kong. After obtaining Bachelor of Laws and Master of Arts degrees at the University of Cambridge, he joined the international law firm Slaughter and May in 1967 and remained with them for 29 years before joining the Jardine Fleming group in 1996. He became a partner in Slaughter and May in 1975 and worked in their Hong Kong office for seven years between 1978 and 1985. He was a member of the Council of the Law Society of Hong Kong from 1981 to 1985 and the president of the Law Society of Hong Kong in 1984/5. He returned to London in late 1985 and was head of Slaughter and May's worldwide corporate practice from 1993 until 1996. He has over 35 years of experience of the securities industry.

KWOK Chi Piu, Bill *(NC (appointed on 1 April 2004) and RMC)*

Aged 52, has been an INED of HKEx since 3 April 2000. Dr Kwok is the managing director of Wocom Holdings Limited, a director of Wing On International Holdings Limited, Wing On Company International Limited and the Investor Compensation Company Limited. He is a member of the Government's Advisory Committee on Human Resources Development in the Financial Services Sector, the Panel of the Securities and Futures Appeals Tribunal, and the Investigation Panel A of the HKICPA. He was a director of the Hong Kong Securities Institute from 1997 to 2003 and the chairman from 1999 to 2001. He was also a director of HKFE from 1991 to 2000 and a vice chairman from 1997 to 2000. Dr Kwok holds a Bachelor of Science (Chemistry) degree and a Bachelor of Arts (Economics) degree from the Stanford University as well as a Doctor of Philosophy (Biochemistry) degree from the University of Chicago. He has over 20 years of experience in the securities and futures industry.

LEE Jor Hung, Dannis, BBS *(Exco and RC)*

Aged 50, has been an INED of HKEx since 3 April 2000. Mr Lee is the chairman of DL Brokerage Limited. He is a non-executive director of Stockmartnet Holdings Limited. He is a director of the Hong Kong Securities Institute, a member of the Securities and Futures Appeals Panel and the Disciplinary Panel A of the HKICPA. Mr Lee is a permanent honorable president of the Hong Kong Stockbrokers Association and was the chairman of that Association from 1997 to 1999. Mr Lee is a former member of the Advisory Committee to the SFC and the Council of SEHK (1991 to 1997 and vice chairman 1994/1995), and a former director of HKSCC (1992 to 1997 and vice chairman 1995 to 1997). Mr Lee holds a Bachelor degree in Business Administration and Commerce and a Master degree in Business Administration, and is a fellow of the Hong Kong Institute of Directors. He has over 20 years of experience in the securities industry.

LEE Kwan Ho, Vincent Marshall *(AC and RC)*

Aged 49, has been an INED of HKEx since 3 April 2000. Mr Lee is the managing director of the Tung Tai Group of Companies (securities and finance companies), a vice chairman of the Institute of Securities Dealers Limited, and a member of the Securities and Futures Appeals Tribunal. He is also an INED of Ocean Grand Holdings Limited. He has extensive experience in banking, corporate and real estate transactions in Hong Kong, Mainland China, the United States and Canada. While engaging as a senior banker with the HSBC group in Hong Kong and Vancouver, and as a Certified Public Accountant with Coopers and Lybrand in Los Angeles and Boston, Mr Lee executed a wide variety of investment transactions, including corporate acquisitions, financing, divestitures, real estate transactions, share offerings and commodities trading. He is actively involved in numerous community activities, including being a founding member (as well as past governor) of the Canadian International School Foundation Limited. He graduated Magna Cum Laude in Accounting and Finance from the University of Southern California and received a Master degree in Economics from the London School of Economics and Political Science, and has received numerous academic awards and recognition. He has over 20 years of experience in the securities and futures industry.

LEONG Ka Chai, JP *(Exco and RMC)*

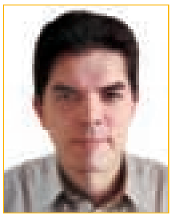
Aged 55, has been an INED of HKEx since 3 April 2000. Mr Leong is a dealing director of Roctec Securities Company Limited and Roctec Futures Trading Company Limited, and an investment adviser of Roctec Investment Limited. He was a director of HKFE from 1989 to 2000 and the chairman of HKFE from 1992 to 1995. Mr Leong has been appointed as a member of the Shanghai Stock Exchange Index Advisory Committee in 2003. Mr Leong was also a member of the Advisory Committee of the SFC from 1989 to 2000, and a member of the Shareholders Group of the SFC from 2001 to 2002. Mr Leong has involved in various community services. He was a member of the Professional Education Committee of the Hong Kong Securities Institute from 1989 to 2002. He was the chairman of the Advisory Committee of the City University's Department of Finance and Economics from 1995 to 1999 and an Advisory Committee member of the Baptist University's Department of Finance from 1996 to 1997. Mr Leong has been a member of the Finance Committee of the Queen Elizabeth Foundation for the Mentally Handicapped since 1999. He has been an honorary member of the Hong Kong Association of Financial Advisors since 1995. He has over 20 years of experience in the securities and derivatives industry.

LO Ka Shui, GBS, JP *(NC (retired on 31 March 2004) and RC)*

Aged 58, has been an INED of HKEx since 3 April 2000. Dr Lo is the deputy chairman and managing director of Great Eagle Holdings Limited. He was the chairman of the GEM Listing Committee from 1999 to 2003 and the chairman of the Listing Committee of SEHK from 1992 to 1996. He is a non-executive director of The Hongkong and Shanghai Banking Corporation Limited, Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited, China Mobile (Hong Kong) Limited, Melco International Development Limited, The HSBC China Fund Limited, Tom Online Inc. and Winsor Properties Holdings Limited. He is also a vice president of The Real Estate Developers Association of Hong Kong, a trustee of the Hong Kong Centre for Economic Research, and a board member of the Airport Authority Hong Kong. He was a past chairman of the Hospital Authority. Dr Lo holds a Bachelor of Science (Biophysics) degree from the McGill University and a M.D. from the Cornell University, certified in Cardiology. He has over 20 years of experience in the property, hotel and financial industries.

STRICKLAND, John Estmond, GBS, JP *(AC)*

Aged 65, has been an INED of HKEx since 3 April 2000. Mr Strickland spent most of his working career with HSBC in Hong Kong, being responsible for the HSBC Group's IT from 1971 to 1995. From 1996 to 1998, he was the chairman of The Hongkong and Shanghai Banking Corporation Limited, which has responsibility for HSBC's operations in Asia Pacific. Presently, Mr Strickland is the chairman of Hong Kong Cyberport Management Company Limited, and a director of the Airport Authority Hong Kong, Esquel Holdings Inc, Integrated Distribution Services Group Limited and Yoma Strategic Investments Limited. He is a member of the Council of the University of Hong Kong, the president of the Outward Bound Trust, and a member of the boards of the Community Chest of Hong Kong, the Boys and Girls Clubs Association, the Hong Kong Youth Hostel Association, the Salvation Army Advisory Board, the Hong Kong Adventure Corps, the Asia Society, and the ICAC Operations Review Committee. Mr Strickland graduated from the Jesus College, Cambridge University with a degree in Physics. He has honorary doctorates awarded by the City University of Hong Kong and the Hong Kong Polytechnic University. Mr Strickland has honorary fellowships awarded by The Hong Kong Computer Society, the Hong Kong Institute of Bankers, the Hong Kong Management Association, and the University of Hong Kong.



WEBB, David Michael *(AC and IAC)*

Aged 39, has been an INED of HKEx since 15 April 2003. Mr Webb is the editor of Webb-site.com, a non-profit publication he established in 1998 to promote better corporate and economic governance in Hong Kong. He has published wide-ranging articles on the regulatory framework of Hong Kong's securities markets. He is a member of the SFC's Takeovers and Mergers Panel, Takeover Appeals Committee and Public Shareholders Group. He is a full member of the Hong Kong Securities Institute. Mr Webb entered the securities industry in 1986 as a corporate financier in London and moved to Hong Kong in 1991. From 1993 to 1994, he was a director of BZW Asia Limited, and from 1994 to 1998, he was a director of Wheelock Capital Limited, both registered investment advisers. He was chairman of Hong Kong Mensa from 1998-2000. In 2000, he was named by Business Week magazine as a "Star of Asia" in the "Opinion Shapers" category. In 2001, the World Economic Forum named him a "Global Leader for Tomorrow". In 2002, CFO Magazine named him one of the "Global 100" who shape finance. In 2003, he established and funded "Project Poll" which successfully required blue chip companies to count their votes on a poll and stop using the show-of-hands system. In the same year, he established "Project Vampire" (Vote Against Mandate for Placings, Issues by Rights Excepted) which calls on listed companies to restrict their non-pre-emptive issues of shares for cash. In 2005, he was named by the World Economic Forum as a member of the "Young Global Leaders". He gained an honours degree in Mathematics from Oxford University in 1986, and prior to that, he was a best-selling author of games and books for the first generation of home computers.

WONG Sai Hung, Oscar *(IAC and NC)*

Aged 49, has been an INED of HKEx since 15 April 2003. Mr Wong has been the chief executive officer of BOCI-Prudential Asset Management Limited since 1 January 2001. Mr Wong was the regional managing director of Prudential Portfolio Managers Asia from 1999 to 2000. From 1977 to October 1998, Mr Wong was working with LGT Asset Management Limited, a company which became a subsidiary of AMVESCAP, the parent of INVESCO in June 1998. During his first 10 years with LGT in Hong Kong, Mr Wong was involved in managing equity portfolios with investments in the Japanese and other Asia Pacific markets. From 1987 to 1990, Mr Wong was seconded to run an investment management joint venture in Taipei and assisted in starting of other similar investment management joint ventures of LGT in Thailand, Indonesia and the Mainland China. From 1994 to 1997, Mr Wong was responsible for LGT's mutual fund marketing operations in Canada, a business which he helped to establish in 1994. Mr Wong was the deputy managing director of LGT from 1990 to 1994 and became the head of its Asian operations in January 1998. From June to October 1998, Mr Wong was the deputy chief executive of INVESCO Asia Limited. Mr Wong studied business at the Hong Kong Polytechnic University and was one of its first Marketing graduates in 1977. Mr Wong has over 20 years of experience in the fund management industry.

AC - Audit Committee
Exco - Executive Committee
IAC - Investment Advisory Committee
NC - Nomination Committee
RC - Remuneration Committee
RMC - Risk Management Committee

SENIOR MANAGEMENT

CONROY, Patrick Kevin *(Exco)*

Aged 52, is the Chief Operating Officer of HKEx and Chief Executive of SEHK. He is also a director of various subsidiaries of HKEx. He joined HKEx on 18 August 2003. As the Company's Chief Operating Officer, he oversees all business divisions/departments of HKEx and serves as Chairman of the IT Steering Committee. Prior to joining HKEx, he was the director of the Financial Sector Development and Global Partnership Departments of the International Bank for Reconstruction and Development ("the World Bank"). Before joining the World Bank, Mr Conroy was an advisor for special projects at the Australian Stock Exchange ("ASX"), where his responsibilities included assistance in the development and implementation of strategic policies, such as the open interface project and ASX's demutualisation. Mr Conroy is also a former senior director of the supervision of markets division at the SFC, and held other executive positions in market supervision, research and policy during his tenure with the SFC from May 1991 to January 1997. Prior to joining the SFC, Mr Conroy was the chief legal officer, corporate business ventures of the Chicago Stock Exchange, where he had worked since January 1982. Mr Conroy holds a Bachelor of Arts degree in English Literature from DePaul University in the US and a Juris Doctor degree from The John Marshall School of Law in the US.

GREINER, Gerald Dale

Aged 48, joined HKEx in May 2004 as the Deputy Chief Operating Officer and Head of the Exchange Division. He is also the Chief Executive of HKFE and a director of various subsidiaries of HKEx. Prior to that, Mr Greiner was the senior director of the Supervision of Markets Division in the SFC. Before joining the SFC in 1989, he held several senior executive positions in the US Securities and Exchange Commission, with extensive experience in the operations and regulation of US stock, options and government securities markets. Mr Greiner holds a Bachelor of Science degree in Economics from Allegheny College in the US and a Juris Doctor degree from the University of Toledo College of Law in the US.

FOK Kwong Man, Lawrence

Aged 55, is the Head of Business Development and Investor Services Division of HKEx. Mr Fok joined SEHK in February 1992 as an assistant director of the Listing Division. He was appointed executive director of the Listing Division in February 1997 and senior executive director of its Regulatory Affairs Group in November 1998. Mr Fok has over 20 years of experience in financial services and securities regulatory work. Before joining SEHK, he worked for the SFC, the Office of the Commissioner for Securities and Commodities Trading of the Government and other private organisations in areas of corporate finance advisory work, securities dealing, venture capital investment, Mainland China trade and investment management. He holds a Bachelor of Science in Engineering degree from the University of Hong Kong, a Master of Business Administration degree from the Columbia University, and a Master of Arts (Economics) degree and a Master of Science (Statistics) degree from the Stanford University.

KAO May Loy, Mary

Aged 55, is the Head of Legal Services Department of HKEx. Ms Kao joined the Stock Exchange in July 1990. She holds a LL.B. degree from the University of Hong Kong, a B.C.L. degree from the University of Oxford, England, and a diploma in Chinese Law, the University of East Asia, Macau. She is a barrister of the Supreme Court of England & Wales and of Hong Kong as well as a barrister and solicitor of the Australian Capital Territory. She has about 30 years' legal experience in the financial services industry, including insurance, securities, banking and derivatives. She also has significant experience in corporate regulatory matters.

LEE Kit Ying, Karen

Aged 56, is the Chief Financial Officer of HKEx. Ms Lee has about 20 years experience in the securities and derivatives industry holding various senior executive positions, including about 10 years in the Compliance, Operation and Administration Divisions of HKFE, five years in the Traded Options Division of SEHK and three years in the Listing, Regulation and Risk Management Unit ("LRRM") of HKEx. Ms Lee is a fellow member of the Institute of Chartered Accountants in England and Wales, and an associate member of the HKICPA. She holds a Bachelor of Arts (Hons) in Accountancy degree from the City of London Polytechnic in the UK and a Master of Science in Financial Engineering degree from the City University in Hong Kong.

SHING Shin Cheung, Stewart

Aged 57, is the Head of the Clearing Division of HKEx and Chief Executive of HKSCC. He joined HKEx on 15 December 2003. Mr Shing has more than 30 years of securities operations and business management experience. He has worked in several major international and local financial institutions where he has been responsible for planning and development, securities operations, system development and auditing. Before he joined HKEx, Mr Shing was the executive director and chief executive of South China Brokerage Company Limited from February 2001 to November 2003. Mr Shing became the chief executive of HKSCC in October 1996. He subsequently became the first head of HKEx's clearing business unit and served in both positions until October 2000. Mr Shing joined HKSCC in April 1991 as director of planning and development, responsible for the development of CCASS and was appointed the deputy chief executive in November 1991. Mr Shing, who started his career in 1970 working in audit, is a fellow member of the HKICPA and has served as a member of working groups for various regulatory bodies and stockbroking associations in Hong Kong. Mr Shing is a member of the Professional Education Committee of the Hong Kong Securities Institute. From September 2002 to November 2003, Mr Shing represented South China Brokerage Company Limited in his role as the chairman of The Hong Kong Association of Online Brokers. He was also a founding member of the Asia-Pacific Central Securities Depository Group and was admitted to the board of the International Securities Services Association in 1999. Mr Shing holds a Master of Business Administration degree from the University of New South Wales, Australia.

WILLIAMS, Richard George

Aged 42, is the Head of Listing of HKEx. He became HKEx's Head of Listing and secretary to the Listing Committees in June 2003, following the restructuring of the LRRM. He joined HKEx as a Senior Vice President in October 2002 and headed the LRRM's Listing Division before taking up his current post. Mr Williams was the head of Listing Policy and Compliance at the Financial Services Authority in the UK between 2000 and 2002. He has also served as the head of Listing Policy at the London Stock Exchange ("LSE"). His most recent UK role involved participation in the policy development work of the Committee of European Securities Regulators under the European Financial Services Action Plan. Before moving to the LSE, Mr Williams was with PricewaterhouseCoopers. Mr Williams is a fellow member of the Institute of Chartered Accountants in England and Wales. He holds a Bachelor of Arts degree in Economics and Economic History from the University of Warwick.

WONG Kwok Kuen, Alfred

Aged 48, is the Head of Information Technology Division ("ITD") and Chief Technology Officer. Before taking up his current position, he was the Deputy Head of ITD. He has also held several other senior IT positions in HKEx and SEHK since November 1992. In addition, he was with the SEHK between 1985 and 1987, when he had a key role in the implementation of the computer-assisted trading system in the Trading Hall for the four exchanges that formed the SEHK. Mr Wong has also worked as a project leader at the Australian Stock Exchange and a consultant application engineer at Australia's Westpac Banking Corp. Mr Wong is a full member of The Hong Kong Computer Society and the Hong Kong Securities Institute. He holds a Bachelor of Science degree in Computer Science and Chemistry from the University of Hong Kong, a Graduate Management Qualification from the University of New South Wales in Australia, and a Master of Business Administration degree from the Executive MBA programme at the Chinese University of Hong Kong.

COMPANY SECRETARY

MAU Kam Shing, Joseph

Aged 46, is the Head of Secretarial Services Department of HKEx, and Company Secretary of the Group. Mr Mau is a fellow member of The Hong Kong Institute of Company Secretaries, The Institute of Chartered Secretaries and Administrators, the Association of Chartered Certified Accountants and an associate member of the HKICPA. He holds a Master of Science (Business Administration) degree from the University of Bath.

Exco - Executive Committee

BUSINESS REVIEW

LISTING

Q. The Listing Division had undergone a reorganisation in January 2004. Did the reorganisation improve its overall performance?

In January 2004, the Listing Division's operating structure was reorganised separating the review and processing of new listing applications from the ongoing monitoring of listed companies. This was achieved by setting up two separate departments, namely the IPO Department and the Compliance and Monitoring Department. The new operating structure was adopted to enhance the operational efficiency of these two related, but different, functions.

The organisational changes are 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.

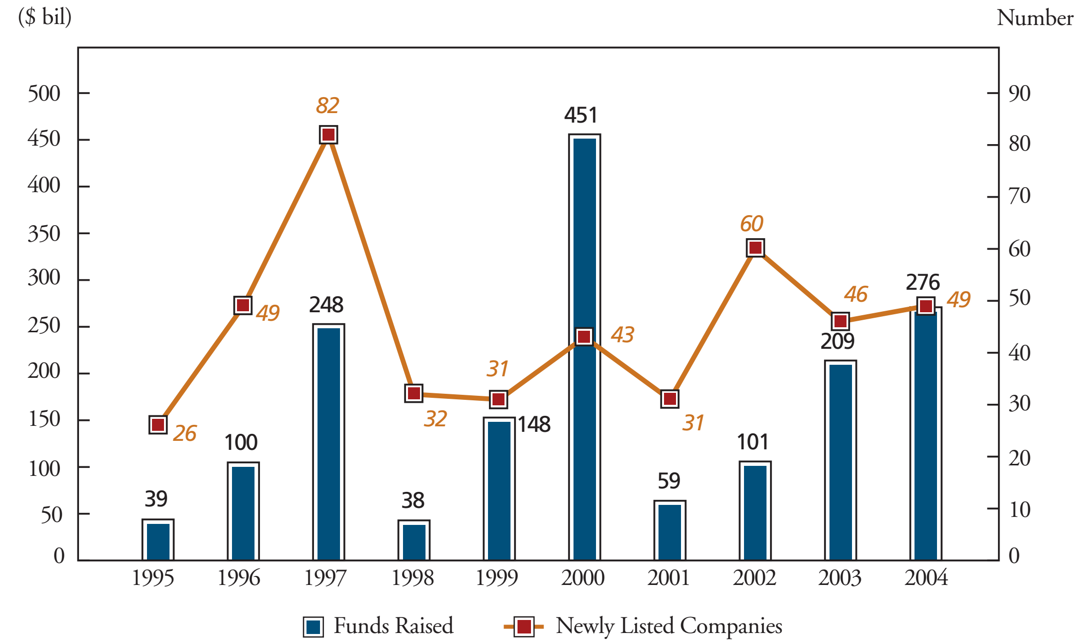
The IPO Department is responsible for reviewing new listing applications for both the Main Board and the GEM. This has enabled the IPO staff to better manage the process of reviewing applications, particularly during periods when high numbers of applications are received at approximately the same time.

Procedural changes were made to demonstrate our commitment to ensuring timely and high quality substantive input from the Listing Division when interpreting and applying the Listing Rules in connection with new listing applications for both the Main Board and the GEM. More frequent and regular senior staff meetings are held to ensure that the work of the IPO Department remains focused on the substantive issues associated with each listing application.

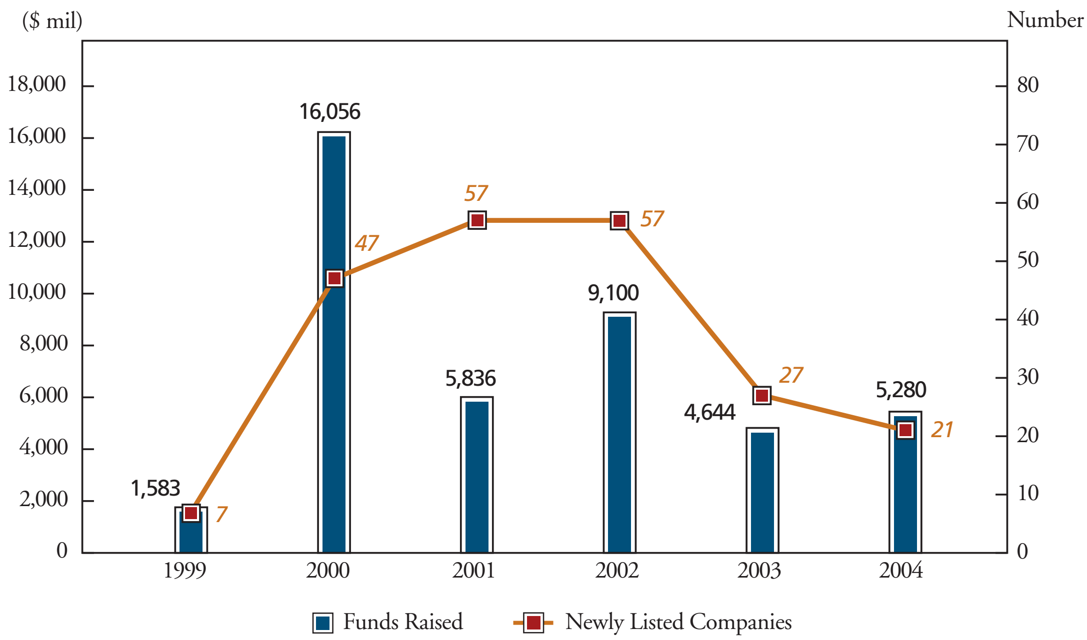
IPO Transactions

	2001	2002	2003	**2004**
Number of new listing applications accepted	153	205	101	**130**
Number of applicants listed on the Main Board	31	60	46	**49**
Number of applicants listed on the GEM	57	57	27	**21**
Number of new listing applications rejected	1	1	7	**15**
Number of applications in process	55	121	51	**44**
Number of applicants with approval granted but not yet listed	14	9	8	**7**

Main Board
Total Equity Funds Raised and Number of Newly Listed Companies



GEM
Total Equity Funds Raised and Number of Newly Listed Companies



Number of Listed Companies (as at year-end)

	2001	2002	2003	2004
Main Board	756	812	852	**892**
GEM	111	166	185	**204**
Total	**867**	**978**	**1,037**	**1,096**

Main Board
Number of Listed Companies by classification (as at year-end)

	2001	2002	2003	2004
Finance	59	71	75	**79**
Utilities	11	13	14	**15**
Properties	97	98	98	**100**
Consolidated Enterprises	240	257	269	**293**
Industrials	327	354	378	**388**
Hotels	14	14	13	**12**
Miscellaneous	8	5	5	**5**
Total	**756**	**812**	**852**	**892**

The Compliance and Monitoring Department continues to target its monitoring resources in those areas that the Division perceives to pose the biggest risks to the maintenance of a fair, orderly and informed market. In particular, it pays attention to companies' compliance with the rules governing the disclosure of price sensitive information and corporate governance standards. It also handles complaints relating to listed companies and their directors, and refers the cases to the Listing Enforcement Department for further investigation, if necessary. During 2004, it has reviewed more than 33,000 press articles on listed companies and about 800 enquiries had been made to the listed companies concerned upon review of the press articles.

Compliance and Monitoring Actions (as at year-end)

	2001*	2002*	2003	2004
Number of announcements of listed companies vetted	6,300	8,200	8,938	**9,092**
Number of circulars of listed companies vetted	1,300	1,600	1,773	**1,919**
Number of share price and trading volume monitoring actions undertaken	7,300	5,800	8,305	**6,116**
Number of clarification announcements published by listed companies in response to share price and/or trading volume movements in their securities	2,500	1,600	3,801	**3,383**
Number of complaints handled	150	320	170	**213**
Number of complaint cases referred to Listing Enforcement for investigation	N/A	64	21	**57**

* *Figures for 2001 and 2002 were rounded*

The Listing Enforcement Department, which is also under the Listing Division is responsible for investigating potential breaches of the Listing Rules, and where appropriate, initiating disciplinary action. Over the last 18 months, it has modified and refocused its approach to the enforcement of the Listing Rules. To improve the enforcement process, it has issued internal guidance and briefings to clarify the process for referring matters for their actions and developed a system of case prioritisation to maximise resources devoted to investigation and disciplinary action in respect of rule breaches. Disciplinary actions include issue of public censure, public statements involving criticism and private reprimands. In 2004, the Listing Enforcement Department has successfully completed a number of investigations and brought actions against those parties who were found to be in breach of the Listing Rules.

Disciplinary Actions (as at year-end)

	2001	2002	2003	**2004**
Number of investigations made	140	161	178	**201**
Number of public censures	8	6	4	**5**
Number of public statements/criticisms	8	1	8	**14**
Number of private reprimands	5	7	3	**3**
Number of warning letters and/or caution letters	117	147	134	**161**

The reorganisation has improved the Listing Division's overall performance by concentrating on areas where attention is needed, and managing the development of bottleneck situations when both resources and timing are tight.

Q. In terms of regulatory initiatives and achievements, what were the key milestones in 2004?

In 2004, a number of milestones were set aiming at promoting transparency and accountability for listed companies, their directors and their financial advisers alike.

Amendments to the Listing Rules relating to corporate governance and initial listing criteria were published in January 2004 which generally came into effect on 31 March 2004. They include new provisions on notifiable 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, changes were introduced in respect of initial listing eligibility criteria, listed companies' continuing obligations, and the disclosure requirements at the time of listing.

To further enhance the transparency measures on the work of the Listing Division, proposals were submitted to the Listing Committee at its Quarterly Policy Meeting in April 2004. The proposals have resulted in an increase in the publication frequency of statements by the Listing Division about the application of the Listing Rules in specific circumstances and the working practices and approach of the Listing Division.

The Listing Division has published two articles in HKEx's quarterly publication – *Exchange* in recent months to explain and clarify its suspension policy and enforcement strategy. In December 2004, edited version of rejection letters were published on the HKEx website to promote understanding of the grounds for rejecting listing applications.

A complaints hotline was set up in May 2004 to deal with external enquiries relating to listing matters. The hotline is manned by executives of the Listing Division.

In July 2004, the Listing Committees published and posted on the HKEx website their first annual report which provided an account of the work of the Listing Committees during the period 16 May 2003 to 30 April 2004. The report had been prepared to enhance the transparency of the regulatory functions discharged by the Listing Committees and the Exchange.

By 30 September 2004, all companies listed on the Exchange were required to have at least three INEDs and the Exchange also recommended as a best practice that one third of the Board comprises INEDs. The Listing Division had been monitoring compliance with the new standards and actively handling the few on-going cases of non-compliance.

In October 2004, HKEx and the SFC jointly published a Consultation Conclusions Report on the Regulation of Sponsors and IFAs. At the same time, HKEx also published the relevant amendments to the Listing Rules. The rule amendments make abundantly clear what the Exchange expects of sponsors, compliance advisers and IFAs. Those expectations, whilst necessarily high, are subject to what is reasonable and appropriate in the unique circumstances of each transaction.

In November 2004, HKEx published its Conclusions on Exposure of Draft Code on Corporate Governance Practices and Corporate Governance Report which set out the final conclusions of the Exchange and summarised the main comments raised in response to the Exposure Paper published by HKEx in January 2004. The CG Code sets out the Exchange's views on the principles of good corporate governance. Issuers are required to include a CG Report in their annual reports containing prescribed information on their corporate governance practices. The CG Code represents a significant move towards adoption of international benchmarks of corporate governance, best practices, and the disclosure requirements.

The rule amendments published in 2004, along with the CG Code and the disclosure requirements relating to the CG Report, represent the most comprehensive overhaul of the Listing Rules in over a decade and set new standards for the market which should help contribute to maintaining Hong Kong's status as an international financial centre.

Q. What other initiatives did the Listing Division embark on in 2004? What are its plans for 2005?

Main Board issuers are currently required under the Main Board Listing Rules to publish their announcements in newspapers. Since May 2001, they have also been required to submit soft copies of announcements for parallel publication on the HKEx website. The Main Board Listing Committee has approved the Listing Division's proposal to amend the Main Board Listing Rules to require Main Board issuers to publish a short notification announcement in newspapers instead of the full announcement. The changes will be implemented subject to the system and operational readiness of HKEx and approval of the rule amendments by the SFC.

A number of other initiatives were put in hand and the Listing Division's plan is to resolve or make substantial progress in taking forward the following initiatives:–

- Review the role and structure of the Listing Committees
- Work with our Mainland counterparts to establish a framework for the simultaneous listing of H-shares in Hong Kong and A-shares on the Mainland
- Review the operation and regulatory policy of the GEM
- Introduce a revised trading halt policy
- Further reduce pre-vetting of announcements

The Listing Division is committed to continue the improvement in the efficiency of listing application and IPO vetting processes and to enhance corporate governance and effective quality management after listing. Continuing with the momentum set in 2004 is important for the future initiatives in building a quality market with improved investor protection via enhanced regulation.

CASH MARKET

Q. How was the performance of the securities market measured against HKEx's strategic targets in 2004?

In pursuing the strategic objectives of HKEx's three-year strategic plan (2004-2006), the responsibilities of the former Exchange Unit have been divided between the Exchange Division and the Business Development and Investor Services Division ("BDISD"). The Exchange Division, comprising the Cash Market Development and Operations Department ("CMDO"), the Derivatives Market Development and Operations Department ("DMDO") and the Participant Admission and Surveillance Department ("PAS"), is responsible for managing trading and market operations, developing new products, recruiting new EPs, providing support services and trainings to EPs and conducting market surveillance.

As in previous years, HKEx continued to play an important role in the ongoing capital formation of Mainland enterprises in 2004 and further reinforced its role as a Mainland partner. There were 44 newly listed Mainland enterprises in 2004, bringing the total number of listed Mainland enterprises to 304, up from 249 in 2003. Market capitalisation of Mainland enterprises reached $2,020.5 billion. Funds raised by Mainland enterprises were amounted to $76.7 billion, accounting for 79 per cent of the total funds raised through IPO in 2004, with post IPO funds raised by Mainland enterprises amounting to $36.9 billion or 20 per cent of the total of such funds raised. Since Mainland enterprises first began raising capital on the Exchange in 1993, they have raised a total of about $904 billion or 49 per cent of all funds raised during that period. Trading in Mainland enterprises stocks was very active in 2004 with an average daily turnover of $6,687.2 million, accounting for 49 per cent of the average daily equities turnover.

During 2004, 21 companies were listed on the GEM, and 49 companies were listed on the Main Board of which two companies were transferred from the GEM. A total of 49 debt securities, 14 equity warrants and 1,259 derivative warrants were newly listed. The all-time high new records reflect fruitful returns to the promotional effort in building up Hong Kong as one of the international exchanges in the region and the regulatory effort to ensure a fair and open market for investors. Statistical data to demonstrate the performance of the Cash Market in 2004 is laid out at the end of this answer.

Main Board - New Listings

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Newly Listed Companies	26	49	82	32	31	43	31	60	46	**49**
New Warrants										
Equity warrants	39	80	101	31	51	46	31	27	10	**14**
Derivative Warrants	55	201	351	157	162	279	181	644	678	**1,259**
Total New Warrants	94	281	452	188	213	325	212	671	688	**1,273**
New Equity Linked Instruments	N/A							25	16	**46**
New Debt Securities	58	84	61	21	87	20	21	18	20	**49**
Exchange Traded Funds	1	1	0	0	1	0	1	1	1	**2**

Note: Equity Linked Instrument commenced trading on 5 August 2002.

Investors in Hong Kong and overseas can also obtain exposure to the Mainland economy through investing in Mainland-related ETFs which facilitate the trading of a basket of Mainland-related stocks in one single transaction. In particular, the iShares FTSE/Xinhua A50 China Tracker was the first and the only product which allows non-Qualified Foreign Institutional Investors to have a position in Mainland A-shares.

In pursuing the objective of building a quality and efficient market, a Consultation Paper on the Reduction of Minimum Spreads was published in August 2004, aiming at increasing the competitiveness of our market, improving market efficiency and enhancing market liquidity. HKEx believes that changes in minimum spreads should be implemented cautiously and has therefore proposed a phased approach for their reduction. A total of 462 submissions were received in response to the consultation. After taking into account the market responses, the Board decided to implement Phase 1 as stipulated in the consultation, which is to reduce the minimum trading spreads for shares priced above $30 per share. The consultation conclusions were published on the HKEx website on 4 February 2005. Implementation of Phase 1 is expected to be completed by the second quarter of 2005 subject to the approval of the SFC. HKEx will thoroughly review the market experience of Phase 1 before determining whether to implement Phase 2 for shares with lower prices.

The following tables and charts provide a comprehensive view of the performance of the Cash Market in 2004:

▶ Market Performance (as at year-end)

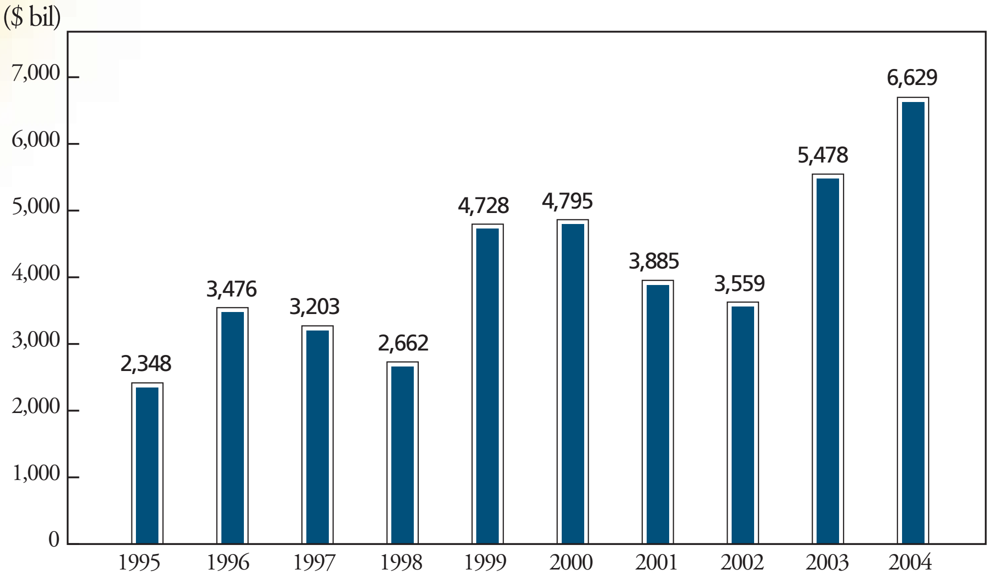
	Main Board			GEM		
	2004	2003	Change	**2004**	2003	Change
IPO funds raised for the year ($ bil)	**94**	57	65%	**2.69**	2.08	29%
Market capitalisation ($ bil)	**6,629**	5,478	21%	**66.72**	70.18	(5%)
Number of listed companies	**892**	852	5%	**204**	185	10%
Number of listed securities	**1,971**	1,598	23%	**205**	187	10%
Total turnover for year ($ bil)	**3,948**	2,546	55%	**26**	38	(32%)
Average daily turnover ($ mil)	**15,857**	10,265	54%	**103**	154	(33%)

Note: Figures have been rounded.

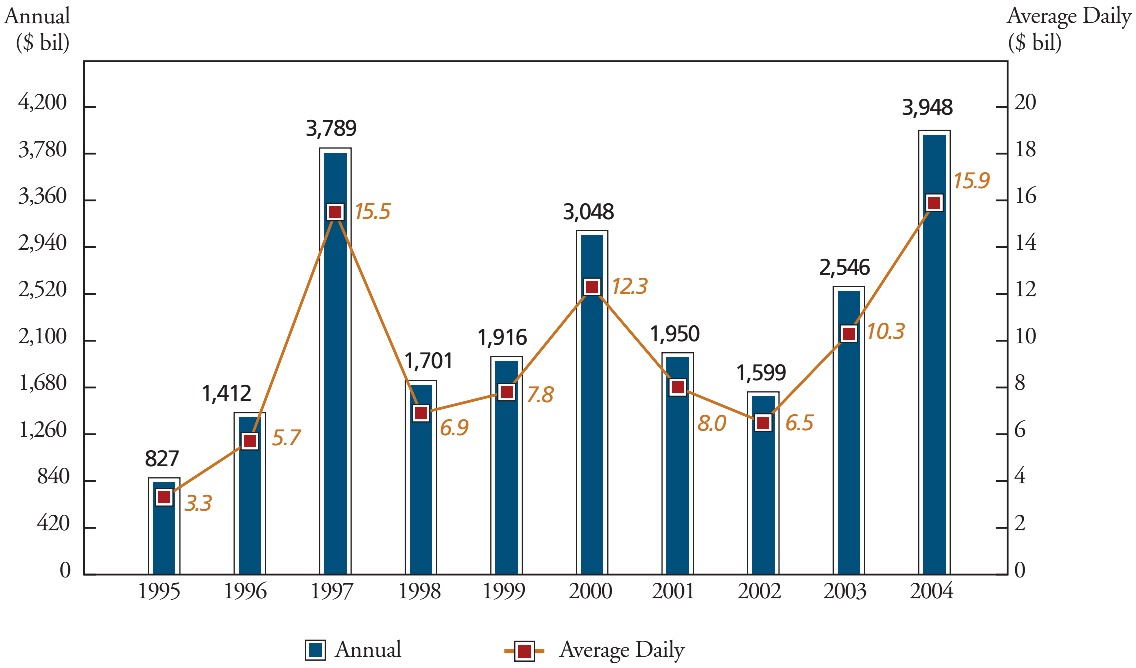
▶ Closing Indices (as at year-end)

	2004	2003	Change
S&P/HKEx LargeCap Index	**15,740.43**	13,645.19	15%
Hang Seng Index	**14,230.14**	12,575.94	13%
Hang Seng Composite Index	**1,831.99**	1,621.61	13%
Hang Seng China Enterprises Index	**4,741.32**	5,020.18	(6%)
Hang Seng China-affiliated Corporation Index	**1,556.88**	1,427.71	9%
S&P/HKEx GEM Index	**988.60**	1,186.06	(17%)

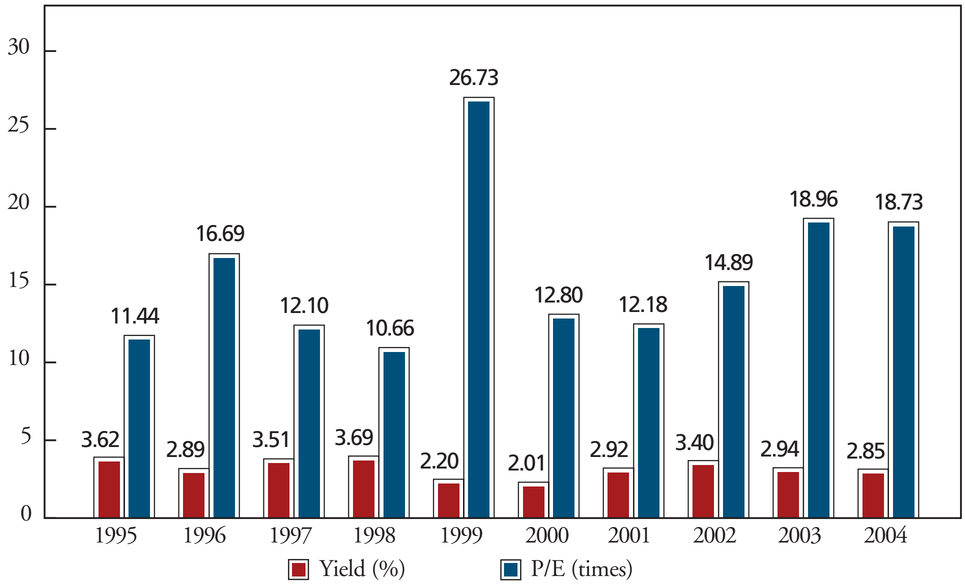
Main Board
Market Capitalisation (as at year-end)



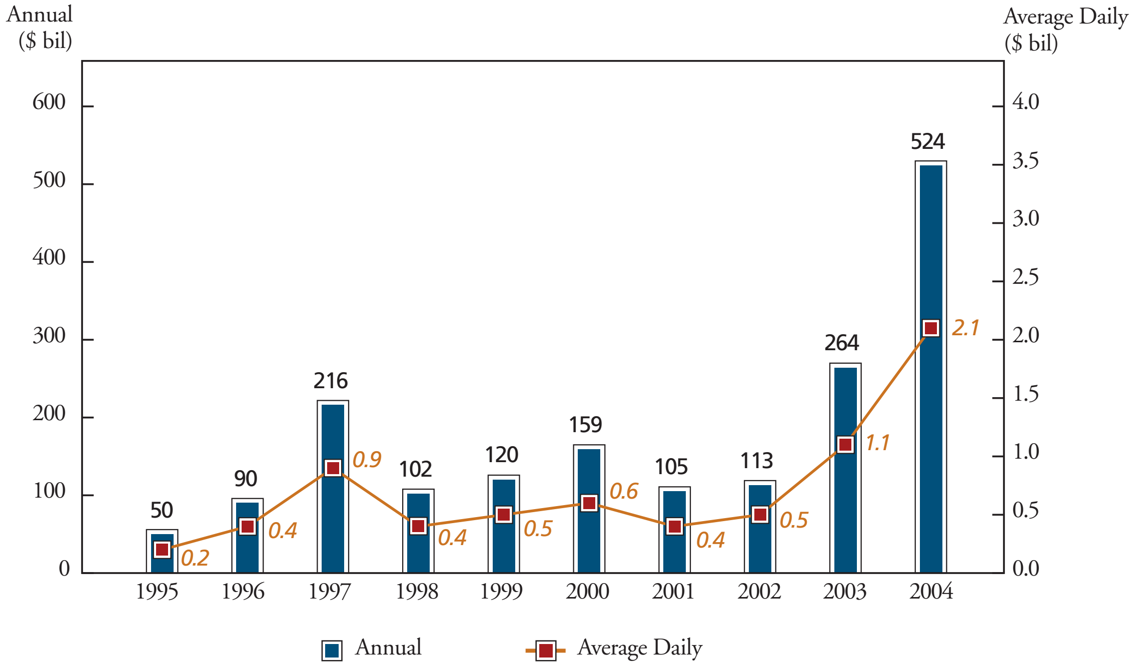
Main Board
Total Annual Trading Value



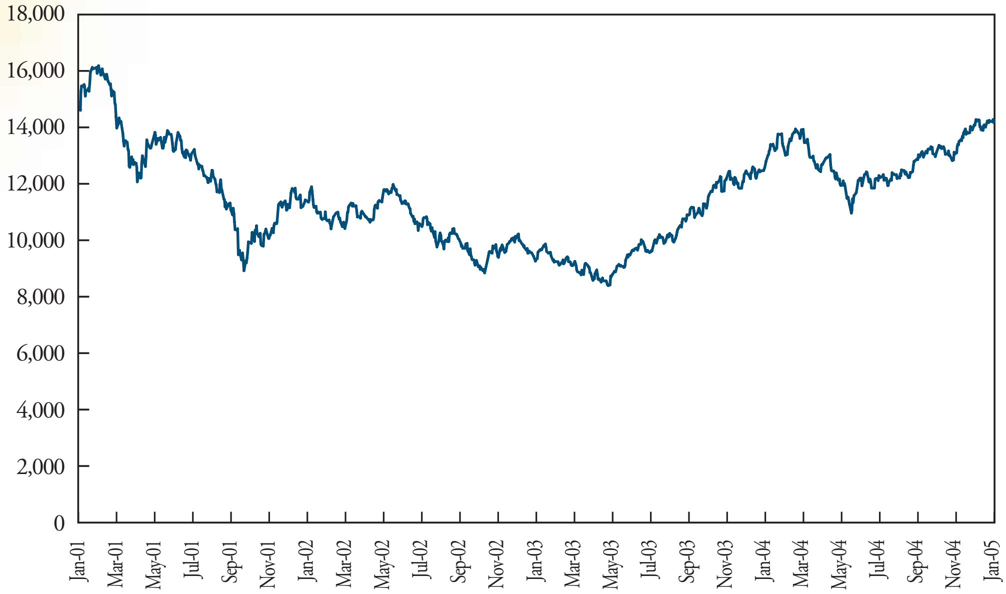
Main Board
Average Yield & P/E Ratio (year-end figures)



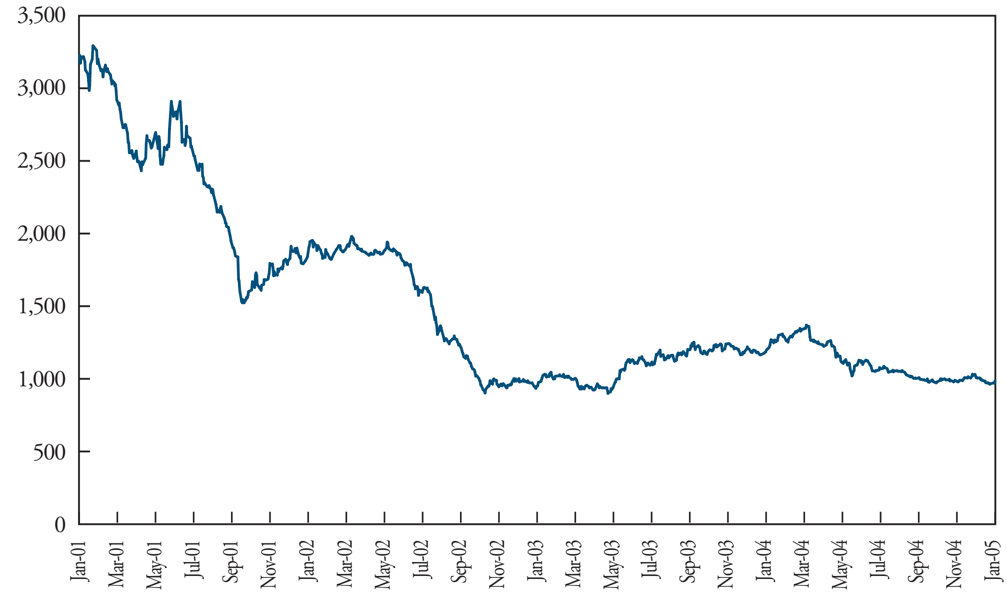
Main Board
Total Annual Trading Value of Derivative Warrants



Hang Seng Index
01/2001 – 01/2005



S&P/HKEx GEM Index
01/2001 – 01/2005



Performance of GEM (as at year-end)

	1999	2000	2001	2002	2003	**2004**
Newly Listed Companies	7	47	57	57	27	**21**
Total Funds Raised ($ bil)	2	16	6	9	5	**5**
Market Capitalisation as at year-end ($ bil)	7	67	61	52	70	**67**
Trading Value ($ bil)	4	84	39	44	38	**26**

Main Board and GEM Performance of Mainland Enterprises

	As at year-end **2004**	2003	Change
Listed issuers	**304 (28%)**	249 (24%)	22%
Number of newly listed companies for year	**44 (63%)**	33 (45%)	33%
Market capitalisation ($ bil)	**2,020.5 (30%)**	1,679.7 (30%)	20%
	Up to year-end 2004	**2003**	**Change**
Average daily equity turnover ($ mil)	**6,687.2 (49%)**	4,241.4 (46%)	58%
IPO funds raised ($ bil)	**76.7 (79%)**	51.3 (87%)	50%
Post IPO funds raised ($ bil)	**36.9 (20%)**	4.8 (3%)	669%

The share of Mainland enterprises of the equity market total is presented in percentage in brackets.

Q. What is the current status of refurbishing the Trading Hall?

After considering the views expressed by market participants and various options, the Board, in November 2004, decided to retain the Trading Hall, and transform it into a multi-purpose facility, subject to satisfactory negotiation of the terms of a new lease with the Government. The existing Trading Hall premises will be renovated to provide new trading booths for EPs who wish to retain a seat in the Trading Hall on a user-pays principle, and create space for new facilities including areas for listing ceremonies, a visitor gallery, public exhibitions and broadcasting booths for the news media. In addition, there will be multi-function rooms and facilities for issuers to hold annual general meetings or press conferences and for HKEx or EPs to hold seminars and training sessions. Following the open invitation of concepts, three design consultants had submitted their proposals which are being evaluated. The refurbishment is expected to be completed around the first quarter of 2006.

According to attendance records, less than 300 out of the total of 723 trading booths in the Trading Hall are regularly used. Following the first launch of the Voluntary Relinquishment programme in 2002, HKEx launched the second Voluntary Relinquishment Programme in 2004 for all EPs enabling them to relinquish unused trading booths. For each trading booth relinquished, an EP is allowed to apply for either an additional AMS Terminal in its office or an increase of order throughput rate available via its Open Gateway. As at the end of 2004, a total of 27 EPs had applied to relinquish 46 booths in exchange for additional AMS terminals or increases in throughput rates. Installation of elected trading devices will be implemented in the second quarter of 2005. Another exercise will be conducted to confirm EP's wish on retaining a seat in the Trading Hall on a user-pays basis. The result would determine the final number of new trading booths to be built in the Trading Hall.

▶ Exchange Participants and Trading Rights Holders Status (as at year-end)

	Stock Exchange	Futures Exchange
Exchange Participants❖	**490**	**126**
Trading	434	126
Non-trading	56	N/A
Trading Rights Holders Ω	**32**	**65**
Corporate	2	56
Individual	30	9
Average number of trading rights held by Exchange Participants and Trading Rights Holders*	**1.77**	**1.18**

❖ *The Stock and Futures Exchanges require that any person who registers as a participant of the relevant exchange must hold a Trading Right of the respective exchange.*

Ω *Stock Exchange Trading Rights Holders refer to those non-trading members of the Stock Exchange as of 6 March 2000 when the exchange merger was completed.*

Futures Exchange Trading Rights Holders refer to former members and/or participants of the Futures Exchange who resigned as a participant and now solely hold a Trading Right of the Futures Exchange.

* *Average number of trading rights held by EPs and Trading Rights Holders = Total number of trading rights held / Total number of EPs and Trading Rights Holders. There were 922 Stock Exchange trading rights and 225 Futures Exchange trading rights as of 31 December 2004.*

Q. ETF is a successful new product in overseas exchanges. How is the performance of the ETF market in Hong Kong?

The ETF market is a steadily growing segment of the Cash Market. Since the launch of the first ETF, the Tracker Fund of Hong Kong ("TraHK") in 1999, four additional ETFs have been listed on the Exchange. In particular, the Hang Seng Index ETF and the iShares FTSE/Xinhua A50 China Tracker were listed in September and November 2004 respectively. Turnover of listed ETFs in Hong Kong increased gradually from $12.9 billion in 2002 and $13.3 billion in 2003 to $23.5 billion in 2004.

Similar to the trading of ETF in overseas exchanges, the Stock Exchange has approved market making to be allowed for all ETFs, including TraHK. On the other hand, the obligations of market makers have been tightened and a clawback mechanism on concessions given to market makers would be established. These enhancements to the ETF market would be launched upon approval of the relevant rule amendments by the SFC.

DERIVATIVES MARKET

Q. How did the derivatives market perform in 2004?

2004 was a fruitful year for the Hong Kong derivatives market, marked by the record high daily volume and/or open interest for Hang Seng Index Futures and Options, H-shares Index Futures and Options, and Stock Futures and Options markets. The details are shown in the following table.

▶ Record High Daily Volume and Open Interest Achieved in 2004

Products	Record High Daily Volume Date	Record High Daily Volume Number of Contracts	Record High Open Interest Date	Record High Open Interest Number of Contracts
Hang Seng Index Futures	24 September 2004	151,000	26 November 2004	172,282
Hang Seng Index Options	N/A	N/A	29 March 2004	169,319
Mini-Hang Seng Index Futures	14 June 2004	9,799	10 May 2004	5,141
H-shares Index Futures	25 November 2004	26,741	27 September 2004	40,699
H-shares Index Options	20 July 2004	2,371	29 December 2004	19,990
Stock Futures	4 October 2004	1,119	29 November 2004	2,181
Stock Options	N/A	N/A	29 December 2004	979,659

The total yearly volume for all futures and options markets increased 34.9 per cent from 14,546,213 contracts for 2003 to 19,629,692 contracts for 2004.

▶ Derivatives Market Statistics (as at year-end)

	2004 Volume (Contracts)	2004 Period-end Open Interest (Contracts)	2003 Volume (Contracts)	2003 Period-end Open Interest (Contracts)
Futures				
Hang Seng Index Futures	**8,601,559**	**125,860**	6,800,360	91,941
Mini-Hang Seng Index Futures	**1,457,681**	**2,044**	1,248,295	1,905
H-shares Index Futures[(1)]	**1,743,700**	**22,418**	47,941	6,299
MSCI China Free Index Futures[(2)]	**–**	**–**	190	–
Dow Jones Industrial Average Futures[(3)]	**2,673**	**96**	9,091	88
Stock Futures	**17,274**	**1,821**	18,654	1,020
Three-month HIBOR Futures	**58,307**	**6,570**	47,799	4,485
One-month HIBOR Futures	**733**	**30**	310	85
Three-Year Exchange Fund Note Futures	**2,225**	**–**	2,012	200
Options				
Hang Seng Index Options	**2,029,068**	**76,444**	2,118,792	72,469
Mini-Hang Seng Index Options	**26,882**	**613**	32,131	330
H-shares Index Options[(4)]	**77,758**	**9,265**	N/A	N/A
Stock Options	**5,611,832**	**684,052**	4,220,638	553,896

(1) *Commenced trading on 8 December 2003.*

(2) *Suspended trading with effect from 29 March 2004.*

(3) *Suspended trading with effect from 25 January 2005.*

(4) *Commenced trading on 14 June 2004.*

In addition to the improvement in Hong Kong's overall economic and investment climate in 2004, HKEx's continuing efforts to implement product and market infrastructure enhancements and effectively market them to practitioners and their clients, have contributed to the significant market growth experienced this past year.

Product and market infrastructure enhancement

In 2004, a total of nine products were launched by the DMDO. Leveraging on the success of H-shares Index Futures which were launched in December 2003, HKEx introduced H-shares Index Options in June 2004 to provide an additional trading and risk management tool for investors in H-shares and related derivatives, and 77,758 contracts had been traded since its launch. At the same time, stock options and stock futures on four H-shares, namely China Life Insurance, China Petroleum & Chemical Corporation, China Telecom and Aluminum Corporation of China, were also introduced. In total, there were 223,279 contracts traded in 2004 in these additional stock options and stock futures. The launches of the H-shares Index Options and the additional stock options and stock futures contracts are further evidence of HKEx's continuing efforts to meet the growing demand for China-related financial products.

The six-month pilot programme in relation to enhancements to the Block Trade Facility was made permanent on 1 March 2004. The enhancements comprised extending Block Trade executions in expiring contracts to the last two trading days, and increasing the Minimum Volume Thresholds for all stock option classes from 100 to 500 lots. There were 1,152,451 contracts traded via the Block Trade Facility in 2004, representing 5.9 per cent of the total futures and options contracts traded for the year, and an increase of 105.6 per cent against those in 2003.

The efficiency of futures brokers trading and order execution improved in 2004. The number of OMnet Application Programming Interface connections increased 55.4 per cent from 166 as at the end of 2003 to 258 as at the end of 2004, representing greater system flexibility for the market as a whole in establishing trading connections to HKATS and Internet trading facilities.

HKATS was upgraded from OMex version 17.1 DC to 17.1 CL and fully integrated with DCASS in April 2004. Under the integrated platform, both trading and clearing share the same operational facilities and network equipment. As a result, EPs enjoy the benefit of straight-through processing at a reduced cost.

Education and marketing

In 2004, a total of 59 derivatives market training courses and seminars were conducted, attracting more than 5,000 attendees, including staff of EPs and public investors. A 16-week programme for promoting stock index options to retail investors was conducted successfully during the second quarter of 2004, with HKEx participating as co-sponsor along with 11 EPs. We also held meetings with overseas brokers who were considered prospective EPs to expand the distribution network of HKEx products in the international investment community.

CLEARING

Q. Why DCASS was launched and what was the market response?

In April 2004, HKEx successfully launched DCASS, replacing two legacy systems, namely INTRACS/400 and TOPS, used respectively by HKCC and SEOCH since the mid-1990. Horizontally, DCASS provides a common platform for clearing and settlement of all products traded on the local derivatives markets. Vertically, DCASS shares the same technology platform with the derivatives trading system, HKATS, and offers a seamless operational environment for derivatives trading, clearing and settlement.

The implementation of DCASS has reinforced the clearing and settlement infrastructure to meet future challenges and market demands. Externally, DCASS has prompted changes in certain business features, including the introduction of a revised fee structure, an earlier post trade input cut-off time for HKCC Participants, and a new margining methodology known as the Portfolio Risk Margining System ("PRiME"), for both HKCC and SEOCH. Internally, the operational procedures and risk management processes of HKCC and SEOCH have been harmonised, resulting in optimal use of resources and improved efficiency.

HKEx conducted a Technical Survey on DCASS in October 2004 to evaluate its performance and users' satisfaction. A total of 128 Participants of HKCC and SEOCH responded to the survey, representing an overall response rate of 82 per cent. The results of the survey were very positive, showing that most of the respondents were satisfied with the on-line functions, reports, system response time and the hotline services.

Q. What is the progress of implementing a scripless securities market in Hong Kong?

In May 2004, HKEx issued its consultation conclusions summarising the views of respondents and HKEx's comments thereon, to the Consultation Paper on a Proposed Operational Model for a Scripless Securities Market issued in October 2003. The report proposed maintaining CCASS on a nominee basis under the Issuer Register Model and a progressive approach on implementation of scripless. HKEx is currently making progress in formulating operational arrangements with the share registrars for CCASS to hold scripless shares with them in the initial phase. In parallel, further discussions with the Federation of Share Registrars will be held to consider development of the other scripless initiatives, including the establishment of electronic linkages between CCASS and share registrars' systems. Subject to the completion of the legislative process and amendments to the Listing Rules and the General Rules of CCASS, CCASS would begin the process of dematerialising its holdings in 2006.

Q. What have been done in 2004 to improve the services for CCASS Participants, including IPs?

The Clearing Division continually reviews the clearing services offered by the three clearing houses, HKSCC, SEOCH, and HKCC to ensure that the highest quality services are provided to clients which serve to reinforce investor confidence in the securities and derivatives markets in Hong Kong. HKEx enhanced the CCASS Settlement Instruction ("SI") matching functions in October 2004 to provide a more efficient and centralised platform for the pre-matching of SIs between CCASS Participants (non-IPs). 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.

In addition, the General Rules of CCASS and CCASS Operational Procedures were amended in November 2004 to facilitate a CCASS Participant (non-IP) to appoint a Settlement Agent to operate its CCASS terminals, and hence CCASS accounts, without changing its principal obligations vis-à-vis HKSCC. The Settlement Agent can be a CCASS Participant, an affiliate to a CCASS Participant or a non-CCASS Participant located either in Hong Kong or overseas jurisdictions. HKEx will continue to facilitate the implementation of the operation model that best serves market participants' business needs.

Moreover, HKEx introduced enhanced features to the CCASS IP accounts services in August 2004. The enhanced features include extending the online window to operate 24 hours a day and seven days a week, allowing Internet access through user IDs and passwords, allowing 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.

With the increasing popularity of the CCASS eIPO service as one of the IPO application channels, CCASS enhanced its eIPO functions in 2004 to extend the CCASS input and file upload time window, release the file upload function to all participants, add upload file validation runs, and facilitate online enquiry of the application details during the eIPO application period.

▶ Number of CCASS Participants (as at year-end)

Brokers Participants	441
Custodian Participants	39
Stock Pledgee Participants	7
Clearing Agency Participants	1
Investor Participants	13,800

CCASS Statistics (Up to year-end)

	2004	2003
Average Daily Exchange Trades Handled by CCASS		
– Number of trades	**149,572**	116,142
– Value of trades	**$16.0 billion**	$10.4 billion
– Share Quantity Involved	**16.2 billion**	9.7 billion
Average Daily SIs Settled by CCASS		
– Number of SIs	**23,778**	19,586
– Value of SIs	**$38.0 billion**	$25.1 billion
– Share quantity involved	**11.8 billion**	9.1 billion
Average Daily Investor SIs ("ISIs") Settled by CCASS		
– Number of ISIs	**413**	449
– Value of ISIs	**$119.0 million**	$86.0 million
– Share quantity involved	**82.2 million**	78.5 million
Average Daily Settlement Efficiency of CNS Stock Positions on Due Day (T+2)	**99.70%**	99.69%
Average Daily Settlement Efficiency of CNS Stock Positions on the Day following the Due Day (T+3)	**99.98%**	99.97%
Average Daily Buy-ins Executed on T+3		
– Number of brokers involved	**9**	9
– Number of buy-ins	**10**	10
– Value of buy-ins	**$3.7 million**	$2.5 million
Shares Deposited in the CCASS Depository		
– Number of shares	**1,217.7 billion**	1,012.8 billion
– Percentage of total issued share capital of the admitted securities	**60.71%**	57.86%
– Value of shares	**$2,465.0 billion**	$1,915.5 billion
– Percentage of the total market capitalisation of the admitted securities	**34.46%**	32.91%

Q. Risk management is one of the important responsibilities of the clearing function, what are the major measures in place to protect the interests of HKEx and investors?

In addition to the insurance and guarantee facilities to diversify the clearing houses' risk exposure in acting as the central counterparty to provide settlement guarantee to their participants, the Board had decided in February 2004 to set aside $1.5 billion in retained earnings to support the clearing and settlement functions.

To further harmonise the policies and procedures of the three clearing houses, HKSCC has aligned with HKCC and SEOCH in not accepting bank guarantees issued by a participant's group company to reduce concentration risk. Reviews of the capital requirements for clearing participants and their obligations in relation to the Guarantee and Reserve Funds are in progress.

No default event occurred in 2004. For the two default cases reported in 2003, the Tai Wah Securities Limited is in the process of liquidation and Yicko Futures Limited is still subject to legal proceedings. To improve risk management functions and better serve the markets, the clearing houses will continue to enhance their risk management measures including the introduction of new collateral types and the review of settlement bank agreements. The collateral services provided to the Clearing Participants will also be improved by further enhancing the Common Collateral Management System and automating the payment systems.

BUSINESS DEVELOPMENT AND INVESTOR SERVICES

Q. What have been done to bring increased awareness of the Hong Kong capital market and matters pertaining to listing to the Mainland market users?

The BDISD was set up to take full responsibility for improving investor relations and promoting new listings. In 2004, four large scale listing conferences were conducted to promote Hong Kong as a premier capital market to potential issuers on the Mainland. Conferences held in Jilin, Chongqing and Tianjin were major events of the Hong Kong Weeks co-organised with the Beijing Office of the Government and the local, provincial and municipal governments on the Mainland. In addition, a major conference in Shanghai was organised with the Research Centre of the State-owned Assets Supervision and Administration Commission of the State Council in October 2004. More than 1,600 people, including about 200 Hong Kong intermediaries who represented sponsors, legal firms, and accounting firms took part in these events.

In addition, HKEx collaborated with various Mainland government authorities, such as the Beijing Municipal Development and Reform Commission, the China Centre for Business Cooperation and Coordination under the National Development and Reform Commission and The Finance Office of Inner Mongolia Autonomous Regional People's Government, in organising various conferences and seminars on the Mainland and in Hong Kong. During 2004, HKEx also participated in the "Hong Kong-Zhejiang Week", "Guangdong-Hong Kong Cooperation and Exchange Seminar" and the "HK-Fujian Investment Environment Symposium" organised in Hong Kong. Moreover, more than 200 meetings were held with Mainland business delegations.

To enhance the awareness of corporate governance issues among listed issuers from the Mainland, 10 training programmes for the senior management of potential and listed Mainland issuers were organised in the Beijing representative office as well as in Hong Kong during 2004, jointly with the Hong Kong Institute of Company Secretaries, Hong Kong Securities Institute, Hong Kong Polytechnic University China Business Centre and Mainland government authorities, including the Research Centre of the Hong Kong and Macau Affairs Office of the State Council and the National Science and Technology Venture Capital Development Centre. The programmes provided participants with an overview and update of the relevant regulatory framework and rules and highlighted the importance of a high standard in corporate governance practices.

To enable Mainland issuers to have a better understanding of the regulatory framework and rules relating to listing in Hong Kong, the Listing Division conducted regular training seminars on the Mainland on the rules and regulations, including, in particular, the Listing Rules.

As part of our corporate website revamp exercise in March 2004, a "Listing in Hong Kong" section was created in our corporate website to provide a more comprehensive information platform for potential issuers. This section provides a wealth of information, including the key issues and considerations leading to a listing, and the requirements, procedures and obligations applicable to attaining a listing. It also sets out the answers to frequently asked questions on listing in Hong Kong.

Q. What are the services provided by the newly established Investor Services Department to strengthen the relationship between HKEx and its investors?

The BDISD maintains regular contacts and communication with fund managers and analysts. Between May and December 2004, more than 40 meetings with local and overseas fund managers and analysts have been held in and outside of Hong Kong. Meetings were arranged after the announcement of results to provide fund managers and analysts with the most up-to-date corporate public information regarding HKEx, including its strategic direction, financial performance, latest developments and prospects. Moreover, HKEx's press release, quarterly, interim, and annual reports were also sent to fund managers and analysts on a regular basis to provide a greater transparency and enhance shareholders' confidence.

HKEx also organised education seminars to introduce its products and services to the investing public. This included various educational seminars co-organised with different entities, such as universities, the Education and Manpower Bureau ("EMB") of the Government and the Institute of Financial Planners of Hong Kong. In particular, the seminar co-organised with the EMB was the first joint effort between HKEx and an education department of the Government with the aim to raise the awareness of secondary school teachers relating to financial products and the latest developments of the Hong Kong markets.

In August 2004, HKEx arranged the first session of SIMart, an online investment simulation game which attracted over 1,600 registrants. SIMart, a platform operated by HKEx, simulates the main features of the securities market for the hosting of online investment games. It provides an ideal educational platform for all levels of investors to learn about and test-trade HKEx products. More than 2,700 deals were transacted and the total value of all transactions was approximately $481 million.

Apart from educating local investors, HKEx also participated in seminars held in Macau and Shenzhen, and gave briefings to overseas delegates.

INFORMATION SERVICES

Q. What was the performance in the sale of information in 2004?

The Information Services Department manages the provision of market information to the investing public including real-time trading information through cooperation with authorised information vendors, market statistics, market summary information, and listed company disclosures. At the end of 2004, there were 66 real-time information vendors for the securities market (2003: 63) and 34 for the derivatives market (2003: 34). A total of 310 real-time data services were provided by these vendors, while the total number of delayed data services rose from 98 to 121. Eighteen information vendors participated in our extended China Promotion Programme that allows Mainland investors to follow the HKEx markets by subscribing to Hong Kong market data. Compared with 2003, the income from the sale of information for 2004 increased by 16 per cent, or $42 million, to $308 million.

Q. How did the information services help support the market development and investor needs?

Real-time odd lot securities market information including order prices, aggregated order quantity and order size of the five best bid and ask prices was first made available through information vendors from March 2004.

In 2004, HKEx also commenced providing the Issuer Information Feed, through which issuers' disclosures and announcements are transmitted via direct feed to information vendors in XML format. The XML, or Extensible Markup Language format facilitates exchange of data between computer applications. A number of international vendors have begun serving their institutional clients by incorporating data received through the Issuer Information Feed.

HKEx also enhanced its historical data product offering with the introduction of two new historical data products – Stock Master File (daily) and Stock Static Data (monthly). In addition, the archive of Corporate Documents, one of the most well-received data products, was extended back to 1990.

In 2004, HKEx entered into an agency agreement with the Shenzhen Stock Exchange on distribution of its real-time market data. Under the agreement, HKEx manages the commercial arrangements as well as the technical transmission of data to vendors outside of the Mainland. In 2004, we have signed up with international vendors such as Bloomberg L.P, Thomson Financial Limited, Quick Corporation and Hong Kong-based TVB's Galaxy TV under this agreement.

INFORMATION TECHNOLOGY

Q. What has been done to ensure that HKEx provides an IT infrastructure of highest standards of security, reliability and efficiency?

Competitive technology is a core asset of HKEx and is essential for fortifying investors' confidence in Hong Kong as a pre-eminent international financial centre. Throughout 2004, the Information Technology Division strived to maintain 100 per cent uptime for all major trading and clearing systems, as a result of disciplined operations, preventive and collaborative vendor management, quality and prudent change control management, a high level of security awareness, and strong team work. In particular, a series of improvements were implemented during the year to strengthen the availability, stability and reliability of the systems. They included benchmarking for ISO 9001 certification for computer operations by Hong Kong Productivity Council, strengthening the existing preventive maintenance plan with PCCW, Wharf T&T and HP for market systems' hardware and network, and enhancing market systems network security for intrusion detection.

In order to further enhance serviceability, HKEx will continuously upgrade obsolete technology and equipment of its core critical systems. The AMS/3 Tandem Operating System, namely Non-stop Kernel, was upgraded to secure continued system support from the vendor. Replacements of AMS/3 first and second terminals as well as the Trading Hall LAN cabling infrastructure will progress in line with the trading hall renovation project.

To cope with continuous business growth, HKEx conducts routine pro-active modelling and analysis of system capacity regularly to ensure that the system capacity can satisfy market needs and requirements. In early 2004, the bandwidth and capacity of the HKEx website were upgraded substantially to cope with the rapid growth of external access to the HKEx website as well as the planned rollout of the website revamp. A capacity sizing and planning was also conducted for all market systems during the year to cater for the new business and projected growth of market volume. Key capacity upgrade for AMS/3, HKATS and DCASS will be conducted, as necessary and appropriate, in 2005.

In view of the advances in technology, HKEx will continue to explore the possibility of consolidation and standardisation of the IT infrastructure and systems to ensure availability and cost efficiency. In late 2004, a market systems network consolidation was commenced to migrate the existing AMS/3, HKATS/DCASS, CCASS/3 and MDF system networks from the existing frame relay technology to a consolidated network with optical ethernet technology resulting in substantial network cost savings to EPs and HKEx.

TREASURY

Q. How does HKEx manage its available funds?

HKEx's investment funds comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling $14.4 billion on average in 2004 (2003: $10.6 billion), an increase of $3.8 billion against that for 2003. The increase in investment fund size was 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 the 2003 special and final dividends in April 2004. Comparing with 31 December 2003, the overall fund size as of 31 December 2004 increased by 20 per cent or $2.7 billion to $16.3 billion (31 December 2003: $13.6 billion).

Details of the asset allocation as at 31 December 2004 against those as at the end of 2003 are set out below.

	Fund size ($ billion)		Bonds		Cash or bank deposits		Global equities	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
Corporate Funds	**3.9**	5.0	**64%**	58%	**30%**	36%	**6%**	6%
Margin Funds	**10.5**	7.1	**34%**	31%	**66%**	69%	**0%**	0%
Clearing House Funds	**1.9**	1.5	**7%**	9%	**93%**	91%	**0%**	0%
Total	**16.3**	13.6	**38%**	39%	**60%**	59%	**2%**	2%

Investments are kept sufficiently liquid to meet HKEx's operating needs and possible liquidity requirements of the Clearing House Funds and Margin Funds. Excluding equities held under the Corporate Funds ($0.3 billion as at 31 December 2004 and $0.3 billion as at 31 December 2003), which have no maturity date, the maturity profile of the remaining investments as at 31 December 2004 ($16.0 billion) and 31 December 2003 ($13.3 billion) was as follows:

	Fund size ($ billion)		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		> 3 years	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
Corporate Funds	**3.6**	4.7	**15%**	22%	**16%**	10%	**21%**	18%	**31%**	34%	**17%**	16%
Margin Funds	**10.5**	7.1	**40%**	56%	**26%**	7%	**14%**	12%	**20%**	25%	**0%**	0%
Clearing House Funds	**1.9**	1.5	**83%**	82%	**3%**	0%	**6%**	0%	**8%**	18%	**0%**	0%
Total	**16.0**	13.3	**39%**	47%	**21%**	8%	**15%**	13%	**21%**	27%	**4%**	5%

Credit exposure is well diversified. As at 31 December 2004, all bonds held were of investment grade and had a weighted average credit rating of Aa2 (31 December 2003: Aa2) and a weighted average maturity of 1.5 years (31 December 2003: 1.9 years). Deposits are placed only with the note-issuing banks in Hong Kong and investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk ("VaR") and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by HKEx) at a given confidence level (95 per cent confidence interval is adopted by HKEx) based on historical data (one year is used by HKEx). The overall risk, as measured by the VaR methodology, during 2004 and 2003 is as follows:

	Average VaR $ million		**Maximum VaR** $ million		**Minimum VaR** $ million	
	2004	2003	**2004**	2003	**2004**	2003
Corporate Funds	**15.8**	15.4	**18.3**	18.4	**13.2**	13.1
Margin Funds	**15.3**	8.5	**17.4**	11.5	**10.3**	5.7
Clearing House Funds	**1.1**	1.5	**1.2**	1.7	**0.8**	1.1

For more details of HKEx's investment income, please refer to the Overall Performance under the Financial Review and Note 7 to the accounts of this annual report.

FINANCIAL REVIEW

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.

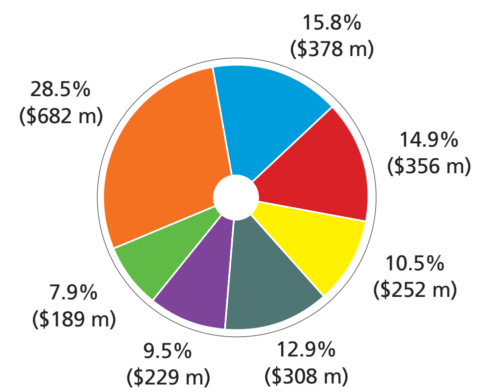
The increase in market income was partly offset by a decrease in investment income mainly due to lower interest rates and reduced investment portfolio following the distribution of the 2003 special and final dividends of $2.2 billion in the second quarter of 2004.

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.

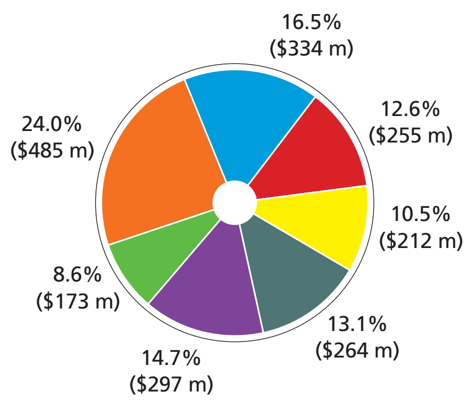
▶ INCOME

Analysis of 2004 income



Total income=$2,394 m

Analysis of 2003 income



Total income=$2,020 m

- Trading fees and trading tariff
- Stock Exchange listing fees
- Clearing and Settlement fees
- Depository, custody and nominee services fees
- Income from sale of information
- Investment income
- Other income

(A) Income directly affected by market turnover

	2004 $'000	2003 $'000	Change
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 $'000	2003 $'000	Change
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 $'000	As restated 2003 $'000	Change
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

	2004 $ billion	2003 $ 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%

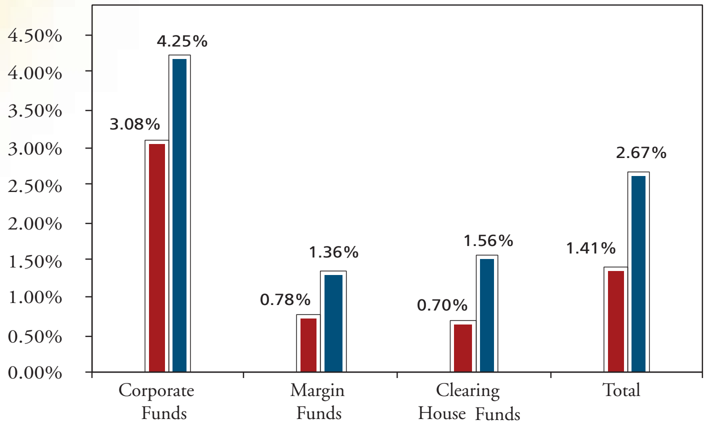
The increase in the average amount of Margin Funds available for investment during the year reflected the increased open interest in futures and options contracts. The reduction in Corporate Funds was mainly due to the $2.2 billion payment of 2003 special and final dividends in April 2004.

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.

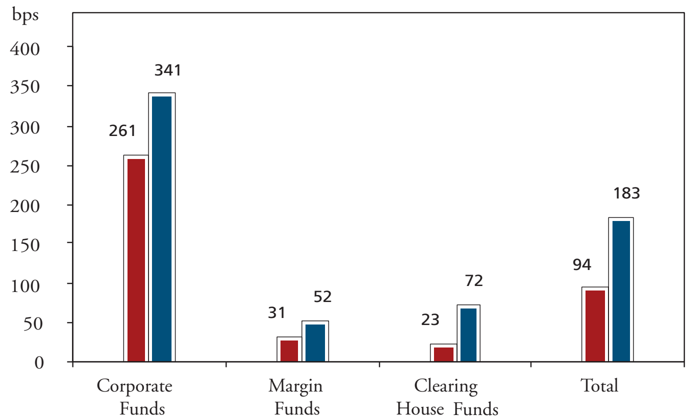
The drop in income from investments supervised by the Finance Department reflected lower interest rates, the reduced amount of Corporate Funds available for investment, and a drop in foreign exchange gains of $28 million during 2004.

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

▶ Return on Investments Supervised by the Finance Department



▶ Return above the 6-month Hong Kong Exchange Fund Bill yield in basis points



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.

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

(D) Other operating income

	2004 $'000	As restated 2003 $'000	Change
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**	–	N/A
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.

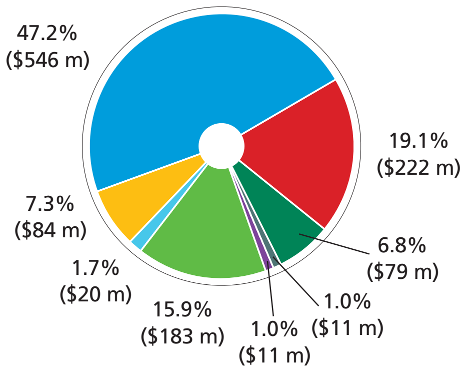
Other income

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.

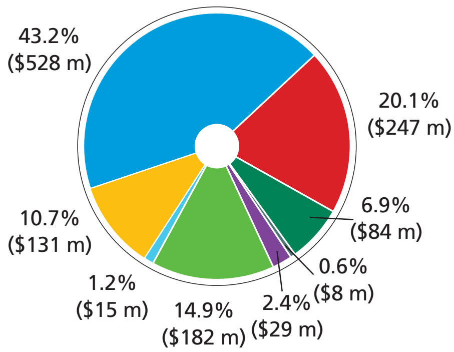
▶ OPERATING EXPENSES

Analysis of 2004 expenses



Total expenses: $1,156 m

Analysis of 2003 expenses



Total expenses: $1,224 m

- Staff costs and related expenses
- IT and computer maintenance expenses
- Premises expenses
- Product marketing and promotion expenses
- Legal and professional fees
- Depreciation
- Payment to SFC under dual filing
- Other operating expenses

	2004 $'000	As restated 2003 $'000	Change
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 $'000	As restated 2003 $'000	Change
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 $'000	As restated 2003 $'000	Change
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 Continuous Net Settlement ("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. 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 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 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 HK$50 million) was fully repaid, and the guarantee given by HKEx had expired.

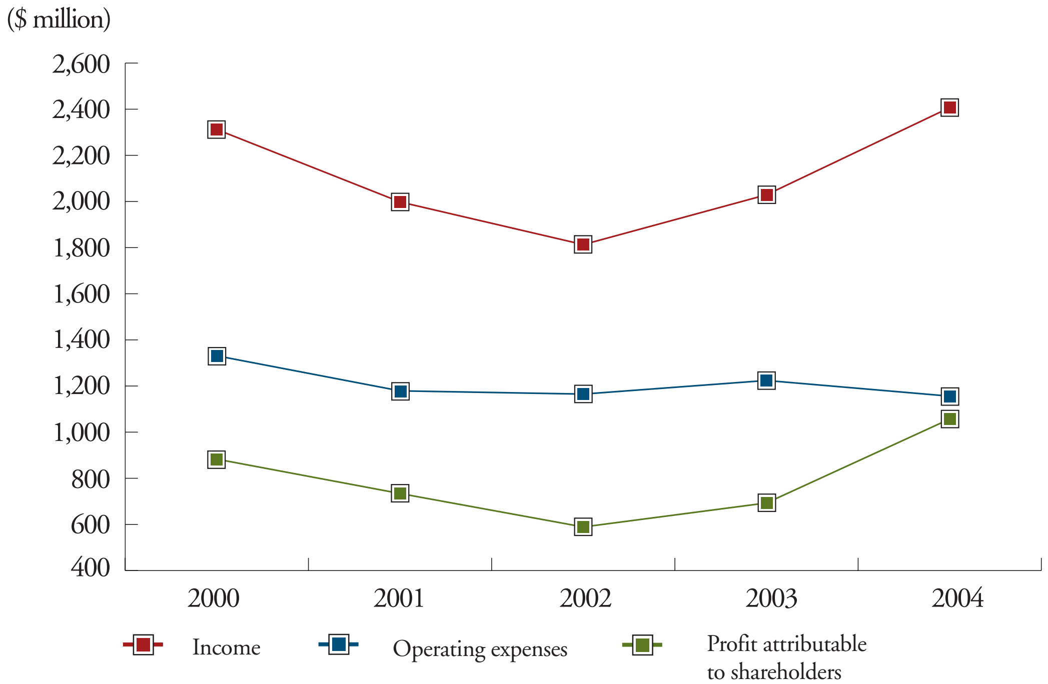
FIVE-YEAR STATISTICS

	2004 $ million	As restated* 2003 $ million	As restated* 2002 $ million	As restated* 2001 $ million	As restated* 2000 $ million
Results					
Income #	**2,407**	2,029	1,813	1,998	2,312
Profit attributable to shareholders	**1,057**	693	589	734	883
Assets and liabilities					
Non-current assets	**2,423**	2,690	1,886	1,803	2,199
Current assets	**19,020**	17,118	12,147	11,927	11,948
Current liabilities	**(15,955)**	(13,048)	(7,939)	(7,888)	(8,672)
Net current assets	**3,065**	4,070	4,208	4,039	3,276
Total assets less current liabilities	**5,488**	6,760	6,094	5,842	5,475
Non-current liabilities	**(1,436)**	(1,146)	(600)	(620)	(620)
Shareholders' funds	**4,052**	5,614	5,494	5,222	4,855

* *Following the adoption of certain new HKFRSs issued by the HKICPA in 2004, certain comparatives previously reported have been restated to conform to the new policies.*

\# *Income includes share of profits less losses of associates.*

FIVE-YEAR RESULTS



Corporate Governance Report

CORPORATE GOVERNANCE

The following report comprising three sections: Corporate Governance, Remuneration and Interests, and Corporate and Social Responsibility, serves to outline our effort in promoting corporate governance, and improving our own corporate governance practices.

PUBLIC RESPONSIBILITY

HKEx is the recognised exchange controller, and has the duty under the SFO to provide an orderly, informed, and fair markets for the trading, clearing, and settlement of securities or futures contracts in Hong Kong.

To help reinforce Hong Kong's role as an international financial centre and also the premier capital formation centre of the Mainland, HKEx accepts a leadership role in setting and articulating corporate governance standards in Hong Kong.

Code on Corporate Governance Practices

Following the release of the exposure of draft Code on Corporate Governance Practices and Corporate Governance Report ("Exposure Paper") for public consultation in January 2004, the Stock Exchange published the conclusions on the Exposure Paper on 19 November 2004. The overall responses were supportive of the general direction of the Exposure Paper including the efforts of the Stock Exchange in enhancing the overall standard of corporate governance. The CG Code, which became effective from 1 January 2005 (the internal control section will be effective from 1 July 2005), provides a comprehensive guide for listed issuers to evaluate and improve their corporate governance practices.

Although the general level of corporate governance practices in Hong Kong has improved, continuous refinement and assessment of corporate governance practices against evolving global standards is critical to Hong Kong remaining successful in an increasingly competitive investment market.

Enhancement of Regulation of Listing

To further strengthen the listing regulatory functions, the Government published a "Consultation Paper on Proposals to Enhance the Regulation of Listing" in October 2003 seeking market views on improving the listing regulatory structure. The consultation conclusions published in March 2004 recommended, amongst others, to build on the dual filing regime, codifying the important requirements in the Listing Rules into subsidiary legislation, and making the SFC responsible for enforcing statutory listing requirements, while the Stock Exchange would continue to enforce the non-statutory listing requirements as provided in the Listing Rules. The Stock Exchange will also continue to receive listing applications at the frontline, and no securities will be listed on the Stock Exchange unless they are approved by the Listing Committees.

In January 2005, each of the SFC and the Government has published a public consultation paper aiming at giving statutory backing to major listing requirements in order to further enhance the regulation of listed companies. Both consultations will end in March 2005.

Conflict Management

In discharging its obligations as the recognised Exchange Controller, HKEx has to act in the interests of the public, having particular regard to the interests of the investing public, and ensure that where the interests of the public are in conflict with any other interests, the former shall prevail.

The listing of HKEx is governed by the Memorandum of Understanding ("MOU") entered into between HKEx, the Stock Exchange, and the SFC, and the Chapter 38 in the Listing Rules. Unlike other listed companies in Hong Kong, the SFC is, pursuant to the MOU, the regulator of HKEx, and shall take all actions and make all decisions in relation to HKEx as a listed company that would normally be taken by the Stock Exchange in respect of other listed companies, including but not limited to the suspension or removal from, listing on the Stock Exchange, and the application for waivers in complying with the Listing Rules.

In addition, HKEx is required, under the MOU, to use its best endeavours to ensure that whenever a conflict or potential conflict of interest exists, the subject matter would be referred to a Conflict Committee comprising the Chief Executive, the Chief Operating Officer, and the Chief Executive of the Stock Exchange or their alternates for consideration. If the Conflict Committee determines that a conflict or potential conflict of interest does or may arise, the case would be referred to the SFC's representatives who would consider if the Stock Exchange's regulatory function could be discharged without its intervention. Any disagreement between the Conflict Committee and the SFC's representatives will be referred to the SFC for resolution.

As noted by Standard & Poor's ("S&P") in its annual evaluation on HKEx's corporate governance practices, there is no evidence, to date, that the results of the Group have been adversely affected through placing the public interests ahead of Shareholders' interests where the public interests and the financial interests of Shareholders might diverge.

CORPORATE RESPONSIBILITY

Being a listed company, HKEx is committed to achieving the best corporate governance practices. The Board and the management believe that high standards and appropriately rigorous corporate governance practices are essential for HKEx to improve its accountability and transparency, and achieve a balance of the interests of the public and the interests of its stakeholders, inter alia, Shareholders, EPs, the Government, customers, creditors, and employees. The Board acknowledges its responsibility in ensuring that good corporate governance practices and procedures are established.

Ongoing Improvements on Corporate Governance Practices

HKEx is dedicated to continue improving its corporate governance practices. The following summarised the measures taken in 2004:

- HKEx has early adopted all HKFRSs, in the preparation of the financial statements for the year ended 31 December 2004. The HKFRSs were developed by the HKICPA in conformity to the IFRSs.

- HKEx has adopted a policy of rotating its engagement partner of the external auditors every 5 years. Should PricewaterhouseCoopers be re-appointed auditors at the 2005 AGM, the first rotation will take effect starting from the audit for 2005.
- The terms of reference of the Audit, Nomination and Remuneration Committees have been reviewed with reference to the CG Code, and they are posted on HKEx's corporate website.
- HKEx revised its organisational structure in May 2004 to reinforce its regulatory function and enhance business operation efficiency. The existing organisational structure is set out on page 94.
- In view of the increasing demand on time and effort for Non-executive Directors to fulfill their responsibilities, the Board has accepted the recommendation of the Remuneration Committee of proposing an increase in Non-executive Directors' remuneration for Shareholders' approval at the 2005 AGM.
- Director's Handbook and the Human Resources Manual are posted on HKEx's corporate website.
- The Board has decided not to seek renewal of the 20 per cent general issue mandate at the 2005 AGM.
- A revamped HKEx website was rolled out in March 2004 featuring enriched content and new design that makes it easy to navigate.

Achievements

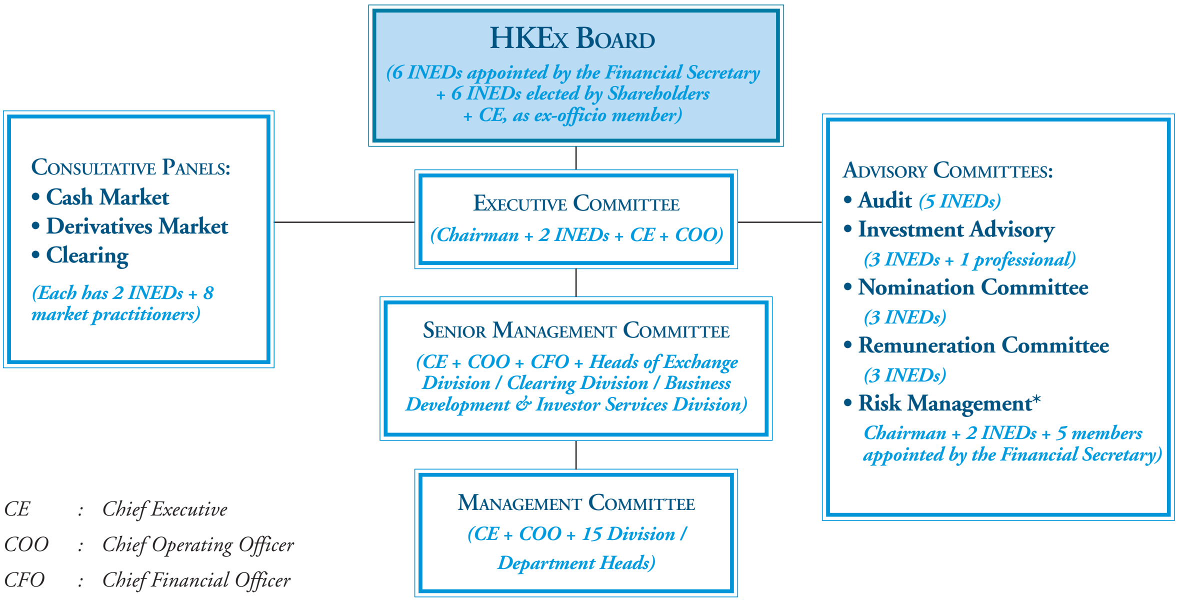
In 2000, HKEx became the first listed company in Hong Kong to have an assessment of its corporate governance standard by an independent third party. S&P had, after the fourth annual evaluation, reaffirmed the same score of 8 out of a possible score of 10 to HKEx for 2004. The score of 8.3 for 2003 had been revised to 8 by S&P due to the adoption of a new rating scale that only shows rating in integers. S&P confirmed that the maintenance of the score at 8 reflects HKEx's strong governance standards on an international basis of comparisons, and demonstrates HKEx's continuing commitment to improving its own corporate governance standards.

In 2004, HKEx was awarded the Significant Improvement Award, and for the second consecutive year, a Diamond Award (top honour) in the Non-Hang Seng Index Category in the Best Corporate Governance Disclosure Awards 2004 organised by the Hong Kong Institute of Certified Public Accountants.

HKEx, as a business entity, a regulator and a public company, would continue to work closely with the Government, the SFC, listed issuers, market participants and users to promote and implement corporate governance reforms in Hong Kong.

GOVERNANCE STRUCTURE

The overall governance structure of HKEx is set out below –



CE : Chief Executive
COO : Chief Operating Officer
CFO : Chief Financial Officer
* *established under Section 65 of the SFO*

REPORT ON CORPORATE GOVERNANCE PRACTICES

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

HKEx applied the principles and complied with all requirements of the newly promulgated CG Code with certain deviations in respect of the service term and rotation of Directors. The following summarises HKEx's corporate governance practices and explains deviations, if any, from the CG Code.

Key Corporate Governance Principles and HKEx's Practices

A. Board of Directors

A balanced board consisting of independent non-executive directors of at least one-third of the board

- HKEx Board includes 12 INEDs, six of them are Government Appointed Directors, and the remaining are Elected Directors. The Chief Executive is an ex-officio member of the Board and is the only Executive Director. The INEDs are explicitly identified in all corporate communications.
- Pursuant to the Listing Rules, every Non-executive Director has confirmed his independence with the SFC. As at 31 December 2004, each Non-executive Directors re-affirmed their independence status, and HKEx, at the advice of the Nomination Committee, considered that they are independent.

Deviation: Nil

The board should have a balance of skills and experience appropriate for the requirements of the business of the company

- Given the nature of HKEx's statutory objectives, and the complexity and breadth of the financial markets in which it operates, the wide range of business, financial, fund management, and securities trading experience of the INEDs provides an appropriate balance of public interests and stakeholders' interests.
- The list of Directors, their respective biographies, and their respective roles in the Board and committees are set out on pages 8 and 22 respectively. The information is also published on HKEx's corporate website.

Deviation: Nil

Distinctive roles of chairman and chief executive

- Chairman of the Board is an INED, who is responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner.
- The Chairman is appointed by the Board, subject to the approval of the Chief Executive of the Government.
- The Chief Executive is delegated with the authority and responsible for running the Group's business, and implementation of the Group's strategy in achieving the overall commercial objectives.
- The Chief Executive is appointed by the Board subject to the approval of the SFC.

Deviation: Nil

Formal procedures are laid down for the appointment of directors including the establishment of a nomination committee with specific terms of reference

- HKEx has established a Nomination Committee, comprising three INEDs appointed by the Board, which meets at least once a year. List of members of the Nomination Committee is set out in the "Corporate Information" on page 9.
- The terms of reference of the Nomination Committee are posted on HKEx's corporate website. The principal functions include:
  - ➢ to formulate the nomination policy, including the selection criteria of non-Government Appointed Directors;
  - ➢ to develop the procedures for the sourcing and selection of suitable candidates to be nominated to the Board for it to consider and recommend to Shareholders for election at general meetings;
  - ➢ to nominate candidates, where necessary, to fill casual vacancies of Elected Directors;
  - ➢ to assess the independence of INEDs; and
  - ➢ to make recommendations to the Board on succession planning of the Chairman and the Chief Executive.
- The chairman of the Committee will report the findings and recommendations of the Committee to the Board after each meeting.
- In 2004, the Nomination Committee nominated and the Board recommended Messrs John E Strickland and Oscar S H Wong to stand for re-appointment at the 2004 AGM.

Attendance of individual members at Nomination Committee meeting in 2004

Number of meeting	1	
INED		
Charles Y K Lee *(Chairman)*	1 / 1	100%
Lo Ka Shui	1 / 1	100%
Oscar S H Wong	1 / 1	100%
Average attendance rate	**100%**	

Deviation: Nil

Non-executive directors should be appointed for specific terms and all directors appointed to fill casual vacancy should be subject to election by shareholders at the first general meeting after their appointment

- Only Government Appointed Directors are currently appointed with specific terms. Messrs Fong Hup and Leong Ka Chai were appointed for a term of two years ending after the closure of the 2005 AGM. Mr Charles Y K Lee, Mr Tim Freshwater and Dr Lo Ka Shui were appointed for a term of two years ending after the closure of 2006 AGM. Mr Henry H L Fan was appointed on 15 November 2003 to fill the vacancy after the resignation of Dr Liu Jinbao. Mr Fan's service term lasts until the conclusion of the 2005 AGM.
- According to the Articles of Association, Directors appointed to fill casual vacancy shall hold office only until the next following annual general meeting, and shall be eligible for re-appointment. Mr John E Strickland, being a Director appointed by the Board after the 2003 AGM was elected to the Board by Shareholders at the 2004 AGM.

Deviation:
According to the Articles of Association, only the six Elected Directors are subject to retirement by rotation. At every annual general meeting after the 2003 AGM, one-third of the Elected Directors shall retire and are eligible for re-election. The Directors to retire by rotation shall be those who have been longest in office since their last appointment or re-appointment or those who were appointed by the Board during the year to fill casual vacancy. However, as between persons who became or were last re-appointed on the same day, those to retire shall be determined by drawing of lots (unless they otherwise agree among themselves). As there are six Elected Directors, and one-third of them shall retire subject to rotation, hence barring unforeseen resignation/retirement during a year, each Elected Director is effectively appointed under an average term of 3 years. In addition, Directors appointed to fill casual vacancy shall hold office only until the following annual general meeting, and shall be eligible for re-appointment.

Dr Bill C P Kwok and Vincent K H Lee, two of the six Elected Directors subject to retirement by rotation shall retire at the conclusion of the 2005 AGM, as determined by the draw of lots, and they are both eligible for re-appointment.

To ensure full compliance with the CG Code, the Directors propose to amend the Articles of Association which: (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 that any Director appointed by the Board to fill a casual vacancy should be subject to election by Shareholders at the first general meeting of HKEx after such Director's appointment.

The board should assume responsibility for leadership and control of the company and is collectively responsible for promoting the success of the company

- The principal roles of the Board are:
  - to oversee HKEx's strategic development, and determine the objectives, strategies, and policies, and business plan of the Group; and
  - to monitor and control operating and financial performance and set appropriate policies to manage risks in pursuit of the Group's strategic objectives.
- Implementation of strategies, and day-to-day operations are delegated to the Chief Executive.
- The Board has separate and independent access to the senior executives for raising enquiries on management information.
- The Board is supported by five committees, a statutory committee, and three consultative panels. Each of them has defined terms of reference covering its duties, powers and functions. The chairmen of the respective committees and panels report regularly to the Board and, as appropriate, make recommendations on matters discussed. The governance structure is set out on page 67 and a list of members of the various committees is set out in the "Corporate Information" on page 9.
- The Listing Committees function totally independently under no influence from the Board.

Deviation: Nil

The board should meet regularly to discharge its duties. Sufficient information is provided to the board and its committees in a timely manner

- The Board meets regularly, normally once a month, and additional meetings would be arranged, if and when required. Regular Board/committees meeting schedules of each year are normally made available to all Directors/committees' members before the start of the year. Directors can attend meetings in person or through other means of electronic communication.
- The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may request inclusion of items in the agenda.
- The information packages that contain analysis and background material, will be circulated normally four days in advance of Board/committees meetings to Directors/committees' members.
- There exists open atmosphere for Directors to contribute alternative views at meetings and major decisions would only be taken after a full discussion at Board meetings. Directors acknowledge their responsibilities of having to act in the interests of the public, having particular regard to the interests of the investing public, and ensure that where the interests of the public are in conflict with any other interests, the former shall prevail.
- The Chief Operating Officer and the Deputy Chief Operating Officer are invited to attend Board meetings, and other senior executives, will from time to time, be invited to Board meetings for making presentations or answering Board's enquiries.
- Minutes of Board/committees meetings are recorded in detail, and draft minutes are circulated to all Directors/committees' members for comments before being approved by the Board/committees at the immediate following meeting.
- Matters on transactions where Directors are considered having conflict of interests or material interests would not be dealt with by way of written resolutions. The Directors concerned could express views but would not be counted in quorum of meeting and shall abstain from voting of the relevant resolution. According to the Articles of Association, interests of 5 per cent or more is considered material.
- All Directors have access to the Company Secretary who is responsible for ensuring that the Board procedures are complied with, and advising the Board on compliance matters.
- Minutes of the Board/committees meetings are kept by the Company Secretary and are open for inspection by Directors.

- All Directors actively participate in HKEx's business. The attendance records of all Board meetings in 2004 are set out below:

Attendance of individual Directors at Board meetings in 2004		
Number of meetings	13	
INED		
Charles Y K Lee *(Chairman)*	13 /13	100%
Henry H L Fan	13 /13	100%
Fong Hup	12 /13	92.3%
Tim Freshwater	11 /13	84.6%
Bill C P Kwok	13 /13	100%
Dannis J H Lee	13 /13	100%
Vincent K H Lee	13 /13	100%
Leong Ka Chai	13 /13	100%
Lo Ka Shui	13 /13	100%
John E Strickland	13 /13	100%
David M Webb	13 /13	100%
Oscar S H Wong	13 /13	100%
Executive Director		
Paul M Y Chow *(Chief Executive)*	13 /13	100%
Average attendance rate	**98.2%**	

Deviation: Nil

Every director is required to keep abreast of responsibilities as a director of the company and of the conduct, business activities and development of the company

- Management provides appropriate and sufficient information to Directors and the committee members in a timely manner to keep them apprised of the latest development of the Group and enable them to discharge their responsibilities.
- A Director's Handbook setting out the guidelines on conduct, etc has been provided to every Director, which is updated periodically and is posted on HKEx's corporate website. The Handbook has made reference to the relevant sections of the statutes or the Listing Rules reminding Directors of their responsibilities in making disclosure of their interests, potential conflict of interests, and changes in personal particulars to HKEx in a timely manner.
- Orientation programmes are organised for providing induction to new Directors to help them familiarise with HKEx management, business, and governance practices.
- HKEx also encourages its Directors to participate in continuous professional development seminars and courses organised by qualified institutions to ensure that they continually update their skills and have the knowledge on the latest development or changes in statutes, Listing Rules, corporate governance practices etc. that are required for discharging their responsibilities. The related training expenses are fully reimbursable.

The Board and the committees are provided with sufficient resources to discharge their duties including, inter alia, the retention of outside advisers at HKEx's expense, as they deem necessary. Individual Directors may also retain outside advisers, at HKEx's expense, to provide advice on any specific matter.

Deviation: Nil

The company should arrange appropriate insurance cover in respect of legal action against its directors

- Pursuant to Article 155 of the Articles of Association, every Director/committee members appointed by the Board, and the officers shall be entitled to be indemnified, subject to the provision of the Companies Ordinance, by HKEx against all costs, charges, losses, expenses and liabilities incurred by him in the execution and discharge of his duties or in relation thereto. A Directors' and Officers' liabilities insurance has been arranged for that purpose.

Deviation: Nil

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

- HKEx has adopted the Model Code as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by HKEx, that they fully complied with the Model Code throughout the year 2004.
- A code of conduct for securities and derivatives transactions of employees, is set out in the Human Resources Manual which is posted on HKEx's corporate website.
- Employees are required to file declarations with the Head of Human Resources Department through the employee's Division/Department Head, the Chief Executive or the Chairman, as the case may be on their investment in securities and derivatives upon joining the Group.

- Before entering into any securities or derivatives transactions, employees shall seek prior written approval from their respective Division/Department Head or the Chief Executive, as the case may be. The Chief Executive and his related person who wish to buy or sell securities and derivatives shall obtain the prior written approval of the Chairman.
- Details of the share interests held by the Directors and Senior Management in HKEx are set out in the "Corporate Governance Report – Remuneration and Interests" on page 76.

Deviation: Nil

B. Remuneration of Directors and Senior Management

There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors

- The Board has established a Remuneration Committee, comprising three INEDs appointed by the Board, which meets at least once a year. List of members of the Remuneration Committee is set out in the "Corporate Information" on page 9.
- The principal responsibilities of Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the Executive Director and members of the Senior Management. The overriding objective of the remuneration policy is to ensure that HKEx is able to attract, retain, and motivate a high-calibre team which is essential to the success of HKEx.
- No Director and executive can determine his own remuneration.
- The remuneration of Non-executive Directors is subject to Shareholders' approval.
- The chairman of the Remuneration Committee will report the findings and recommendations to the Board after each meeting.
- The terms of reference of the Remuneration Committee are posted on HKEx's corporate website.
- A summary of the work performed by the Remuneration Committee during 2004 is set out in the "Remuneration Committee Report" on page 95.
- Details of the remuneration, including the share option benefits of Directors and Senior Management for the year ended 31 December 2004 are set out in the "Corporate Governance Report – Remuneration and Interests" on page 76.

Attendance of individual members at Remuneration Committee meetings in 2004		
Number of meetings	4	
INED		
Lo Ka Shui *(Chairman)*	4 / 4	100%
Dannis J H Lee	4 / 4	100%
Vincent K H Lee	4 / 4	100%
Average attendance rate	**100%**	

Deviation: Nil

C. Accountability and Audit

The board should present a balanced, clear, and comprehensible assessment of the company's performance, position, and prospects

- The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2004, the Directors have:
  - selected suitable accounting policies and applied them consistently;
  - approved early adoption of all HKFRSs which are in conformity to the IFRSs;
  - made judgements and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis.
- Starting from 2003, HKEx publishes its financial results on a quarterly basis to enhance transparency about its performance and to give details of the latest development of the Group in a timely manner.
- HKEx has announced its annual, interim, and quarterly results in a timely manner within the limits of 3 months, 2 months, and 45 days respectively after the end of the relevant periods, as laid down in the Listing Rules.

Deviation: Nil

The board should ensure that the company maintains sound and effective internal controls to safeguard the shareholders' investment and the company's assets

- The Board has the ultimate responsibility for the Group's internal control system and, through the Audit Committee, has reviewed the effectiveness of the system.
- The internal control system which includes a defined management structure with specified limits of authority, is designed to:
  - help the achievement of business objectives, safeguard assets against unauthorised use or disposition;
  - ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and
  - ensure compliance with relevant legislation and regulations.
- The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.
- The key procedures that the Board established to provide effective internal controls are as follows:
  - A distinct organisational structure exists with defined lines of authority and control responsibilities. Division/Department Heads are involved in preparing the strategic plan which laid down the corporate strategies to be pursued in the next three years for achieving the annual operating plan, the annual operational and financial targets. Both the strategic plan and the annual operating plan laid down the foundation for the preparation of the annual budget by which resources are allocated in accordance with identified and prioritised business opportunities. Other than the strategic plan which was approved by the Board for a three-year period but subject to annual review, the annual operating plan and the annual budget are approved by the Board on an annual basis.
  - A comprehensive management accounting system is in place providing financial and operational performance measure indicators to the management, and the relevant financial information for reporting and disclosure purpose. Variances against budgets are analysed, and explained, and appropriate actions are taken, if necessary, to rectify deficiencies noted.
  - System and procedures are in place to identify, measure, manage and control risks including legal, credit, market, concentration, operational, environmental, behavioral and systematic risks that may have an impact on the securities and derivatives markets in Hong Kong. Exposure to these risks is monitored by the Senior Management Committee, the Executive Committee, and the Risk Management Committee as a whole.
  - Internal Audit Department ("IA") performs independent reviews of the risks and controls identified to provide reasonable assurance to management and the Audit Committee that risks and controls have been adequately addressed.
- The Board, through the Audit Committee, has conducted semi-annual reviews of the effectiveness of HKEx's system of internal control covering all controls, including financial, operational and compliance controls, broad-based risk management processes, and physical and information systems security. No suspected frauds and irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations have come to the Committee's attention to cause the Committee believe that the system of internal controls is inadequate. The Board, through the review of the Audit Committee, is satisfied that the Group has fully complied with the code provisions on internal controls in 2004 as set forth in the CG Code.
- IA plays an important role in monitoring HKEx's internal governance and strives to provide objective assurance to the Board that a sound internal control system is maintained and operated by the management in compliance with agreed processes and standards. To preserve the independence of the internal audit function, the Head of IA reports directly to the Audit Committee on audit matters and to the Chief Executive on administrative matters, and is authorised to communicate directly with the Chairman of the Board and other Board members. For this reason, he attends the Management Committee meetings as an independent observer.
- Using a risk ranking methodology, IA plans its internal audit schedules annually in consultation with, but independent of, management, and the audit plan is submitted to the Audit Committee for approval. Independent reviews of different financial, business and functional operations and activities will be conducted with audit resources being focused on higher risk areas. Ad hoc reviews will also be conducted on areas of concern identified by the Audit Committee and management.
- As HKEx places heavy reliance on Information Technology ("IT") to support its business operations, apart from financial and operational compliance audits, IA also applies special IT audit skills to conduct regular reviews over major application system developmental processes and information systems operations to evaluate the effectiveness of the IT controls and governance processes. IA, in particular, emphasises on the internal control adequacy prior to the system's becoming operational.

- Division/Department Heads will be notified of the deficiencies noted for rectification, and IA will follow up with the implementation of audit recommendations. Significant internal control weaknesses are brought to the attention of the Audit Committee and if necessary to the Board, and to the Senior Management Committee for remedial action.
- To promote corporate governance and provide Shareholders with timely information about HKEx's financial performance, IA conducts quality assurance reviews of the quarterly, interim and final financial reports. These quality assurance reviews provide an addition level of assurance on the overall quality of the financial statements. The quality assurance reports conclude the accuracy and reliability of the financial information prepared by management, and are circulated to the Audit Committee to facility its review prior to making recommendations to the Board for approval.

Deviation: Nil

The board should establish formal and transparent arrangements for considering how it apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors

- The Audit Committee, comprising five INEDs, appointed by the Board who have extensive experience in financial matters, meets at least four times a year. Two members are certified public accountants. None of the Audit Committee members are members of the former or existing auditors of HKEx. List of members of the Audit Committee is set out in the "Corporate Information" on page 9.
- The principal responsibilities of the Audit Committee include:
  - To serve as a focal point for communication between other Directors, the external auditors and internal auditors in respect of the duties relating to financial and other reporting, internal controls, external and internal audits, and such other matters as the Board determines from time to time.
  - To assist the Board in fulfilling its responsibility by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Group and the adequacy of the external and internal audits.
  - To review the scope and results of internal audit procedures, ensure coordination between the internal and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group.
  - To review the appointment of external auditors on an annual basis including a review of the audit scope and approval of the audit fees.
  - To review the annual, quarterly and interim financial statements prior to their approval by the Board, and recommend application of accounting policies and changes to financial reporting requirements.
  - To ensure continuing auditor objectivity and to safeguard independence of HKEx's auditors. The Committee has determined a framework for the type and authorisation of non-audit services for which the external auditors may provide and agreed with the Board on the policy relating to the hiring of employees or former employees of the external auditors.
  - To review arrangement by which employees, in confidence can raise concerns about possible improprieties in financial reporting, internal control or other matters, and ensure proper arrangement in place for the fair and independent investigation of such concerns and appropriate follow up action.
- Senior representatives of the external auditors, the Chief Executive and senior executives are invited to attend the meetings.
- During 2004, the fees paid to HKEx's external auditors for non-audit related activities amounted to $3,202,696 (2003: $1,372,950) comprising taxation services fees of $1,202,696 (2003: $673,750), executive secondment to the Listing Division of $1,800,000 (2003: $600,000), and other miscellaneous items of $200,000 (2003: $99,200).
- The Committee reports its work, findings and recommendations to the Board after each meeting. The terms of reference of the Audit Committee are posted on HKEx's corporate website.
- A summary of the work performed by the Audit Committee during 2004 is set out in "Audit Committee Report" on page 96.

Attendance of individual members at Audit Committee meetings in 2004		
Number of meetings	6	
INED		
John E Strickland *(Chairman)*	6 / 6	100%
Fong Hup * *(Deputy Chairman)*	6 / 6	100%
Henry H L Fan	6 / 6	100%
Vincent K H Lee *	6 / 6	100%
David M Webb	6 / 6	100%
Average attendance rate	**100%**	

** Certified Public Accountants*

Deviation: Nil

D. Delegation by the Board

The company should have a formal schedule of matters specifically reserved to the board and those delegated to management. There should be a clear division of responsibilities amongst committees and each of them should have a specific terms of reference

- The Board is responsible for determining the overall strategy and approving the annual business plan of the Group, and ensuring the business operations are properly planned, authorised, undertaken and monitored. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions.
- The Board has delegated the day-to-day responsibility to the executive management under the instruction/supervision of various committees, namely, Executive Committee, Senior Management Committee, Investment Advisory Committee. Each of them has specific terms of reference. The Board and the management also seek advice from the Risk Management Committee, the Cash Market Consultative Panel, the Clearing Consultative Panel, and the Derivatives Market Consultative Panel.
- ***Executive Committee*** consists of the Chairman, two INEDs, appointed by the Board, the Chief Executive and the Chief Operating Officer. It meets regularly, normally twice a month, and serves as an executive arm of the Board in the formulation of policies for consideration of the Board, and in carrying out and implementing the policies laid down by the Board. The Executive Committee is delegated with the authority from the Board to administer, enforce, interpret and supervise compliance with those parts of the Rules, Regulations and Operational Procedures of its subsidiaries, other than the Listing Rules, and conduct regular reviews of the same, recommend, and advise on appropriate amendments which do not involve policy matters for the approval by the boards of the respective subsidiaries, and as appropriate, by the SFC. The Committee shall report to the Board the work, significant decisions, findings and recommendations of the Committee since the last Board meeting.

Attendance of individual members at Executive Committee meetings in 2004		
Number of meetings	20	
INED		
Charles Y K Lee *(Chairman)*	20 / 20	100%
Dannis J H Lee	20 / 20	100%
Leong Ka Chai	20 / 20	100%
Executive Director		
Paul M Y Chow *(Chief Executive)*	20 / 20	100%
Chief Operating Officer		
Patrick K Conroy	19 / 20	95%
Average attendance rate	**99.0%**	

- ***Senior Management Committee*** comprises the Chief Executive, the Chief Operating Officer, the Chief Financial Officer and Heads of Exchange, Clearing, Business Development & Investor Service Divisions. It meets on a weekly basis to review strategic plan and make recommendations to the Executive Committee on strategic plan, annual operating plan, major projects and initiatives, annual budget, and significant business proposals.
- ***Investment Advisory Committee*** consists of three INEDs and one market professional appointed by the Board. It meets at least four times a year, and provides market expertise and advice to the Board on the investments of HKEx, including advice on investment policies, and selection of fund managers and custodians. The Investment Advisory Committee will also from time to time approve amendments to the investment guidelines.

Attendance of individual members at Investment Advisory Committee meetings in 2004		
Number of meetings	6	
INED		
Tim Freshwater *(Chairman)*	6 / 6	100%
Oscar S H Wong *(Deputy Chairman)*	6 / 6	100%
David M Webb	6 / 6	100%
Market Professional		
David Sun	4 / 6	66.7%
Average attendance rate	**91.7%**	

- ***Risk Management Committee*** is a statutory committee, chaired by the Chairman of the Board, and consists of seven other members of whom five were appointed by the Financial Secretary and two were appointed by the Board. The Risk Management Committee was established under Section 65 of the SFO to review and formulate policies on risk management matters relating to the activities of HKEx and the exchanges and clearing houses of which HKEx is the controller, and submit such policies to HKEx for its consideration. The Risk Management Committee is aimed at identifying, measuring, managing and control risks including legal risks, credit risks, market risks, concentration risks, operational risks, environmental risks, behavioral risks, and systemic risks that may have an impact on the securities and derivatives markets in Hong Kong.

- Market-wide rehearsals are conducted periodically in conjunction with a number of Government bureaux, regulatory bodies including, inter alia, the SFC, Hong Kong Monetary Authority, and Financial Services and Treasury Bureau as part of ongoing efforts to ensure an efficient response to emergency market events, and effective communications among the parties concerned.

Attendance of individual members at Risk Management Committee meetings in 2004		
Number of meetings	11	
INED		
Charles Y K Lee *(Chairman)*	11 / 11	100%
Henry H L Fan	11 / 11	100%
Bill C P Kwok	11 / 11	100%
Members Appointed by the Financial Secretary under Section 65 of the SFO		
Leong Ka Chai	11 / 11	100%
Mark Dickens	11 / 11	100%
Lam Kin	10 /11	90.9%
James H Lau *(retired on 30 June 2004)*	3 / 6	50%
Peter T S Wong *(retired on 19 January 2004)*	0 / 0	–
Raymond Or *(appointed on 20 January 2004)*	11 / 11	100%
Eddie Yue *(appointed on 1 July 2004)*	5/5	100%
Average attendance rate	**95.5%**	

- ***Cash Market Consultative Panel, Clearing Consultative Panel and Derivatives Market Consultative Panel*** provide market expertise and advice to the Board on international trends, the needs of intermediaries, issuers, investors, and other market participants, technological challenges and new product opportunities relating to the Cash market, Clearing business and Derivatives market respectively. Each panel is consisted of two INEDs and eight members who are respective market participants or industry experts. Executives are invited to attend the panel meetings. The average attendance rates of the Cash Market Consultative Panel, the Clearing Consultative Panel and the Derivatives Market Consultative Panel meeting are 70.0%, 76.7% and 72.5% respectively.

Deviation: Nil

E. Corporate Communication

The board should endeavour to maintain an on-going dialogue with shareholders, in particular, use annual general meetings to communicate with shareholders

- HKEx establishes and maintains different communication channels with its Shareholders through the publication of annual, interim and quarterly reports, press release and the quarterly newsletter - *Exchange*. To promote effective communication, Shareholders may choose to receive shareholder corporate communication electronically. Shareholders' communications are also available on HKEx's corporate website.
- The annual general meeting provides a useful forum for Shareholders to exchange views with the Board. The Chairman as well as chairmen of the Audit, Nomination, and Remuneration Committees, or in their absence, members of the Committees are available to answer Shareholders' questions.
- Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.
- Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circular to Shareholders despatched together with the annual report. The circular also includes details of the procedures and the timetable of proposing appropriate candidates to stand for election as Directors at annual general meetings, and relevant details of proposed resolutions, including biographies of each candidates standing for re-election and whether such candidates are considered to be independent.
- The results of the poll are published in the newspapers and on HKEx's corporate website.
- The Articles of Association have been revised in 2004 to reflect changes brought by the new Listing Rules effective 31 March 2004.
- A summary of the top 10 largest registered Shareholders and analysis of shareholding by type and public float capitalisation as at 31 December 2004 are set out in the "Shareholding Analysis" on page 98.
- Shareholders may refer to the "Information for Shareholders – Financial Calendar" on page 198 for important dates in 2004.
- Financial and other information such as Articles of Association, minutes of annual general meetings, and all shareholder corporate communications of HKEx are made available on HKEx's corporate website, www.hkex.com.hk, which is updated regularly.

Deviation: Nil

REMUNERATION AND INTERESTS

REMUNERATION POLICY

As the frontline regulator, HKEx recognises the importance of formal and transparent remuneration policy, in particular, for determining the remuneration packages for the Executive Director and the Senior Management. HKEx's remuneration policy for Non-executive Directors is to ensure that they are sufficiently but not excessively compensated for their efforts and time dedicated to HKEx, and that for the employees, including the Executive Director and the Senior Management is to ensure that the remuneration offered is appropriate for the duties and in line with market practice. No individual Director and executive would be involved in deciding his own remuneration.

The Board has established a Remuneration Committee comprising three INEDs. It considers and recommends to the Board the Group's remuneration policy and has a delegated authority to review and determine the remuneration packages of the Executive Director and the Senior Management. Where necessary, the Remuneration Committee will engage external professional advisers to assist and/or advise the Committee on relevant issues.

A summary of work performed by the Remuneration Committee during 2004 is set out in the "Remuneration Committee Report" on page 95.

Executive Director and the Senior Management

The Remuneration Committee is responsible for establishing policies, and reviewing and determining the remuneration of the Chief Executive who is the only Executive Director, and the Senior Management on an annual basis. It will consult with the Chairman and the Chief Executive in respect of their recommendations on determining the remuneration of the Chief Executive and that of the Senior Management respectively. Factors such as market competitiveness, job responsibilities, performance of the Company and the individuals will be taken into consideration. The recommended remuneration packages comprise salaries, bonus, long term incentives, benefits in kind, etc.

Non-executive Directors

The Remuneration Committee has made reference to the survey report on the remuneration of non-executive directors among over 100 Main Board listed companies published by a leading human resources consulting company, and the remuneration survey of the Hang Sang Index companies as well as the regulatory bodies in the financial sector, in recommending the remuneration of Non-executive Directors, which is subject to Shareholders' approval at general meetings.

At the 2004 AGM, Shareholders approved a remuneration equivalent to $100,000 (2003: $100,000) for each Non-executive Directors, which is payable in proportional to the period of service during the period from the conclusion of the 2004 AGM to the conclusion of the 2005 AGM. During 2004, a review on the adequacy of the Non-executive Directors' remuneration was conducted by the Company with reference to companies of comparable business or scale, with an aim to fairly remunerate the Non-executive Directors in view of their public accountability and time and effort spent on the Board and various committees and/ or panels' meetings. The Remuneration Committee has proposed to raise the annual remuneration of each Non-executive Director to $240,000 which will be subject to the approval of Shareholders at the 2005 AGM.

Details of the remuneration of the Non-executive Directors, the Chief Executive, and the Senior Management for year 2004 are set out in the latter part of this statement.

Employees

The Remuneration Committee has referred to the remuneration packages in the financial services sector in determining the annual remuneration policy of employees. The remuneration policy is to ensure that the pay levels are competitive and effective in attracting, retaining and motivating employees. In recognition of the contributions made by staff to the achievements and success of HKEx in 2004, the Board had approved a bonus pool equivalent to $50 million to be granted to good performers as well as the key employees. For the 2005 salary review, the Board also approved an average salary increase of 2.5 per cent up to a maximum of 4 per cent including adjustment for promotions.

The key components of HKEx's employees' remuneration package, including that of the Chief Executive who is the only Executive Director, and the Senior Management are:

(a) Base Salary

Base salary will be reviewed annually taking into consideration the competitive market position, market practice, the Company's and individual's performance.

(b) Incentives

Incentives which included cash bonus and share options are offered to reward good performers and key employees as recognition of the employees' contribution to HKEx, and with the aim at motivating and incentivising employees in continued pursuit of HKEx's business goals and objectives.

(c) Employee Benefits

- Retirement Scheme

  HKEx provides provident fund benefits to all full-time employees through the Hong Kong Exchanges and Clearing Provident Fund which is a registered scheme under the Occupational Retirement Schemes Ordinance ("ORSO") with Mandatory Provident Fund ("MPF") exemption. The ORSO scheme is a defined contribution scheme providing employees with investment choices.

  Under the ORSO scheme, HKEx contributes 12.5 per cent of the employee's base salary if the employee contributes 5 per cent, or HKEx contributes 10 per cent when the employee chooses not to contribute.

  In addition, HKEx has participated in a master trust MPF scheme to provide retirement benefits to all temporary employees and those full-time employees who elect not to join the ORSO scheme.

As for the MPF scheme, HKEx provides contributions up to the statutory limit, i.e. 5 per cent of the employee's relevant income subject to a maximum of $1,000.

HKEx's total retirement benefit cost charged to the profit and loss account for the year ended 31 December 2004:

MPF scheme	$324,465
ORSO scheme	$46,344,570
Total	$46,669,035

- Other benefits

  Apart from the retirement benefits, HKEx also provides other benefits to employees such as medical insurance, dental insurance, life and personal accident insurance, employee compensation, and business travel insurance.

SHARE OPTION SCHEMES

HKEx operates two share option schemes, Pre-Listing Scheme and Post-Listing Scheme, under which the Board, may at its discretion, offer any employee (including any Executive Director) of HKEx or its subsidiaries, options to subscribe for shares in HKEx, for the purpose of attracting and retaining high calibre employees. Both of these schemes were approved by Shareholders on 31 May 2000 and have a life of 10 years until 30 May 2010. Amendments to the Post-Listing Scheme were approved by Shareholders on 17 April 2002 so as to comply with the new requirements of Chapter 17 of the Listing Rules which came into effect on 1 September 2001.

A non-refundable remittance of $1 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the option.

The maximum number of shares in respect of which options may be granted under these schemes shall not in aggregate exceed 10 per cent of the shares of HKEx in issue as at the date of approval of the Schemes, i.e. a total of 104,066,484 shares. The key terms of these two schemes are summarised below.

Pre-Listing Scheme

Options for the subscription of 34,890,262 shares were granted to employees of HKEx or its subsidiaries on 20 June 2000. The options granted were exercisable subject to a vesting scale which commenced on 6 March 2002 in tranches of 25 per cent and reaching 100 per cent from 6 March 2005, and in any event shall end not later than 30 May 2010, subject to the provisions for early exercise and/or termination contained in the Pre-Listing Scheme. No further options can be, or have been, issued under the Pre-Listing Scheme from 27 June 2000, the date of listing of HKEx on the Stock Exchange.

The maximum entitlement of each participant, when aggregated with shares issued and issuable under all options granted to him, must not exceed 25 per cent of the aggregated number of shares for the time being issued and issuable under the Pre-Listing Scheme.

The subscription price for a share in HKEx in respect of any particular option granted was determined based on a formula: P = 80 per cent (A x B), where "P" is the subscription price; "A" is 18.81, a price/earnings multiple determined by reference to the price/earning multiples of various financial companies listed on the Stock Exchange and/or overseas; and "B" is the earnings of the Group based on its audited combined results for the year ended 31 December 1999 as if the current group structure of HKEx had been in existence throughout the year divided by 1,040,664,846 shares in issue.

Post-Listing Scheme

Unless approved by Shareholders in general meeting, no employee shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to such employee in any 12-month period up to the date of the latest grant would exceed 1 per cent of the issued share capital of HKEx in issue at the relevant time.

The subscription price of share in respect of any particular option granted shall be at least the higher of (i) the closing price of HKEx shares on the Stock Exchange, as stated in the Stock Exchange's daily quotations sheet on the relevant offer date in respect of such option; or (ii) the average of the closing prices of HKEx shares on the Stock Exchange, as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the relevant offer date in respect of such option; or (iii) the nominal value of a share in HKEx.

An option may be exercised in accordance with the terms of the Post-Listing Scheme at any time during a period to be notified by the Board to each grantee. Such period may commence on the second anniversary of the date on which the option is offered in tranches of 25 per cent and reaching 100 per cent from the fifth anniversary of the date on which the option is offered, and in any event shall end not later than 10 years from the date upon which the option is granted and accepted, subject to the provisions for early exercise and/or termination as contained in the Post-Listing Scheme.

As at the date of annual report, the total number of shares available for issue, save for those granted but yet to be exercised, under the Pre-Listing Scheme and the Post-Listing Scheme aggregated to 62,310,484 shares, which represented 5.9 per cent of the issued share capital of HKEx as at 28 February 2005.

Accounting Policy adopted for share options granted

The early adoption of HKFRS 2 has resulted in a charge of employee option expenses to the profit and loss account. Under the HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods to the profit and loss account. However, as HKFRS 2 is not applicable to options granted before 7 November 2002, shares granted under the Pre-Listing Scheme is not subject to the requirements of HKFRS 2.

For share options granted under the Post-Listing Scheme, the fair value of the employee services rendered in exchange for the grant of the options is recognised as an expense and credited to an employee share-based compensation reserve under equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. Changes of the financial impact, if any, will be adjusted in the profit and loss account, and a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period.

HKEx has used the Binomial Option Pricing Model for estimating the fair value of options issued under the Post-Listing Scheme. The assumptions used in the model for the following factors are:

- Risk-free rate of return – the yield of 10-year Exchange Fund Notes
- Expected volatility of share price – annualised volatility for 1 year immediately preceding the grate date
- Expected dividend yields – annual dividend (excluding special dividend) of the most recent financial year and the closing price on grant date

The amount written off in the profit and loss account for the year ended 31 December 2004 was $14,290,000 (2003: $2,771,000).

DIRECTORS' SERVICE CONTRACTS

No Director has any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)). Mr Paul M Y Chow is employed as the Chief Executive of HKEx whose contract is on a four-year term commencing 1 May 2003.

REMUNERATION AND SHARE OPTIONS GRANTED

Executive Director

Remuneration

The Chief Executive is the only Executive Director of HKEx. His remuneration, and interest in share option granted, are set out below:

Chief Executive	Director's Fee ($)	Salary ($)	Others Benefits ($) *(note 1)*	Performance Award ($)	Retirement Benefit Cost ($) *(note 2)*	Compensation for Loss of Office ($)	Total ($)
Paul M Y Chow	–	7,200,000	74,425	900,000	900,000	–	9,074,425

Share option expenses are not included in the remuneration disclosed above. Please refer to note 11 to the accounts for details of the allocated amortised share expenses in respect of the share option granted to him under the Post-Listing Scheme.

Share Options

		Number of shares issuable under the options granted				
Date of grant	Exercise Price	As at 1 January 2004	Granted during the year	Subscribed during the year	As at 31 December 2004	Exercise Period
2 May 2003	$8.28 *(note 4)*	3,000,000	–	–	3,280,000 *(note 4)*	2 May 2005 – 1 May 2013

Non-executive Directors

Remuneration

The remuneration, comprising Director's fee only, of all Non-executive Directors who served for whole year 2004 is set out below:

Name of Non-executive Director	Director's Fee ($)
Charles Y K Lee	100,000
Henry H L Fan	100,000
Fong Hup	100,000
Tim Freshwater	100,000
Bill C P Kwok	100,000
Dannis J H Lee	100,000
Vincent K H Lee	100,000
Leong Ka Chai	100,000
Lo Ka Shui	100,000
John E Strickland	100,000
David M Webb	100,000
Oscar S H Wong	100,000
Total	1,200,000

Non-executive Directors are not entitled to participate in the share option schemes of HKEx.

Particulars of the Directors' emoluments disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 11 to the accounts.

Senior Management

Remuneration

The remuneration of the Senior Management, and their interests in share options are set out below:

Name of Employee	Salary ($)	Others Benefits ($) *(note 1)*	Performance Award ($)	Retirement Benefits Cost ($) *(note 2)*	Compensation for Loss of Office ($)	Total ($)
Patrick K Conroy	5,460,000	109,857	630,000	682,500	–	6,882,357
Lawrence K M Fok	4,500,000	77,016	520,000	562,500	–	5,659,516 *(note 3)*
Gerald D Greiner*	2,185,290	339,333	325,000	273,161	–	3,122,784
Mary M L Kao	3,420,000	58,081	490,000	427,500	–	4,395,581
Karen K Y Lee	2,760,000	34,597	395,000	345,000	–	3,534,597
Stewart S C Shing	3,504,000	56,250	520,000	458,016	–	4,538,266
Richard G Williams	3,504,000	76,054	800,000	431,625	–	4,811,679
Alfred K K Wong*	2,282,500	54,125	380,000	285,312	–	3,001,937

* *Mr Gerald D Greiner joined as the Deputy Chief Operating Officer and the Head of the Exchange Division on 17 May 2004, and Mr Alfred K K Wong became the Head of Information Technology Division and Chief Technology Officer on 26 April 2004.*

Share option expenses are not included in the remuneration disclosed above. Please refer to note 12 to the accounts for the aggregate of the allocated amortised share expenses of the top four paid employees in respect of the share options granted to them under the Post-Listing Scheme.

Share Options

Name of Employee	Date of grant	Exercise Price ($)	Number of shares issuable under the options granted: As at 1 January 2004	Granted during the year	Subscribed during the year	As at 31 December 2004	Exercise Period
Patrick K Conroy	18 August 2003	12.49 *(note 4)*	1,800,000	–	–	1,968,000 *(note 4)*	18 August 2005 to 17 August 2013
Lawrence K M Fok	20 June 2000	6.88 *(note 4)*	693,146	–	–	758,000 *(note 4)*	6 March 2002 to 30 May 2010
	31 March 2004	16.96	–	120,000	–	120,000	31 March 2006 to 30 March 2014
Gerald D Greiner	17 May 2004	15.91	–	200,000	–	200,000	17 May 2006 to 16 May 2014
Mary M L Kao	20 June 2000	6.88 *(note 4)*	637,248	–	476,000	178,000 *(note 4)*	6 March 2002 to 30 May 2010
	31 March 2004	16.96	–	120,000	–	120,000	31 March 2006 to 30 March 2014
Karen K Y Lee	20 June 2000	6.88 *(note 4)*	402,472	–	300,000	114,000 *(note 4)*	6 March 2002 to 30 May 2010
	31 March 2004	16.96	–	88,000	–	88,000	31 March 2006 to 30 March 2014
Stewart S C Shing	15 January 2004	17.30 *(note 4)*	–	1,000,000	–	1,094,000 *(note 4)*	15 January 2006 to 14 January 2014
Richard G Williams	14 August 2003	12.45 *(note 4)*	1,000,000	–	–	1,094,000 *(note 4)*	14 August 2005 to 13 August 2013
Alfred K K Wong	20 June 2000	6.88 *(note 4)*	214,546	–	142,000	80,000 *(note 4)*	6 March 2002 to 30 May 2010
	31 March 2004	16.96	–	100,000	–	100,000	31 March 2006 to 30 March 2014

Notes:

1. *Other benefits include medical benefits, leave pay, joining payment, insurance premium, and club membership.*
2. *An employee who retires before normal retirement age is eligible to 18 per cent of the employer's contribution to the provident fund after completion of 2 years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter until reaching 100 per cent after completion of 7 years of service.*

   Mr Richard G Williams is a member of a pension scheme operating in the United Kingdom, and he is exempted under Section 4(3) of the Mandatory Provident Fund Schemes Ordinance from participating in HKEx's provident fund scheme. The vesting scale of retirement benefits is not applicable to Mr Williams.
3. *In respect of the remuneration of Mr Lawrence K M Fok, the amount reported did not include HKEx's payment of $410,200, being the PRC individual income tax in respect of Mr Fok's appointment as Chief Representative of HKEx's Beijing Representative Officer for 2004.*
4. *The subscription price and the contract size of the unexercised options granted prior to the 2004 AGM have been adjusted in accordance with the resolution passed by Shareholders at the 2004 AGM. Please refer to note 7 under "Outstanding Share Options" below for more information.*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

Directors' and Chief Executive's Interests and Short Positions

As at 31 December 2004, the Directors, the Chief Executive, and their respective associates had the following interests in the shares and underlying shares of HKEx, as recorded in the register maintained by HKEx pursuant to Section 352 of the SFO:

		Number of shares / underlying shares held				
Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% of the Issued Share Capital
Paul M Y Chow	3,280,000 *(note 1)*	–	–	–	3,280,000	0.31
Dannis J H Lee	–	–	1,610,000 *(note 2)*	–	1,610,000	0.15
David M Webb	2 *(note 3)*	2 *(note 4)*	6 *(note 5)*	–	10	0.00
John E Strickland	18,000 *(note 6)*	–	–	–	18,000	0.00

Notes:

1. *This represented the outstanding number of shares issuable under a share option granted pursuant to the Post-Listing Scheme to Mr Paul M Y Chow, a Director and the Chief Executive of HKEx. The said option was granted on 2 May 2003, and is exercisable between 2 May 2005 and 1 May 2013 at an exercise price of $8.28 per share. The number of shares issuable under the option granted and the exercise price have been adjusted in accordance with the resolution passed by Shareholders at the 2004 AGM. Please refer to note 7 under "Outstanding Share Options" below for more information.*
2. *1,610,000 shares were owned by DL Brokerage Limited, a private company beneficially wholly-owned by Mr Dannis J H Lee.*
3. *The shares held by Mr David M Webb as beneficial owner.*
4. *The shares were owned by the spouse of Mr David M Webb.*
5. *The shares were owned by Fundamental Consultants Limited, Member One Limited and Member Two Limited which are under the control of Mr David M Webb.*
6. *The shares held by Mr John E Strickland as beneficial owner.*

Other than the holdings disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or the Chief Executive of HKEx or their respective associates in the shares, underlying shares and debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to HKEx and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the Directors and the Chief Executive (including their spouses and children under the age of 18) had, as at 31 December 2004, any interest in, or had been granted any right to subscribe for the securities and options of HKEx and its associated corporations within the meaning of the SFO, or had exercised any such rights.

SENIOR MANAGEMENT'S INTERESTS AND SHORT POSITIONS

As at 31 December 2004, the Senior Management had the following interests in the shares and underlying shares of HKEx:

Name of Employee	Number of shares held	Number of shares issuable under staff option granted
Patrick K Conroy	–	1,968,000
Lawrence K M Fok	–	878,000
Gerald D Greiner	–	200,000
Mary M L Kao	476,000	298,000
Karen K Y Lee	300,000	202,000
Stewart S C Shing	–	1,094,000
Richard G Williams	–	1,094,000
Alfred K K Wong	110,000	180,000

OUTSTANDING SHARE OPTIONS

Details of the share options outstanding as at 31 December 2004 and under the Schemes were as follows:

Pre-Listing Scheme

	Date of grant	Exercise price	Number of shares issuable under the options granted: As at 1 January 2004	Issued upon subscription during the year	Lapsed during the year	As at 31 December 2004	Exercise period
Aggregate total for employees *(note 1)*	20 June 2000	$6.88 *(note 2)*	14,171,626	7,640,000 *(note 3)*	524,829 *(note 4)*	6,680,000 *(note 2)*	6 March 2002 – 30 May 2010 *(note 5)*

Post-Listing Scheme

Date of grant	Exercise price	Option value as at the date of grant	Number of shares issuable under the options granted: As at 1 January 2004	Issued upon subscription during the year	Lapsed during the year	As at 31 December 2004	Exercise period
Options granted prior to year 2004							
Director *(note 6)*							
2 May 2003	$8.28 *(note 7)*	$8,036,000 *(note 8)*	3,000,000	–	–	3,280,000 *(note 7)*	2 May 2005 – 1 May 2013 *(note 9(a))*
Employees *(note 1)*							
14 August 2003	$12.45 *(note 7)*	$4,561,980 *(note 8)*	1,000,000	–	–	1,094,000 *(note 7)*	14 August 2005 – 13 August 2013 *(note 9(b))*
18 August 2003	$12.49 *(note 7)*	$8,226,240 *(note 8)*	1,800,000	–	–	1,968,000 *(note 7)*	18 August 2005 – 17 August 2013 *(note 9(c))*
15 January 2004	$17.30 *(note 7)*	$6,564,000 *(note 8)*	–	–	–	1,094,000 *(note 7)*	15 January 2006 – 14 January 2014 *(note 9(d))*
31 March 2004 *(note 10)*	$16.96 *(note 11)*	$32,250,960 *(note 8)*	–	–	106,000 *(note 4)*	5,582,000	31 March 2006 – 30 March 2014 *(note 9(e))*
17 May 2004 *(note 10)*	$15.91 *(note 12)*	$1,156,000 *(note 8)*	–	–	–	200,000	17 May 2006 – 16 May 2014 *(note 9(f))*

As at 31 December 2004, a total number of shares that may be issued upon exercise of all share options granted and yet to be exercised under the Post-Listing Scheme was 13,218,000 shares.

After the year end of 2004, the Board approved the grant of share options in respect of 5,884,000 shares under the Post-Listing Scheme to certain eligible employees. The said options were granted on 26 January 2005, and are exercisable between 26 January 2007 and 25 January 2015 at an exercise price of $19.25.

Notes:

1. *Employees working under employment contracts that were regarded as "continuous contracts" for the purpose of the Employment Ordinance of Hong Kong.*
2. *At the 2004 AGM, Shareholders approved the adjustments to the subscription price and the contract size of the unexercised options granted under the Pre-Listing Scheme. The subscription price of the shares issuable under the unexercised options granted under the Pre-Listing Scheme was adjusted from $7.52 per share to $6.88 per share. The aggregate contract size of the unexercised options granted was adjusted, resulting in the additional grant of 673,203 shares. After taking into account the shares issued and lapsed under the Pre-Listing Scheme during the year ended 31 December 2004, the number of shares issuable as at 31 December 2004 was 6,680,000.*
3. *The weighted average closing price immediately before the dates on which the options were exercised was $20.06.*
4. *Options lapsed in accordance with the terms of the Pre-Listing / Post-Listing Schemes due to resignation of employees.*
5. *Options granted are exercisable between 6 March 2002 and 30 May 2010, in tranches of 25 per cent each reaching 100 per cent as from 6 March 2005.*
6. *The option was granted to Mr Paul M Y Chow, a Director and the Chief Executive.*
7. *At the 2004 AGM, Shareholders approved the adjustments to the subscription price and the contract size of the unexercised options granted under the Post-Listing Scheme prior to the 2004 AGM. Adjustments made to the four unexercised options granted under the Post-Listing Scheme prior to the 2004 AGM are set out in note 33 to the accounts.*
8. *HKEx had used Binomial Option Pricing Model, the fair value of the options granted as at the date of grant and the revaluation of the adjusted options (as approved by Shareholders at the 2004 AGM) are set out in note 33 to the accounts.*

   The Binomial Option Pricing Model was developed to estimate the fair value of American style options. It is one of the commonly used models to estimate the fair value of an option which can be exercised before the expiry of the option period. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.
9. *Options granted are subject to a vesting scale in tranches of 25% each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of grant, corresponding vesting period are as follows:*

	Date of Grant	Exercise period	Reaching 100% as from
(a)	2 May 2003	2 May 2005 – 1 May 2013	2 May 2008
(b)	14 August 2003	14 August 2005 – 13 August 2013	14 August 2008
(c)	18 August 2003	18 August 2005 – 17 August 2013	18 August 2008
(d)	15 January 2004	15 January 2006 – 14 January 2014	15 January 2009
(e)	31 March 2004	31 March 2006 – 30 March 2014	31 March 2009
(f)	17 May 2004	17 May 2006 – 16 May 2014	17 May 2009

10. *Options granted on or after 31 March 2004 under the Post-Listing Scheme, and are not subject to the adjustments as referred to in note 7.*
11. *The closing price immediately before the date on which the options were granted was $16.85.*
12. *The closing price immediately before the date on which the options were granted was $15.55.*

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which HKEx or any of its subsidiaries was a party, and in which a Director of HKEx had a material interest, whether directly or indirectly subsisted at the year-end or at any time during the year.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2004, the Group had the following continuing connected transactions, details of which are set out below:

(A) For the year ended 31 December 2004, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with the use of (i) the facilities provided by HKEx or its subsidiaries for the trading, clearing and/or settlement of securities and futures products and transactions and (ii) all services offered by HKEx or its subsidiaries which are ancillary, incidental or otherwise related to the foregoing:

(1) Dr Bill C P Kwok, an INED, was interested in the transactions entered into by Wocom Securities Limited and Wocom Limited, which are EPs indirectly-held by a company where Dr Kwok and his close family members in aggregate have an interest over 30 per cent.

(2) Mr Dannis J H Lee, an INED, was interested in the transactions entered into by DL Brokerage Limited, an EP which is beneficially wholly owned by Mr Lee.

(3) Mr K C Leong, an INED, was interested in the transactions entered into by Roctec Securities Company Limited and Roctec Futures Trading Company Limited, which are EPs where Mr Leong has a 30 per cent interest in each of the companies.

All the above continuing connected transactions were entered into in the ordinary course of business and on normal commercial terms.

(B) For the year ended 31 December 2004, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with the listing of securities on the Stock Exchange and all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:

(1) Dr Bill C P Kwok, an INED, was interested in the transactions entered into by Wing On Company International Limited, a listed company on the Stock Exchange in which Dr Kwok and his close family members in aggregate have an interest over 30 per cent.

(2) Dr Lo Ka Shui, an INED was interested in the transactions entered into by Great Eagle Holdings Limited ("Great Eagle"), a listed company on the Stock Exchange by virtue of it being an associate of Dr Lo, the deputy chairman and managing director, and substantial shareholder of Great Eagle.

All the above transactions were entered into in the ordinary course of business and on normal commercial terms.

(C) For the year ended 31 December 2004, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with HKSCC's arrangement on behalf of Clearing Participants of Buy-in Transactions:

(1) Dr Bill C P Kwok, an INED, was interested in the Buy-in Transactions entered into by Wocom Securities Limited, an indirect subsidiary of a company where Dr Kwok and his close family members in aggregate have an interest over 30 per cent. For the year ended 31 December 2004, the total consideration of such transactions, which were transacted on normal commercial terms was $4,165,630.

(2) Mr Dannis J H Lee, an INED, was interested in the Buy-in Transactions entered into by DL Brokerage Limited beneficially wholly owned by Mr Lee. For the year ended 31 December 2004, the total consideration of such transactions, which were transacted on normal commercial terms was $4,583,183.

(3) Mr K C Leong, an INED, was interested in the Buy-in Transactions entered into by Roctec Securities Company Limited in which Mr Leong has a 30 per cent interests. For the year ended 31 December 2004, the total consideration of such transactions, which were transacted on normal commercial terms was $4,488,099.

(D) On 5 February 2003, HKFE as the tenant entered into a tenancy agreement with Shine Hill Development Limited ("Shine Hill") as the landlord in respect of the tenancy ("Tenancy") of premises of Suites 501-3 and Storeroom on 5th Floor and Suites 1101 & 1109-11 on 11th Floor, ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong ("Premises") for a period of two years commencing 1 January 2003. The lettable area of the Premises is approximately 10,348 square feet. Shine Hill is a subsidiary of Great Eagle and is a connected person of HKEx by virtue of it being an associate of Dr Lo Ka Shui, an INED. The Tenancy constituted a continuing connected transaction of HKEx under the Listing Rules. A waiver had been granted by the SFC to HKEx in respect of the Tenancy from strict compliance with Rule 14A.47(2) of the Listing Rules. For the year ended 31 December 2004, the total rent, management charges and operating charges paid in respect of the Tenancy was $4,697,542. The Tenancy expired on 31 December 2004.

As there were practical needs for HKFE to retain its existing offices at the Premises, prior to its expiry, HKFE engaged Chesterton Petty Limited, professional property consultants, to negotiate the lease renewal with Shine Hill. The negotiation of the terms of the new tenancy was conducted on an arm's length basis and the rental of the Premises was determined by reference to the open market rent of properties of comparable size and location. The Tenancy was subsequently renewed for a further term of 2 years commencing 1 January 2005 at a monthly rental of $310,440, exclusive of management charges, rates and operating expenses. The new tenancy constituted a continuing connected transaction of HKEx ("New Tenancy"), and details of the transaction were announced on 14 December 2004.

Two INEDs who have not entered into any connected transactions with the Group, have reviewed and confirmed that the continuing connected transactions, as set out above had been entered into by the Group in accordance with the waiver conditions granted by the SFC and the requirements of the Listing Rules that:

(a) the continuing connected transactions disclosed above were entered in the ordinary and usual course of business of the relevant Group company and conducted on an arm's length basis;

(b) in respect of transactions other than Buy-in Transactions and the lease of Premises, they were in accordance with the rules and regulations of the relevant Group company governing such transactions and where the rules and regulations do not govern those transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;

(c) in respect of transactions which are Buy-in Transactions, they were in accordance with the standard terms and conditions of HKSCC applicable generally to all Buy-in Brokers in such transactions for and on behalf of HKSCC and at the standard commission rate payable by HKSCC in respect of all such Buy-in Transactions;

(d) in respect of the Tenancy and the New Tenancy, they were entered into in the ordinary and usual course of business of HKFE, and terms as contained therein, were on normal commercial terms; and

(e) the continuing connected transactions were in the opinion of the Directors fair and reasonable so far as the Shareholders are concerned.

The external auditors of HKEx have also confirmed that:

(a) the continuing connected transactions disclosed above had been approved the Directors;

(b) the continuing connected transactions, other than the Tenancy and the New Tenancy, were in accordance with the relevant rules and regulations of the relevant Group company governing fees for the applicable facilities, services or goods provided by, or to, the Group and where the rules and regulations do not govern the transaction in full, are in accordance with the standard terms and conditions of the relevant Group company relating to the applicable facilities, services or goods provided by, or to, the Group; and

(c) the Tenancy had been entered into in accordance with the relevant agreement governing the transaction, and the annual consideration had not exceeded the cap as provided to the SFC under the relevant waiver application.

Save for the above, HKEx was notified by Mr Vincent K H Lee that subsequent to the year-end, Tung Tai Securities Company Limited ("TTS") and Tung Tai Futures Limited ("TTF") became his associates by virtue of the Listing Rules following the change in control of TTS and TTF. TTS and TTF, being EPs and Clearing Participants, enter into in their ordinary course of business, transactions with HKEx or its subsidiaries arising from or in connection with (i) the use of facilities or services offered by HKEx or its subsidiaries, or (ii) Buy-in Transactions, which constitute continuing connected transactions of HKEx, but, pursuant to the waiver granted by the SFC, only subject to reporting and annual review requirements.

RELATED PARTY TRANSACTIONS

The Group also entered into certain transactions with parties regarded as "related parties" under the applicable accounting principles. Details of these transactions are set out in note 44 to the accounts.

CORPORATE AND SOCIAL RESPONSIBILITY

As a publicly-listed company, HKEx has increased responsibilities to safeguard the interests of its stakeholders, particularly Shareholders, employees, and customers, wider obligations to support the community, and greater commitment to preserving the environment. During 2004, HKEx made positive progress towards achieving its objectives in this regard.

OUR SHAREHOLDERS: THE BEST POSSIBLE CHOICE

Other than striving for an increase in Shareholder value, HKEx also provides clear and transparent corporate information to Shareholders. A true and fair report on its financial position and operating performance is presented to Shareholders in the quarterly, interim, and annual reports which are posted on HKEx's corporate website. In addition, other corporate communications to Shareholders, such as circulars, notices, and the newsletter – *Exchange*, are available on HKEx's corporate website along with the Memorandum & Articles of Association, information on HKEx's corporate governance practices, the poll voting results, minutes of annual general meetings and updates on the Group's affairs. The objective is to communicate with Shareholders in an open, honest, and prompt manner.

Other initiatives to promote good investor relations have included the creation of the Investor Relations Corner on the HKEx website and the establishment of the Investor Services Department in May 2004 to focus on managing investor relations. We recognise the importance of continuous improvement in promoting transparency and fostering good relationships with investors. Comments and suggestions are welcome and can be addressed to the Investor Services Department or the Company Secretary.

OUR EMPLOYEES: AN EMPLOYER OF CHOICE

In 2004, HKEx underwent organisational restructuring and cost rationalisation. The staff team as at the end of 2004 comprised 791 employees, including 16 temporary staff (2003: 803 employees, including 38 temporary staff). During the year, 82 employees left the Group, resulting in a turnover rate of 10.9 per cent (2003: 39 employees left and the turnover rate was 5 per cent). Employees' rewards such as bonus and share options are linked to individual performance.

We recognise that our competitiveness is dependent on employing the best people and providing them with appropriate training. To achieve this, it is the policy of the Group to create a working and learning environment which cares about the welfare and rights of employees, provides equal opportunity, and develops the skills and knowledge of employees.

Welfare and Rights of Employees

HKEx is committed to achieving a high standard of occupational safety and health through assigning responsible persons to attend risk assessment training, identifying any actual and potential hazards and risks to each individual, monitoring and reviewing the safety management system, performing regular audits on safety and health performance, and maintaining a complete set of emergency procedures. Training courses, such as the Certificate of Competence in Manual Handling and First Aid, have been organised from time to time to equip employees with the knowledge and skills to perform their duties in a safe manner. The Occupational Safety and Health Policy is included in the Human Resources Manual, which has been issued to employees and posted on the HKEx website.

In addition, HKEx offers all employees a comprehensive range of benefits, such as the provident fund, medical and dental insurance, life and personal accident insurance, employee compensation, and business travel insurance.

It is important that HKEx's objectives and vision are clearly articulated and completely understood and accepted by the employees. HKEx therefore continues to encourage communication among all levels of the organisation in an effort to foster staff commitment to the Group. The Chief Executive regularly delivers and explains key Group policies and developments to executives at the Monthly Executive Forum and the Quarterly Presentation. Presentations from the Forums and Briefings are posted on HKEx's Intranet for the staff's reference.

Employees are invited to participate in various task groups and committees to enhance the communication and teamwork at all levels and among different Divisions/Departments. For example, in 2004, a Career Development & Training Committee comprising employees of different Divisions/Departments and different grades was formed to review and advise the Chief Executive and the Division/Department Heads on the career development and training policies of the Group. The Provident Fund Committee, comprised of staff representatives, was set up in 2004 to gauge the views of employees on the operation of HKEx's provident fund.

The Staff Social Club has continued to convey the views of employees in respect of social welfare to the senior management and organise a wide range of activities to help increase employees' sense of belonging. The activities have included the annual dinner party, visits and outings, classes on topics such as cooking and skin care, and health talks. HKEx is delighted that, as a result of the strong teamwork of employees, it won the championship in both the Soccer Public Organisations Challenge League and the Supervisory Cup Basketball Competition in 2004.

HKEx promotes fairness, integrity, respect, and teamwork, which are keys to the success of the Group. To assess employee satisfaction and to understand what employees think of their work and the organisation, staff were invited to participate in the second employee opinion survey, which was conducted in the third quarter 2004. The survey attracted an encouraging response rate of about 80 per cent and very comprehensive feedback. The results were analysed thoroughly, and appropriate actions are being taken to further improve the working conditions and enhance the performance culture of HKEx to ensure that it continues to be an employer of choice.

Equal Opportunity and Code of Ethics for Employees

HKEx adopts the Code of Practice on Equal Opportunities recommended by the Equal Opportunities Commission in Hong Kong. It is the Group's policy to eliminate discrimination, harassment, and vilification in employment, to promote equal employment opportunities, and to adopt good management practices. An Equal Opportunity Policy, which includes procedures for handling grievances, is set out in the Human Resources Manual. All employee complaints and grievances, alerts of wrongdoings, and recommendations on improvements will be channelled to the Chief Executive who will make a decision to resolve the matter. In cases involving complaints against the Chief Executive, or appeals against the Chief Executive's decisions, employees can contact the Chairman directly.

As a designated public body listed in the Schedules of the Prevention of Bribery Ordinance and the frontline regulator of companies listed in Hong Kong, HKEx's employees are public servants and therefore subject to the said Ordinance. Employees also are required to comply with the Code of Conduct set out in the Human Resources Manual, which governs mainly securities dealings, soliciting and accepting advantages, loans to and from business associates, conflict of interest, and confidentiality. To ensure full understanding of the requirements, briefings on integrity and corruption prevention are periodically arranged jointly with the Independent Commission Against Corruption for employees.

Skills and Knowledge of Employees

It is HKEx's responsibility to provide appropriate training to help staff identify and meet development needs. Apart from providing education sponsorship, different kinds of training programmes are prepared for employees to keep them up to date on the market trends and to maintain and enhance their technical and professional knowledge. These programmes include in-house training on communication skills, customer service, business etiquette, accounting standards, project management, and Putonghua, as well as external training. In 2004, HKEx sponsored 225 courses and orgainsed 42 in-house programmes for the employees. Professional staff members are fully reimbursed for professional development courses organised by recognised programme providers.

Promotion is merit-based. The promotion policy has been set out clearly in the Human Resources Manual. Moreover, a systematic performance development process is in place to help employees meet their performance objectives and to align each individual's objectives with HKEx's objectives. In 2004, the performance appraisal process was refined to make it more user-friendly and focused more on the area of training and development.

It is HKEx's objective to encourage and foster a learning culture within the Group. A learning culture combined with the career development and strategic deployment opportunities HKEx offers staff at all levels will help ensure smooth succession when positions must be filled and the continued effective performance of the organisation.

OUR CUSTOMERS: THE BEST SERVICE PROVIDER

As an exchange controller and a listed company, EPs, listed issuers, the investing public and all the other market participants and users, including sponsors and intermediaries, are HKEx's customers.

In 2004, the Group further expanded and improved its services. For details, please refer to the Management Discussion and Analysis Section on pages 28 to 62. Moreover, for the benefit of investors, HKEx provides publications on its products and services from time to time. In 2004, the Group published leaflets on equities, trading securities in Hong Kong, the enhanced Investor Account in CCASS, PRiME and the derivatives market, and stock options. It also published booklets on H-shares Index Futures and Options, listing in Hong Kong, and changes to the Listing Rules. To further improve services to participants, a series of enhancements will be launched gradually in 2005.

HKEx treats its customers as valued partners and is always committed to seeking their views on issues which may have implications on the market. Meetings of the various consultative panels are held from time to time to collect views of market participants in respect of proposals related to the markets. In 2004, HKEx issued the Draft Proposed Amendments to the Listing Rules Relating to the Regulation of Sponsors and Independent Financial Advisors, the Exposure of the Draft Code on Corporate Governance Practices and Corporate Governance Report, and the Consultation Paper on the Reduction of Minimum Spreads to invite market input and comments. Appropriate improvement actions have been taken in response to the invaluable comments received.

To better understand the needs and expectations of its customers, HKEx conducted and released the results of its latest Cash Market Transaction Survey, Omnibus Retail Investor Survey, Secondary Market Survey, and Derivatives Market Transaction Survey in 2004. The highly valued feedback was analysed with a view to making improvements to satisfy customers' needs.

OUR COMMUNITY AND ENVIRONMENT: A SOCIALLY RESPONSIBLE ORGANISATION

As well as being responsible to its customers through its financial service offerings, HKEx believes that it has a responsibility to the wider society in which it operates. This includes supporting employees in their individual and collective efforts to contribute to the community. In 2004, HKEx participated in the Green Day and the Dress Casual Day to raise funds for the Community Chest of Hong Kong, and it held its yearly blood donation activities. In addition, employees responded enthusiastically in December 2004 to the donation campaign to assist the people affected by the earthquake and tsunami in South Asia. Our employees have also enthusiastically supported the activities organised by charitable organisations, such as the Mooncakes Collection Campaign and Chinese New Year's Presents Collection Campaign organised by the St. James Settlement.

HKEx has operated the Stock Code Balloting Scheme with the Community Chest of Hong Kong since 1999. The Scheme raised approximately $21 million, which accounted for about 13 per cent of the total donations received by the Community Chest for its financial year 2003/2004. HKEx raised a total of about $28 million from the Scheme in 2004.

In 2004, HKEx sponsored the 2004-2005 China-Hong Kong Investment Simulation Competition jointly organised by Hong Kong and Mainland universities. The participants comprised more than 13,000 students from 133 universities in Hong Kong and various provinces on the Mainland. HKEx allowed the use of HKEx price data by the university students at no charge for the purpose of the competition. The event helped the university students familiarise themselves with the securities markets in Hong Kong and on the Mainland.

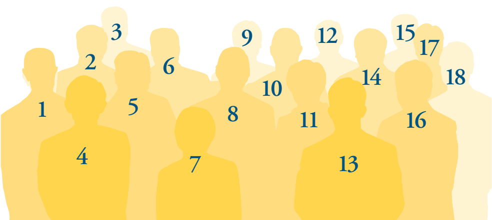
To encourage greater public awareness of the importance of corporate governance, HKEx sponsored the Best Annual Reports Awards 2004 organised by the Hong Kong Management Association.

Although HKEx does not operate an environmentally sensitive business, it recognises its duty to minimise its environmental impact. The Group has identified opportunities to reduce and recycle the resources it consumes, and it has adopted key environmental management procedures, including the recycling of paper and IT equipment, and the use of energy-saving office equipment. Moreover, HKEx has continued to review its e-submission system to encourage listed issuers to disseminate information electronically. During 2004, HKEx published 78,030 issuers' disclosures on the HKEx and GEM websites, about an 18 per cent increase over the previous year. There was also increased use of the websites for accessing issuers' information, with page views rising from 68,602,679 in 2003 to 152,244,153 in 2004, a gain of 122 per cent. On Disclosure of Interests as required by the SFO, the total number of disclosure notices published on the HKEx website increased to 31,300 from 27,494 in 2003. About 16 per cent of the notices were filed through the Internet. Page views on Disclosure of Interests information increased by 87 per cent, from 6,103,040 in 2003 to 11,424,354 in 2004.

On behalf of the Board of Directors
MAU Kam Shing, Joseph
Company Secretary
Hong Kong, 28 February 2005

Organisational Chart

- **Board**
  - Secretarial Services — Joseph Mau
  - **Paul Chow**, *Chief Executive*
    - **Patrick Conroy**, *Chief Operating Officer*
      - Exchange — Gerald Greiner
      - Clearing — Stewart Shing
      - Information Services — Roger Lee
      - Information Technology — Alfred Wong
      - Risk Management — Vic Tham
    - Business Development & Investor Services — Lawrence Fok
      - Beijing Representative Office — Ren Guang Ming
    - Listing — Richard Williams
    - Internal Audit — Coven Hui
    - Finance — Karen Lee
    - Legal Services — Mary Kao
    - Corporate Communications — Henry Law
    - Human Resources — Brenda Yen
    - Research & Planning — Matthew Harrison
    - Administration — Eddie Chow



1. Matthew Harrison
2. Lawrence Fok
3. Roger Lee
4. Stewart Shing
5. Patrick Conroy
6. Gerald Greiner
7. Mary Kao
8. Paul Chow
9. Joseph Mau
10. Richard Williams
11. Brenda Yen
12. Vic Tham
13. Eddie Chow
14. Henry Law
15. Ren Guang Ming
16. Karen Lee
17. Alfred Wong
18. Coven Hui

Remuneration Committee Report

The Remuneration Committee ("RC") comprises three INEDs appointed by the Board.

The RC formulates the Group's remuneration policy for the Board's approval, makes recommendations to the Board on the remuneration of Non-executive Directors, and determines the remuneration package of the Executive Director and the Senior Management, in consultation with the Chairman, and the Chief Executive, where appropriate. When determining the remuneration policy, the RC ensures that the remuneration offered is appropriate for the duties and in line with market practice. The terms of reference of the RC setting out its role and the authority delegated to it by the Board have been posted on HKEx's corporate website.

The RC is provided with sufficient resources to discharge its duties. The RC is accountable to the Board and minutes of meetings are circulated to the Board for information.

The following is a summary of the work of the RC during 2004:

(i) review of the remuneration policy for 2004/2005;
(ii) review of the remuneration of Non-executive Directors;
(iii) review of the annual performance bonus policy;
(iv) discussion of the long term incentive arrangements;
(v) review of the annual share option policy;
(vi) review of the accounting treatment and financial implications of the employees' share options under the newly issued Hong Kong Financial Reporting Standard;
(vii) consideration of the training plan for 2004; and
(viii) consideration of the adjustment of the exercise prices and contract size of the employees' share options due to HKEx's payment of special dividends.

Details of the remuneration policy and other remuneration related matters, such as the long term incentive arrangements, are set out in the Remuneration and Interests section under the Corporate Governance Report on pages 76 to 89.

The RC meets at least once a year. In 2004, a total of four meetings were held and the attendance record was 100 per cent.

Members of the Remuneration Committee
LO Ka Shui *(Chairman)*
LEE Jor Hung, Dannis
LEE Kwan Ho, Vincent Marshall
Hong Kong, 23 February 2005

Audit Committee Report

The Audit Committee ("AC") comprises five INEDs appointed by the Board who have extensive experience in financial matters. Messrs Fong Hup and Vincent K H Lee are certified public accountants but neither of them are employed by or otherwise affiliated with the former or existing auditors of HKEx.

The members of the AC assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, and satisfying themselves as to the effectiveness of the internal controls of the Group and the adequacy of the external and internal audits. The AC examines all matters relating to the accounting principles and practices adopted by the Group, including consideration of the auditing functions, internal controls, information systems, and financial reporting matters. External auditors, the Chief Executive and senior executives are invited to attend the meetings as and when necessary. The terms of reference ("TOR") of the AC setting out its role and the authority delegated to it by the Board have been posted on HKEx's corporate website.

The AC is provided with sufficient resources to discharge its duties. The AC is accountable to the Board and the minutes of all meetings are circulated to the Board for information.

The following is a summary of the work of the AC during 2004:

(i) review of the financial reports for the year ended 31 December 2003, for the six months ended 30 June 2004, and for the quarters ended 31 March 2004 and 30 September 2004;

(ii) review of the findings and recommendations of the internal audit department on the work of various Divisions/Departments and the performance of HKEx's services and products;

(iii) review of the effectiveness of the internal control system;

(iv) review of the external auditors' statutory audit plan and the Letters of Representation;

(v) consideration and approval of the 2004 audit fees;

(vi) consideration and approval of the non-audit services fees for HKEx's Beijing Representative Office;

(vii) review of the revised TOR of the AC to conform to the CG Code; and

(viii) review of the "Continuing Connected Transactions" set forth on pages 86 to 89 prior to the review and confirmation by two INEDs, as required under the waiver conditions granted by the SFC.

After due and careful consideration of reports on ad hoc investigations and reports from management and internal/external auditors, the AC was of the view that no suspected fraud or irregularities, internal control deficiencies, or suspected infringement of laws, rules, or regulations had been found, and concluded at the meeting held on 21 January 2005 that the system of internal controls was adequate and effective.

On 23 February 2005, the AC met to review the 2004 consolidated financial statements, including the accounting principles and practices adopted by the Group, in conjunction with HKEx's external auditors. Based on this review and discussions with the management, internal auditors, and external auditors, the AC endorsed the accounting treatment adopted by HKEx and had to the best of its ability assured itself that the disclosure of the financial information in this report complies with the applicable accounting standards and Appendix 16 of the Listing Rules. The AC therefore recommended the Board's approval of the consolidated financial statements for the year ended 31 December 2004 for public release.

The AC also recommended the re-appointment of PricewaterhouseCoopers ("PwC") as the Group's external auditor for 2005 and that the related resolution shall be put forth for Shareholders' consideration and approval at the 2005 AGM. The AC also recommended the Board to request PwC to rotate their engagement partner for HKEx every five years.

The AC has regular meetings at least four times a year and additional meetings are held as the work of the Committee demands. In 2004, a total of six meetings were convened and the attendance record is 100 per cent.

Members of the Audit Committee
STRICKLAND, John Estmond *(Chairman)*
FONG Hup *(Deputy Chairman)*
FAN Hung Ling, Henry
LEE Kwan Ho, Vincent Marshall
WEBB, David Michael
Hong Kong, 23 February 2005

Shareholding Analysis

Shareholdings according to the Register of Members as at 31 December 2004:

Size of holding	Number of shareholders	Percentage of Shareholders (%)	Number of shares ('000)	Percentage of total issued capital (%)
1 – 1,000	18	1.38	5	0.00
1,001 – 5,000	553	42.41	1,541	0.15
5,001 – 10,000	311	23.85	2,662	0.25
10,001 – 100,000	272	20.86	9,423	0.89
100,001 and above	150	11.50	1,043,007	98.71
Total	1,304	100.00	1,056,638	100.00

Shareholdings according to the Register of Members as at 31 December 2003:

Size of holding	Number of shareholders	Percentage of Shareholders (%)	Number of shares ('000)	Percentage of total issued capital (%)
1 – 1,000	16	1.29	6	0.00
1,001 – 5,000	587	47.45	1,581	0.15
5,001 – 10,000	284	22.96	2,366	0.23
10,001 – 100,000	202	16.33	6,644	0.63
100,001 and above	148	11.97	1,038,402	98.99
Total	1,237	100.00	1,048,999	100.00

Further analysis of share ownership as at 31 December 2004 and 31 December 2003:

	2004		2003	
Category	Number of shares ('000)	Percentage of total issued capital (%)	Number of shares ('000)	Percentage of total issued capital (%)
Individual[1]	**104,586**	**9.90**	**99,209**	**9.46**
Local	101,882	9.64	97,827	9.33
Overseas	2,704	0.26	1,382	0.13
Corporate[2]	**26,610**	**2.52**	**16,559**	**1.58**
Institutions[3]	**615,120**	**58.21**	**563,642**	**53.73**
Local	59,134	5.60	39,893	3.80
Overseas	555,986	52.62	523,749	49.93
EPs[4]	**210,567**	**19.93**	**238,969**	**22.78**
Custodian banks[5]	**99,755**	**9.44**	**130,620**	**12.45**
Total	**1,056,638**	**100.00**	1,048,999	100.00

The ownership analysis is according to the best estimate of information obtained from HKEx Register of Members, HKSCC Participant Shareholding Report, and a survey of selected custodian banks and EPs conducted in December 2004 and December 2003 respectively.

Notes:

1 *Shares owned by individuals other than those who are EPs.*

2 *Shares owned by companies other than those who are Institutions, EPs, Custodian banks, HKSCC Nominees Limited, and some unknown shares.*

3 *For 2004, institutional investors identified by the six custodian banks and an EP which are within top nine holders of HKEx shares in HKSCC Nominees Limited, and the investment companies as shown in the HKEx Register of Members and HKSCC Participant Shareholding Report. The respondents held in aggregate 679 million shares or 64 per cent of the total issued shares. For 2003, institutions referred to the institutional investors identified by the six custodian banks and HKSCC Nominees Limited.*

4 *EPs include Stock EPs and Futures EPs, but for 2004, EPs exclude the EP respondent to the survey.*

5 *Custodian banks excluding HKSCC Nominees Limited and holdings held for clients by the six custodian banks as mentioned in note 3 above.*

TOP TEN SHAREHOLDERS

The respective holdings by the top ten/eleven shareholders that appeared on the Register of Members of HKEx as at 31 December 2004 and 31 December 2003 were as follows:

	2004			2003		
	Name	Number of shares ('000)	Percentage of holding (%)	Name	Number of shares ('000)	Percentage of holding (%)
1	HKSCC Nominees Ltd	917,386	86.82	HKSCC Nominees Ltd	896,151	85.43
2	Sun Hung Kai Investment Services Ltd	8,050	0.76	Sun Hung Kai Investment Services Ltd	8,050	0.77
3	Roctec Futures Trading Co Ltd	5,574	0.53	Roctec Futures Trading Co Ltd	5,574	0.53
4	Sun Hung Kai Commodities Ltd	4,181	0.40	The Bank of East Asia Ltd	4,830	0.46
5	Tung Tak Securities (HK) Co Ltd	3,220	0.30	Sun Hung Kai Commodities Ltd	4,181	0.40
6	HSBC Nominees (Hong Kong) Ltd	3,123	0.30	Phillip Securities (HK) Ltd	4,025	0.38
7	Phillip Commodities (HK) Ltd	2,787	0.26	Corporate Brokers Ltd	3,220	0.31
8	Wocom Ltd	2,787	0.26	Tung Tak Securities (HK) Co Ltd	3,220	0.31
9	Phillip Securities (HK) Ltd	2,415	0.23	Phillip Commodities (HK) Ltd	2,787	0.27
10	Roctec Securities Company Ltd	2,415	0.23	Wocom Ltd	2,787	0.27
11	Wong Wai Gin	2,415	0.23			

Directors' Report

The Directors submit their report together with the audited accounts of HKEx and the Group for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

HKEx is the recognised exchange controller under the SFO. It owns and operates the only stock exchange and futures exchange in Hong Kong and their related clearing houses, namely HKSCC, HKCC and SEOCH.

The Stock Exchange and the Futures Exchange are recognised exchange companies under the SFO to operate and maintain a stock market and futures market in Hong Kong respectively. HKSCC, SEOCH and HKCC are the recognised clearing houses for the purposes of the SFO.

The Group's revenue is derived solely from business activities in Hong Kong. An analysis of the Group's income and contribution to operating profit for the year ended 31 December 2004 is set out in note 4 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated profit and loss account on page 105.

An interim dividend of $0.43 per share, amounting to a total of about $454 million, was paid to Shareholders on 13 September 2004.

The Directors recommend the payment of a final dividend of $0.47 per share to Shareholders whose names appear on the register of members on 12 April 2005, which together with the interim dividend payment amounts to a total of about $951 million, and the retention of the remaining profit for the year.

RESERVES

The distributable reserves of HKEx as at 31 December 2004, calculated under Section 79B of the Companies Ordinance, amounted to $3,221 million (2003: $3,375 million).

Movements in reserves of the Group and HKEx during the year are set out in notes 33 to 36 and 38 to the accounts.

GROUP FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on pages 63.

FIXED ASSETS

Movements in fixed assets of the Group and HKEx during the year are set out in note 17 to the accounts.

SHARE CAPITAL

Details of the movements in the share capital during the year are set out in note 32 to the accounts.

SHARE OPTION SCHEMES

HKEx operates two share option schemes, Pre-Listing Scheme and Post-Listing Scheme, under which the Board, may at its discretion, offer any employee (including any Executive Director) of HKEx or its subsidiaries, options to subscribe for shares in HKEx.

Details of the schemes and the option granted thereunder are set out in the "Corporate Governance Report – Remuneration and Interests" on page 76.

Apart from the schemes, at no time during 2004 was HKEx or any of its subsidiaries a party to any arrangements to enable the Directors of HKEx to acquire benefits by means of acquisition of shares in, or debenture of, HKEx or body corporate.

SUBSIDIARIES

Particulars of HKEx's subsidiaries, as at 31 December 2004 are set out in note 31 to the accounts.

DIRECTORS

The Directors of HKEx during the year and up to the date of this annual report were:

Independent Non-executive Chairman

LEE Yeh Kwong, Charles	*(re-appointment effective on 1 April 2004)*

Independent Non-executive Directors

FAN Hung Ling, Henry	
FONG Hup	
FRESHWATER, Timothy George	*(re-appointment effective on 1 April 2004)*
KWOK Chi Piu, Bill	
LEE Jor Hung, Dannis	
LEE Kwan Ho, Vincent Marshall	
LEONG Ka Chai	
LO Ka Shui	*(re-appointment effective on 1 April 2004)*
STRICKLAND, John Estmond	*(elected on 31 March 2004)*
WEBB, David Michael	
WONG Sai Hung, Oscar	*(re-elected on 31 March 2004)*

Executive Director and Chief Executive

CHOW Man Yiu, Paul

As at 31 December 2004, the Board consisted of 13 Directors. Six of them are Government Appointed Directors, namely, Messrs Charles Y K Lee, Henry H L Fan, Fong Hup, Tim Freshwater, Leong Ka Chai, and Lo Ka Shui, who were appointed by the Financial Secretary in the interest of the investing public or in the public interest pursuant to Section 77 of the SFO. Six of them are Elected Directors, namely, Messrs Bill C P Kwok, Dannis J H Lee, Vincent K H Lee, John E Strickland, David M Webb and Oscar S H Wong, who were elected by Shareholders at annual general meetings. The Chief Executive of HKEx is an *ex-officio* member of the Board. The Board re-appointed Mr Charles Y K Lee as the non-executive Chairman on 1 April 2004 and his appointment was approved by the Chief Executive of Hong Kong in accordance with Section 69 of the SFO on 2 April 2004.

According to Article 93(1) and (2), at every annual general meeting after the 2003 AGM, one-third of the Directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third of the Directors shall retire from office. 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. Two of the Elected Directors who have been longest in the office, who are subject to retirement by rotation, shall retire at the 2005 AGM. Pursuant to Article 93(3), lots have been drawn and Dr Bill C P Kwok and Mr Vincent K H Lee shall retire at the conclusion of the 2005 AGM. Both of them are eligible for re-appointment. Shareholders are invited to elect up to two Elected Directors at the 2005 AGM to fill the vacancies available due to retirement of the two said Directors. Details of the proposed candidates standing for election are set out in the circular sent together with this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and Senior Management are set out on pages 22 to 27.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the connected transactions and related party transactions are set out in "Corporate Governance Report – Remuneration and Interests" on page 76 and note 44 to the accounts respectively.

Save for the above, no contracts of significance in relation to the Group's business to which HKEx or any of its subsidiaries was a party, and in which a Director of HKEx had a material interest, whether directly or indirectly subsisted at the year-end or at any time during the year.

CORPORATE GOVERNANCE

HKEx is committed to achieving high standards of corporate governance practices and has fully complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules.

Further information on the HKEx's corporate governance practices is set out in the following reports:

(a) "Corporate Governance Report" comprises three sections, namely:
- Corporate Governance – it sets out details on how HKEx applied and complied with the corporate governance principles, including practices as set out in the newly promulgated CG Code, which became effective 1 January 2005.
- Remuneration and Interests – it provides an overview of the remuneration policy of HKEx and a summary of the interests of Directors and Senior Management in HKEx, including information on Directors' service contracts, emoluments, and options granted.
- Corporate and Social Responsibility – it explains how HKEx strives to achieve the well being of its stakeholders.

(b) "Audit Committee Report" – it gives a summary of work performed by the Audit Committee during 2004.

(c) "Remuneration Committee Report" – it gives a summary of work performed by the Remuneration Committee during 2004.

DIRECTORS' EMOLUMENTS

Details of the remuneration of the Directors for year 2004 are set out in the "Corporate Governance Report – Remuneration and Interests" on page 76. Particulars of the Directors' emoluments disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 11 to the accounts.

DISCLOSABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2004, JP Morgan Chase & Co and its controlled corporations were holding 63,315,154 shares of HKEx, representing approximately 5.99 per cent of the issued share capital of HKEx, as recorded in the register required to be kept by HKEx under Section 336 of the SFO, of which 2,005,724 shares were held by JP Morgan Chase & Co and its controlled corporations as beneficial owner, 715,000 shares were held in the capacity of investment manager, and 60,594,430 shares were held in the capacity of a custodian corporation/approved lending agent pursuant to the Securities and Futures (Disclosure of Interests – Securities Borrowing and Lending) Rules.

Apart from the aforesaid, the Directors are not aware of any other party who was directly or indirectly interested in five per cent or more of the issued share capital of HKEx, as recorded in the register required to be kept by HKEx under Section 336 of the SFO.

MINORITY CONTROLLER

Under Section 61 of the SFO, no person shall be or become a Minority Controller, i.e. a person who either alone or with any associate or associates, is entitled to exercise, or control the exercise of five per cent or more of the voting power at any general meeting of the recognised exchange controller, except with the approval in writing of the SFC after consultation with the Financial Secretary.

The SFC has so far granted approval to five entities to be Minority Controllers of HKEx, on the basis that the shares are held by them in custody for their clients.

As at 31 December 2004, the Minority Controllers were in aggregate holding 62.2 per cent of the issued share capital of HKEx (31 December 2003: 57.6 per cent).

PUBLIC FLOAT

As at the date of this report, the Directors acknowledge that 100 per cent of the issued capital of HKEx are held by the public.

MAJOR CUSTOMERS AND SUPPLIERS

Contracts with the HKEx's five largest suppliers combined by value which are not of a capital nature, contributed to less than 30 per cent in value of supplies purchased during the year ended 31 December 2004. HKEx's five largest customers combined by value contributed to less than 30 per cent in value of the income during the year ended 31 December 2004.

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.

PROVIDENT FUND SCHEMES

Particulars of provident fund schemes of the Group are set out in note 13 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the 2005 AGM.

On behalf of the Board of Directors
LEE Yeh Kwong, Charles
Chairman
Hong Kong, 28 February 2005

AUDITORS' REPORT

AUDITORS' REPORT TO THE SHAREHOLDERS OF HONG KONG EXCHANGES AND CLEARING LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 105 to 196 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 28 February 2005

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			
Trading fees and trading tariff	5	**682,293**	485,211
Stock Exchange listing fees	6	**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	7	**228,587**	296,952
Other income	8	**189,001**	173,004
	4	**2,393,937**	2,019,825
OPERATING EXPENSES			
Staff costs and related expenses	13	**545,654**	528,344
Information technology and computer maintenance expenses	14	**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	9	**84,439**	130,651
	4	**1,156,296**	1,223,727
OPERATING PROFIT	4	**1,237,641**	796,098
SHARE OF PROFITS LESS LOSSES OF ASSOCIATES	4	**12,884**	8,642
PROFIT BEFORE TAXATION	4/10	**1,250,525**	804,740
TAXATION	4/15(a)	**(193,641)**	(112,054)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	4/38	**1,056,884**	692,686
DIVIDENDS		**950,911**	629,263
SPECIAL DIVIDEND		**–**	1,762,318
		950,911	2,391,581
Earnings per share	16	**$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 STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

(Financial figures are expressed in Hong Kong dollars)

	Share capital and share premium (note 32) $'000	Employee share-based compensation reserve (note 33) $'000	Revaluation reserves (note 34) $'000	Designated reserves (note 35) $'000	Retained earnings (note 38) $'000	Total equity $'000
At 31 Dec 2003, as previously reported	1,103,337	–	46,431	689,657	3,763,838	5,603,263
Effect of changes in accounting policies (note 2(b))	–	2,771	(9,932)	–	18,023	10,862
At 31 Dec 2003, as restated	1,103,337	2,771	36,499	689,657	3,781,861	5,614,125
Effect of initial adoption of HKAS 39 (note 2(r))	–	–	–	–	28	28
At 1 Jan 2004, as restated	1,103,337	2,771	36,499	689,657	3,781,889	5,614,153
Change in valuation of leasehold buildings	–	–	36	–	–	36
Change in fair value of available-for-sale financial assets	–	–	10,535	–	–	10,535
Realisation of change in fair value of financial assets on maturity and disposal	–	–	(26,741)	–	–	(26,741)
Deferred tax arising from change in valuation of leasehold buildings	–	–	(6)	–	–	(6)
Deferred tax arising from change in fair value of available-for-sale financial assets	–	–	(1,494)	–	–	(1,494)
Net loss recognised directly in equity	–	–	(17,670)	–	–	(17,670)
Profit attributable to shareholders	–	–	–	–	1,056,884	1,056,884
Total recognised (loss)/profit	–	–	(17,670)	–	1,056,884	1,039,214
2003 special and final dividends	–	–	–	–	(2,218,559)	(2,218,559)
2004 interim dividend	–	–	–	–	(454,291)	(454,291)
Proceeds from issue of shares	57,336	–	–	–	–	57,336
Employee share option benefits	–	14,290	–	–	–	14,290
Transfer of reserves (note 35)	–	–	–	(8,661)	8,661	–
At 31 Dec 2004	1,160,673	17,061	18,829	680,996	2,174,584	4,052,143

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2004

(Financial figures are expressed in Hong Kong dollars)

	Share capital and share premium (note 32) $'000	Employee share-based compensation reserve (note 33) $'000	Revaluation reserves (note 34) $'000	Designated reserves (note 35) $'000	Retained earnings (note 38) $'000	Total equity $'000
At 1 Jan 2003, as previously reported	1,062,593	–	29,899	727,811	3,670,061	5,490,364
Effect of changes in accounting policies (note 2(b))	–	–	(13,920)	–	17,102	3,182
At 1 Jan 2003, as restated	1,062,593	–	15,979	727,811	3,687,163	5,493,546
Change in valuation of leasehold buildings	–	–	548	–	–	548
Change in fair value of non-trading securities	–	–	27,585	–	–	27,585
Realisation of change in fair value of non-trading securities on maturity and disposal	–	–	(7,392)	–	–	(7,392)
Deferred tax arising from change in valuation of leasehold buildings	–	–	(134)	–	–	(134)
Deferred tax arising from change in fair value of non-trading securities	–	–	(87)	–	–	(87)
Net profit recognised directly in equity	–	–	20,520	–	–	20,520
Profit attributable to shareholders	–	–	–	–	692,686	692,686
Total recognised profit	–	–	20,520	–	692,686	713,206
2002 final dividend	–	–	–	–	(449,387)	(449,387)
2003 interim dividend	–	–	–	–	(188,683)	(188,683)
Proceeds from issue of shares	40,744	–	–	–	–	40,744
Employee share option benefits	–	2,771	–	–	–	2,771
Transfer of reserves (note 35)	–	–	–	(40,082)	40,082	–
Forfeiture of defaulted Clearing Participants' contributions	–	–	–	1,928	–	1,928
At 31 Dec 2003, as restated	1,103,337	2,771	36,499	689,657	3,781,861	5,614,125

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	17(a)	**324,300**	482,927
Investment property	18	**13,300**	10,000
Lease premium for land	19	**94,670**	95,218
Investments in associates	20	**38,731**	36,648
Clearing House Funds	21	**1,861,487**	1,551,330
Compensation Fund Reserve Account	22	**37,451**	36,859
Cash and Derivatives Market Development Fund	23	**–**	925
Non-trading securities	24	**–**	77,258
Time deposits with maturity over one year		**38,941**	393,456
Deferred tax assets	37(e)	**1,227**	–
Other assets		**13,142**	4,814
		2,423,249	2,689,435
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	26(a)	**4,691,846**	4,644,680
Lease premium for land	19	**548**	548
Taxation recoverable		**91**	1,558
Margin Funds on derivatives contracts	25	**10,529,692**	7,874,510
Financial assets at fair value through profit or loss	27	**2,761,593**	–
Trading securities	28	**–**	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	41(b)(ii)	**–**	50,286
Margin deposits and securities received from Clearing Participants on derivatives contracts	25	**10,529,692**	7,874,510
Accounts payable, accruals and other liabilities	26(b)	**4,902,350**	4,779,904
Financial liabilities at fair value through profit or loss	27	**10,749**	–
Participants' admission fees received	29	**4,850**	4,100
Deferred revenue		**284,148**	257,068
Taxation payable		**199,678**	57,370
Provisions	30(a)	**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	29	**82,850**	84,950
Participants' contributions to Clearing House Funds	21	**1,298,752**	984,045
Deferred tax liabilities	37(e)	**30,876**	53,515
Provisions	30(a)	**24,104**	23,092
		1,436,582	1,145,602
NET ASSETS		**4,052,143**	5,614,125

CONSOLIDATED BALANCE SHEET (CONTINUED)

At 31 December 2004

(Financial figures are expressed in Hong Kong dollars)

	Note	2004 $'000	As restated 2003 $'000
CAPITAL AND RESERVES			
Share capital	32	**1,056,639**	1,048,999
Share premium	32	**104,034**	54,338
Employee share-based compensation reserve	33	**17,061**	2,771
Revaluation reserves	34	**18,829**	36,499
Designated reserves	35	**680,996**	689,657
Retained earnings	38	**1,677,964**	1,578,963
Proposed/declared dividends	38	**496,620**	2,202,898
SHAREHOLDERS' FUNDS		**4,052,143**	5,614,125

Approved by the Board of Directors on 28 February 2005

LEE Yeh Kwong, Charles
Director

CHOW Man Yiu, Paul
Director

HONG KONG EXCHANGES AND CLEARING LIMITED
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	17(b)	**25,164**	36,858
Investments in subsidiaries	31(a)	**4,145,198**	4,145,198
Deferred tax assets	37(e)	**1,227**	–
Other assets		**3,545**	3,088
		4,175,134	4,185,144
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	26(a)	**20,638**	18,995
Amounts due from subsidiaries	31(b)	**497,463**	408,250
Cash and cash equivalents		**26,394**	13,840
		544,495	441,085
CURRENT LIABILITIES			
Accounts payable, accruals and other liabilities	26(b)	**110,601**	61,726
Amounts due to subsidiaries	31(b)	**180,603**	59,402
Taxation payable		**5,610**	128
Provisions	30(b)	**23,212**	23,825
		320,026	145,081
NET CURRENT ASSETS		**224,469**	296,004
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,399,603**	4,481,148
NON-CURRENT LIABILITIES			
Deferred tax liabilities	37(e)	**–**	150
Provisions	30(b)	**555**	235
		555	385
NET ASSETS		**4,399,048**	4,480,763
CAPITAL AND RESERVES			
Share capital	32	**1,056,639**	1,048,999
Share premium	32	**104,034**	54,338
Employee share-based compensation reserve	33	**17,061**	2,771
Merger reserve	36	**2,997,115**	2,997,115
Accumulated losses	38	**(272,421)**	(1,825,358)
Proposed/declared dividends	38	**496,620**	2,202,898
SHAREHOLDERS' FUNDS		**4,399,048**	4,480,763

Approved by the Board of Directors on 28 February 2005

LEE Yeh Kwong, Charles
Director

CHOW Man Yiu, Paul
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

(Financial figures are expressed in Hong Kong dollars)

	Note	2004 $'000	2003 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	39(a)	**1,816,353**	1,408,746
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		**(23,377)**	(51,635)
Proceeds from sales of fixed assets		**158**	190
Proceeds from sales of other assets		**1,175**	–
Proceeds from sales of available-for-sale financial assets		**75,773**	–
Decrease/(increase) in time deposits with original maturity more than three months		**383,100**	(117,155)
Dividends received from an associate		**10,801**	4,800
Dividends received from non-trading securities		**–**	14,097
Dividends received from available-for-sale financial assets		**1,070**	–
Interest received from non-trading securities		**–**	13,644
Interest received from available-for-sale financial assets		**56,693**	–
Interest paid on bank loan		**(827)**	(827)
Repayment of loan receivable from an associate		**–**	2,000
Net cash inflow/(outflow) from investing activities		**504,566**	(134,886)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option scheme		**57,336**	40,744
Admission fees received less refunds to Participants		**(1,350)**	(1,100)
Repayment of bank loan		**(50,286)**	–
Dividends paid		**(2,672,850)**	(638,070)
Net cash outflow from financing activities		**(2,667,150)**	(598,426)
Net (decrease)/increase in cash and cash equivalents		**(346,231)**	675,434
Cash and cash equivalents at 31 December 2003/2002		**1,355,390**	679,956
Effect of initial adoption of HKAS 39		**25,886**	–
Cash and cash equivalents at 31 December 2004/2003	39(b)	**1,035,045**	1,355,390

NOTES TO THE ACCOUNTS

(Financial figures are expressed in Hong Kong dollars)

1. General Information

Hong Kong Exchanges and Clearing Limited ("HKEx") and its subsidiaries (collectively, "the Group") own and operate the only stock exchange and futures exchange in Hong Kong and their related clearing houses.

HKEx is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is 12th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

These consolidated accounts have been approved for issue by the Board of Directors on 28 February 2005.

2. Principal Accounting Policies

(a) Statement of compliance

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, requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

(b) Basis of preparation

The accounts have been prepared under the historical cost convention, as modified by the revaluation of leasehold buildings, investment properties, available-for-sale financial assets and financial assets and financial liabilities at fair value through profit or loss, non-trading securities and the marking to market of trading securities and shares borrowed and receivable by Hong Kong Securities Clearing Company Limited ("HKSCC") for the purpose of settlement under the Continuous Net Settlement ("CNS") basis.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts are disclosed in note 3.

2. Principal Accounting Policies (Continued)

(b) Basis of preparation (Continued)

Early adoption of HKFRSs

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

2. Principal Accounting Policies (Continued)

(b) Basis of preparation (Continued)

Early adoption of HKFRSs (Continued)

The early adoption of HKAS 1, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33, 37 and HKAS-INT 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 affects certain presentation in the consolidated balance sheet, consolidated profit and loss account and consolidated statement of changes in equity.

– HKAS 8, 16, 21 and 28 affect certain disclosure of the accounts.

– HKAS 7, 10, 12, 14, 18, 19, 23, 27, 33, 37 and HKAS INT-15 do not have any impact as the Group's accounting policies already comply with the standards.

– HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

The early adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at valuation less accumulated depreciation. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease whereas the leasehold building is stated at valuation less accumulated depreciation.

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 (note 2(g)(ii)).

The early adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Prior to this, goodwill was:

– amortised on a straight-line basis over a period of not exceeding 20 years; and

– assessed for impairment at each balance sheet date.

2. Principal Accounting Policies (Continued)

(b) Basis of preparation (Continued)

Early adoption of HKFRSs (Continued)

In accordance with the provisions of HKFRS 3:

– the Group ceased amortisation of goodwill from 1 January 2003;

– accumulated amortisation as at 31 December 2002 has been eliminated with a corresponding decrease in the cost of goodwill;

– from the year ended 31 December 2003 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment (note 2(m)).

The early adoption of HKAS 40 has resulted in a change in the accounting policy for the Group's investment property. Changes in valuation of the investment property were previously dealt with in an investment property revaluation reserve. Following the adoption of HKAS 40, all changes in valuation of the investment property would be recognised in the profit and loss account (note 2(j)).

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 (note 2(r)(vii)). 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 (note 2 (r)(i)). 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.

2. Principal Accounting Policies (Continued)

(b) Basis of preparation (Continued)

Early adoption of HKFRSs (Continued)

The early adoption of HKAS-INT 21 has resulted in a change in accounting policy relating to deferred taxation of the Group's investment property. Prior to this, deferred tax arising from the revaluation of investment property was calculated on the basis that the property was held for sale. In accordance with the provisions of HKAS-INT 21, the deferred tax arising from the revaluation of the property should be recalculated as if the investment property is held through use and charged to the profit and loss account.

All relevant changes in the accounting policies have been made in accordance with the provisions of the respective standards, which require retrospective application to prior year comparatives other than:

– HKFRS 2 – retrospective application of all equity instruments granted to employees after 7 November 2002 and not vested at 1 January 2004;

– HKFRS 3 – prospectively after 1 January 2003.

– HKAS 39:

- 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 at fair value 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.

2. Principal Accounting Policies (Continued)

(b) Basis of preparation (Continued)

Effect of changes in the accounting policies on consolidated profit and loss account

	Effect of adopting								
	HKAS 1# $'000	HKAS 17# $'000	HKFRS 2# $'000	HKFRS 3* HKAS 36* & HKAS 38* $'000	HKAS 32# & HKAS 39Ω $'000	HKAS 40# $'000	HKAS-INT 21# $'000	Other reclassification# $'000	Total $'000
Year 2004									
Increase/(decrease) in investment income	–	–	–	–	367	–	–	(5,133)	(4,766)
Increase in other income	–	–	–	–	–	3,300	–	5,133	8,433
Increase in staff costs and related expenses	–	–	(14,290)	–	–	–	–	–	(14,290)
Increase in premises expenses	–	(548)	–	–	–	–	–	–	(548)
Decrease in depreciation	–	2,182	–	–	–	–	–	–	2,182
Increase in other operating expenses	–	–	–	–	(661)	–	–	–	(661)
Increase/(decrease) in share of profit less losses of associates	(2,886)	–	–	2,649	–	–	–	–	(237)
Decrease/(increase) in taxation	2,886	(249)	–	–	(60)	–	(577)	–	2,000
Total increase/(decrease) in profit	–	1,385	(14,290)	2,649	(354)	3,300	(577)	–	(7,887)
Increase/(decrease) in basic earnings per share	–	0.13 cents	(1.36 cents)	0.25 cents	(0.03 cents)	0.31 cents	(0.05 cents)	–	(0.75 cents)
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Year 2003									
Decrease in investment income	–	–	–	–	–	–	–	(14,355)	(14,355)
Increase in other income	–	–	–	–	–	–	–	14,355	14,355
Increase in staff costs and related expenses	–	–	(2,771)	–	–	–	–	–	(2,771)
Increase in premises expenses	–	(548)	–	–	–	–	–	–	(548)
Decrease in depreciation	–	1,749	–	–	–	–	–	–	1,749
Increase in other operating expenses	–	–	–	(16)	–	–	–	–	(16)
Increase/(decrease) in share of profit less losses of associates	(1,684)	–	–	2,662	–	–	–	–	978
Decrease/(increase) in taxation	1,684	(128)	–	–	–	–	(27)	–	1,529
Total increase/(decrease) in profit	–	1,073	(2,771)	2,646	–	–	(27)	–	921
Increase/(decrease) in basic earnings per share	–	0.10 cents	(0.26 cents)	0.25 cents	–	–	(0.00 cents)	–	0.09 cents

* *adjustments which take effect prospectively from 1 January 2003*
Ω *adjustments which take effect prospectively from 1 January 2004*
\# *adjustments which take effect retrospectively*

2. Principal Accounting Policies (Continued)

(b) Basis of preparation (Continued)

Effect of changes in accounting policies on consolidated balance sheet

	Effect of adopting							
	HKAS 1# $'000	HKAS 17# $'000	HKFRS 2# $'000	HKFRS 3* HKAS 36*& HKAS 38* $'000	HKAS 32# & HKAS 39Ω $'000	HKAS 40# $'000	HKAS-INT 21# $'000	Total $'000
At 1 January 2003 (Equity only)								
Increase/(decrease) in equity								
Revaluation reserves	–	(12,149)	–	–	–	(1,771)	–	(13,920)
Retained earnings	–	15,614	–	–	–	1,771	(283)	17,102
At 31 December 2003								
Increase/(decrease) in assets								
Fixed assets	(10,000)	(92,700)	–	–	–	–	–	(102,700)
Investment property	10,000	–	–	–	–	–	–	10,000
Lease premium for land (current and non-current)	–	95,766	–	–	–	–	–	95,766
Investments in associates	–	–	–	2,646	–	–	–	2,646
Time deposits (non- current)	393,456	–	–	–	–	–	–	393,456
Time deposits (current)	28,857	–	–	–	–	–	–	28,857
Cash and cash equivalents	1,355,390	–	–	–	–	–	–	1,355,390
Bank balances and time deposits	(1,777,703)	–	–	–	–	–	–	(1,777,703)
Increase/(decrease) in liabilities/equity								
Deferred tax liabilities	–	(5,460)	–	–	–	–	310	(5,150)
Employee share-based compensation reserve	–	–	2,771	–	–	–	–	2,771
Revaluation reserves	–	(8,161)	–	–	–	(1,771)	–	(9,932)
Retained earnings	–	16,687	(2,771)	2,646	–	1,771	(310)	18,023

2. Principal Accounting Policies (Continued)

(b) Basis of preparation (Continued)

Effect of changes in accounting policies on consolidated balance sheet (Continued)

	Effect of adopting							
	HKAS 1 # $'000	HKAS 17 # $'000	HKFRS 2 # $'000	HKFRS 3* HKAS 36*& HKAS 38* $'000	HKAS 32 # & HKAS 39Ω $'000	HKAS 40 # $'000	HKAS-INT 21 # $'000	Total $'000
At 31 December 2004								
Increase/(decrease) in assets								
Fixed assets	(13,300)	(170,100)	–	–	–	–	–	(183,400)
Investment property	13,300	–	–	–	–	–	–	13,300
Lease premium for land (current and non-current)	–	95,218	–	–	–	–	–	95,218
Investments in associates	–	–	–	5,295	–	–	–	5,295
Clearing House Funds	–	–	–	–	(322,724)	–	–	(322,724)
Time deposits (non-current)	38,863	–	–	–	78	–	–	38,941
Margin Funds on derivatives contracts	–	–	–	–	(1,114,605)	–	–	(1,114,605)
Accounts receivable, prepayments and deposits	–	–	–	–	(70,686)	–	–	(70,686)
Financial assets at fair value through profit or loss	–	–	–	–	2,761,593	–	–	2,761,593
Trading securities	–	–	–	–	(2,691,657)	–	–	(2,691,657)
Time deposits (current)	1,335	–	–	–	5	–	–	1,340
Cash and cash equivalents	1,034,644	–	–	–	401	–	–	1,035,045
Bank balances and time deposits	(1,074,842)	–	–	–	–	–	–	(1,074,842)
Increase/(decrease) in liabilities/equity								
Margin deposits and securities received from Clearing Participants on derivatives contracts	–	–	–	–	(1,114,605)	–	–	(1,114,605)
Accounts payable, accruals and other liabilities	–	–	–	–	(10,749)	–	–	(10,749)
Financial liabilities at fair value through profit or loss	–	–	–	–	10,749	–	–	10,749
Taxation payable	–	–	–	–	60	–	–	60
Participants' contributions to Clearing House Funds	–	–	–	–	(322,724)	–	–	(322,724)
Deferred tax liabilities	–	(19,139)	–	–	–	–	887	(18,252)
Employee share-based compensation reserve	–	–	17,061	–	–	–	–	17,061
Revaluation reserves	–	(73,815)	–	–	–	(5,071)	–	(78,886)
Retained earnings	–	18,072	(17,061)	5,295	(326)	5,071	(887)	10,164

* *adjustments which take effect prospectively from 1 January 2003*
Ω *adjustments which take effect prospectively from 1 January 2004*
\# *adjustments which take effect retrospectively*

2. Principal Accounting Policies (Continued)

(c) Group accounting

(i) Consolidation

The Group has adopted merger accounting in the preparation of the consolidated accounts at the time of the merger of the Group in 2000. The consolidated accounts include the accounts of HKEx and all of its subsidiaries made up to 31 December. All material intra-group transactions and balances have been eliminated on consolidation.

A subsidiary is an entity in which HKEx, directly or indirectly, has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

In HKEx's balance sheet, investments in subsidiaries are stated at cost less provision for any impairment, if necessary. The results of subsidiaries are accounted for by HKEx on the basis of dividends received and receivable.

(ii) Associates

An associate is a company, not being a subsidiary nor an interest in a joint venture, in which the Group has significant influence generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for in the consolidated accounts under the equity method. The consolidated profit and loss account includes the Group's share of the post-acquisition results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of associates and goodwill (net of accumulated impairment loss).

(d) Turnover

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.

2. Principal Accounting Policies (Continued)

(e) Revenue recognition

Income is recognised in the profit and loss account on the following basis:

(i) Trading fees and trading tariff on securities and options traded on the Stock Exchange and trading fees on derivatives contracts traded on the Futures Exchange are recognised on a trade date basis.

(ii) Settlement fees on derivatives contracts traded on the Futures Exchange are recognised on outstanding contracts at the official final settlement day.

(iii) Fees for clearing and settlement of broker-to-broker trades in eligible securities transacted on the Stock Exchange are recognised in full on T + 1, ie, on the day following the trade day, upon acceptance of the trades. Fees for other settlement transactions are recognised upon completion of the settlement.

(iv) Custody fees for securities held in the Central Clearing and Settlement System ("CCASS") depository are calculated and accrued on a monthly basis. Income on registration and transfer fees on nominee services are calculated and accrued on the book close dates of the relevant stocks during the financial year.

(v) Initial listing fees for initial public offering ("IPO") are recognised upon the listing of an applicant, cancellation of the application or six months after submission of the application, whichever is earlier. Income from annual listing fees is recognised on a straight-line basis over the period covered by the respective fees received in advance.

(vi) Income from sale of information and other fees are recognised when the related services are rendered.

(vii) Interest income represents gross interest income from bank deposits and investments and is recognised on a time apportionment basis using the effective interest method.

(viii) Dividend income is recognised when the right to receive payment is established.

(ix) Rental income is recognised on an accrual basis.

2. Principal Accounting Policies (Continued)

(f) Interest expenses

Interest expenses are recognised on a time apportionment basis, taking into account the principal outstanding and the applicable interest rates. All interest expenses are charged to the profit and loss account in the year in which they are incurred.

(g) Employee benefit costs

(i) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

(ii) Equity compensation benefits

For share options granted under the Post-Listing Share Option Scheme ("Post-Listing Scheme"), the fair value of the employee services rendered in exchange for the grant of the options is recognised as an expense and credited to an employee share-based compensation reserve under equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at grant date. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of the original estimates, if any, in the profit and loss account, and a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period.

Share options granted under the Pre-Listing Share Option Scheme ("Pre-Listing Scheme") are not expensed as the options were granted before 7 November 2002 and not subject to requirements of HKFRS 2.

When the options are exercised, the proceeds received are credited to share capital (nominal value) and share premium.

(iii) Retirement benefit costs

Contributions to the defined contribution provident fund regulated under the Occupational Retirement Schemes Ordinance ("ORSO") and operated by the Group and the AIA-JF Premium MPF Scheme are expensed as incurred. Forfeited contributions of the provident fund in respect of employees who leave before the contributions are fully vested are not used to offset existing contributions but are credited to a reserve account of that provident fund. Reserves of the provident fund representing forfeited employer's contributions are available for distribution to the provident fund members at the discretion of the trustees. Assets of the provident fund and the AIA-JF Premium MPF Scheme are held separately from those of the Group and are independently administered.

2. Principal Accounting Policies (Continued)

(h) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease term.

(i) Fixed assets

The building component of owner-occupied leasehold properties are stated at valuation less accumulated depreciation. Fair value is determined by the Directors based on independent valuations which are performed periodically. The valuations are on the basis of depreciated replacement cost. Depreciated replacement cost is used as open market value cannot be reliably allocated to the building component. The Directors review the carrying value of the leasehold buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the leasehold buildings revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously charged and thereafter to leasehold buildings revaluation reserve.

Other tangible fixed assets are stated at cost less accumulated depreciation.

Tangible fixed assets are depreciated at rates sufficient to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Leasehold buildings	4%
Leasehold improvements	over the remaining life of the leases but not exceeding 5 years
Computer trading and clearing systems – hardware and software	20%
Other computer hardware and software	33.33%
Furniture and equipment	20%
Motor vehicles	33.33%

2. Principal Accounting Policies (Continued)

(i) Fixed assets (Continued)

During the year, the estimated useful life of the hardware of trading and clearing systems was revised from three years to five years to better reflect the useful life of the equipment. The effect of the change in accounting estimate in the current year was a decrease in depreciation charge of $7,265,000.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss account during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 2(m)).

Qualifying software system development expenditures are capitalised and recognised as a fixed asset in the balance sheet as the software forms an integral part of the hardware on which it operates. The expenditures comprise all qualifying direct and allocated expenses attributable to the development of distinct major computer systems.

Qualifying development expenditures incurred after the roll-out of a system are added to the carrying amount of the related assets when it is probable that future economic benefits that are attributable to the assets will flow to the Group. All other subsequent expenditures are recognised as non-qualifying expenditures.

All non-qualifying expenditures and expenses incurred on other non-qualifying development activities are charged as expenses to the profit and loss account in the period in which such expenses are incurred.

Amortisation of the cost of capitalised software system development expenditures is provided from the dates when the systems are available for use.

Upon the disposal of leasehold buildings, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the leasehold buildings revaluation reserve to retained earnings.

The gain or loss on disposal of a fixed asset other than leasehold buildings is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

2. Principal Accounting Policies (Continued)

(j) Investment properties

Investment properties are properties held for long-term rental yields and not occupied by the Group. Investment properties are carried at fair value, representing open-market value determined annually by independent qualified valuers. Changes in fair value are recognised in the profit and loss account.

(k) Lease premium for land

Leasehold land premiums are up-front payments to acquire long-term interests in lessee-occupied properties. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to the profit and loss account.

(l) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired company at the date of acquisition. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

(m) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (ie, the higher of an asset's fair value less costs to sell and value in use). Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a decline in revaluation.

In respects of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the circumstances and events leading to the impairment cease to exist. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses are credited to the profit and loss account except when the asset is carried at valuation, in which case the reversal of impairment loss is treated as a revaluation movement.

2. Principal Accounting Policies (Continued)

(n) Clearing House Funds/Cash and Derivatives Market Development Fund ("CDMD Fund")

Income arising from bank deposits and investments comprising these funds and expenses incurred for these funds are dealt with in the profit and loss account. Investment income net of expenses of the Clearing House Funds is appropriated from retained earnings to the respective designated reserves of these funds and allocated to amounts attributable to Clearing Participants' contribution and to clearing houses' contributions based on the ratio of their respective average contributions and accumulated allocated investment income net of expenses. Investment income net of expenses of the CDMD Fund may be appropriated to the designated reserve of this fund at the discretion of the Board of Directors of HKFE Clearing Corporation Limited ("HKCC"). Changes in valuation of the non-trading securities and available-for-sale financial assets comprising these funds are dealt with in the investment revaluation reserve.

Net assets of the Clearing House Funds, which are derived from contributions from CCASS Participants (other than investor participants), HKCC Participants and The SEHK Options Clearing House Limited ("SEOCH") Participants ("Clearing Participants") and the respective clearing houses, and the accumulated investment income net of expenses of these funds appropriated from retained earnings, are included in the balance sheet as non-current assets. Clearing Participants' contributions are treated as non-current liabilities in the balance sheet. In accordance with HKAS 39, which is effective from 1 January 2004, non-cash collateral has been derecognised. Accordingly, contributions receivable from Clearing Participants fully secured by bank guarantees and the corresponding liabilities are not reflected as assets and liabilities in the balance sheet. Contributions from the respective clearing houses, the accumulated investment income net of expenses of these funds appropriated from retained earnings and forfeiture of defaulted Clearing Participants' contributions are included in the balance sheet as designated reserves.

Net assets of the CDMD Fund, which are derived from the accumulated investment income net of expenses of this fund appropriated from retained earnings, are included in the balance sheet as non-current assets. The accumulated investment income net of expenses of this fund appropriated from retained earnings is included in the balance sheet as a designated reserve.

2. Principal Accounting Policies (Continued)

(o) Margin Funds on derivatives contracts/margin deposits and securities received from Clearing Participants on derivatives contracts

Margin Funds are established by cash received or receivable and securities received from SEOCH and HKCC Clearing Participants for their open positions in derivatives contracts. The funds are refundable to the Clearing Participants of SEOCH and HKCC when they close their positions in derivatives contracts. These funds are held for the SEOCH and HKCC Clearing Participants' liabilities to the respective clearing houses and are held in segregated accounts of the respective clearing houses. In accordance with HKAS 39, which is effective from 1 January 2004, non-cash margin collateral has been derecognised. Therefore, only cash collateral is recorded as assets and liabilities of the Margin Funds in the balance sheet.

Income arising from bank deposits and investments comprising these Margin Funds and expenses incurred for these funds are dealt with in the profit and loss account. Changes in fair value of non-trading securities/available-for-sale financial assets comprising these Margin Funds are dealt with in the investment revaluation reserve. Changes in fair value of investments designated as financial assets at fair value through profit or loss are included in the profit and loss account. The Clearing Participants of SEOCH and HKCC are entitled to interest at a rate determined by SEOCH and HKCC on the margin deposits they place with SEOCH and HKCC respectively.

(p) Cash marks received from Participants

Cash marks received from HKSCC Participants for their open positions are recorded as assets in the balance sheet. As these funds are refundable to the Participants when they close their positions, the marks received are reflected as liabilities to the Participants in the balance sheet.

Income arising from bank deposits comprising these funds is dealt with in the profit and loss account. HKSCC Participants are entitled to interest at a rate determined by HKSCC on the marks they place with HKSCC.

(q) Derivative financial instruments

Derivatives, which include foreign exchange contracts, are initially recognised at fair value on the date on which a derivative contract is entered into and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. Changes in fair value of the derivatives are recognised in the profit and loss account. All derivatives are classified as financial assets at fair value through profit or loss when the fair value is positive and as financial liabilities at fair value through profit or loss when the fair value is negative.

2. Principal Accounting Policies (Continued)

(r) Investments

(i) Classification

From 1 January 2004, investments of the Group are classified under the following categories:

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading and those designated as fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss.

Available-for-sale financial assets

This category comprises financial assets which are non-derivatives and are designated as available-for-sale financial assets or not classified under other investment categories.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and with no intention of trading the receivables. Bank deposits are treated as loans and receivables and are disclosed as time deposits and cash equivalents.

Details of the redesignation on 1 January 2004 are included in note 2(r)(viii).

(ii) Recognition and initial measurement

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments at fair value through profit or loss are initially recognised at fair value with transaction costs recognised as expenses in the profit and loss account. Investments not designated as fair value through profit or loss are initially recognised at fair value plus transaction costs.

(iii) Derecognition

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially the risk and rewards of ownership.

2. Principal Accounting Policies (Continued)

(r) **Investments** (Continued)

(iv) Gains or losses on subsequent measurement and interest income

Financial assets at fair value through profit or loss

- Investments under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in the profit and loss account in the period in which they arise. Upon disposal, the difference between the net sale proceeds and the carrying value is included in the profit and loss account.
- Interest income is recognised using the effective interest method and included as net realised and unrealised gains/(losses) and interest income from these investments.

Available-for-sale financial assets

- Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in investment revaluation reserve, except for monetary securities whose exchange differences resulting from changes in amortised costs are recognised in profit and loss account. When the securities are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal.
- Interest income is recognised using the effective interest method and disclosed as interest income.

Loans and receivables

- Loans and receivables are carried at amortised cost using the effective interest method less provision for impairment.
- Interest income is recognised using the effective interest method and disclosed as interest income.

(v) Fair value measurement principles

Fair values of quoted investments are based on bid prices. For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

2. Principal Accounting Policies (Continued)

(r) **Investments** (Continued)

(vi) Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the profit or loss – is removed from investment revaluation reserve and recognised in the profit and loss account.

In case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the securities below their cost is considered in determining whether the securities are impaired. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

A provision of impairment for loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flow, discounted at the original effective interest rate. The amount of provision is recognised in the profit and loss account.

(vii) Non-trading securities and trading securities (only applicable to accounting periods ended on or before 31 December 2003)

(a) Non-trading securities

Securities held by the Group for the Clearing House Funds, Compensation Fund Reserve Account, CDMD Fund, Margin Funds and its investments not held for trading were stated in the balance sheet at fair value. Changes in the fair value of individual securities were credited or debited to the investment revaluation reserve until a security was sold, matured, or was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sale proceeds and the carrying amount of the relevant security, together with any changes in fair value transferred from the investment revaluation reserve, was dealt with in the profit and loss account.

Individual securities were reviewed at each balance sheet date to determine whether they were impaired. When a security was considered to be impaired, the cumulative loss recorded in the investment revaluation reserve was taken to the profit and loss account. Cumulative losses transferred from the investment revaluation reserve to the profit and loss account as a result of impairment were written back to the profit and loss account when the circumstances and events leading to the impairment ceased to exist.

2. Principal Accounting Policies (Continued)

(r) Investments (Continued)

(vii) Non-trading securities and trading securities (only applicable to accounting periods ended on or before 31 December 2003) (Continued)

(b) Trading securities

Trading securities were investments of the Group's Corporate Funds and were marked to market (ie, carried at fair value). At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the profit and loss account as they arose.

(viii) Redesignation of securities and time deposits held by the Group as at 1 January 2004

				New designation on 1 January 2004		
	As reported on 31 Dec 2003 $'000	Effect of initial adoption of HKAS 39 $'000	As restated on 1 Jan 2004 $'000	Financial assets/ (liabilities) at fair value through profit or loss $'000	Available-for-sale financial assets $'000	Loans and receivables* $'000
Clearing House Funds						
Non-trading securities	125,643	505	126,148	–	126,148	–
Bank balances and time deposits	1,349,644	(505)	1,349,139	–	–	1,349,139
Compensation Fund Reserve Account						
Non-trading securities	18,318	499	18,817	–	18,817	–
Bank balances and time deposits	26,819	(499)	26,320	–	–	26,320
CDMD Fund						
Non-trading securities	925	–	925	–	925	–
Non-trading securities	77,258	–	77,258	–	77,258	–
Margin Funds						
Non-trading securities	2,169,069	19,086	2,188,155	149,050	2,039,105	–
Bank balances and time deposits	4,900,011	(19,086)	4,880,925	–	–	4,880,925
Trading securities	3,212,998	35,283#	3,248,281	3,248,281	–	–
Bank balances and time deposits	1,777,703	26,954#	1,804,657	115,309	–	1,689,348
Interest receivable	62,209	(62,209)#	–	–	–	–
Forward foreign exchange contracts included in accounts payable	(11,567)	–	(11,567)	(11,567)	–	–

* *Loans and receivables include time deposits and cash and cash equivalents.*
\# *Net impact on retained earnings on 1 January 2004 of $28,000 (note 38).*

2. Principal Accounting Policies (Continued)

(s) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading or those designated at fair value through profit or loss at inception. A financial liability is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Liabilities under this category are initially recognised at fair value on the date on which a contract is entered into and subsequently remeasured at their fair value. Changes in fair value of the liabilities are recognised in the profit and loss account.

(t) Repurchase transactions

When securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the balance sheet and the consideration received is recorded as a liability.

(u) Recognition of receivables and payables from/to HKSCC Clearing Participants on Stock Exchange trades settled on the CNS basis

Upon acceptance of Stock Exchange trades for settlement in CCASS under the CNS basis, HKSCC interposes itself between the HKSCC Clearing Participants as the settlement counterparty to the trades through novation. Final acceptance of Stock Exchange trades is confirmed on T + 1 by details contained in the final clearing statement transmitted to every HKSCC Clearing Participant.

The CNS money obligations due by/to HKSCC Clearing Participants on the Stock Exchange trades are recognised as receivables and payables when they are confirmed and accepted on T + 1.

For all other trades and transactions, HKSCC merely provides a facility for settlement within CCASS and does not interpose itself between the HKSCC Clearing Participants as the settlement counterparty to the trades. The settlement of these trades does not constitute money obligations and is excluded from the consolidated accounts of the Group.

2. Principal Accounting Policies (Continued)

(v) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax assets and liabilities.

(w) Deferred revenue

Deferred revenue comprises annual listing fees received in advance, payments received in advance for services in relation to the sales of stock market information and telecommunication line rentals for trading facilities located at brokers' offices.

(x) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2. Principal Accounting Policies (Continued)

(y) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated accounts are presented in Hong Kong Dollars ("HKD"), which is HKEx's and the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets (for available-for-sale financial assets, please refer to note 2(r)(iv)) and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equity investments held that are classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equity instruments classified as available-for-sale financial assets are included in the investment revaluation reserve in equity.

(z) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and time deposits within three months of maturity when acquired.

(aa) Segment reporting

Business segment assets consist primarily of fixed assets, assets of the Clearing House Funds, Compensation Fund Reserve Account, CDMD Fund, Margin Funds, financial assets and other assets. Business segment liabilities comprise primarily of liabilities to Participants, financial and other liabilities. Non-business segment assets and liabilities include taxation recoverable and payable, deferred tax assets and liabilities and unclaimed dividends. Capital expenditures comprise additions to fixed assets. Business segments have been used as the primary reporting format and no geographical segment analysis is presented as all business activities are conducted in Hong Kong.

(ab) Dividends

Dividends disclosed in the consolidated profit and loss account represent interim dividend paid and final and special dividends proposed/declared (based on the issued share capital as at the balance sheet date) for the year.

Dividends declared are recognised as liabilities in the Group's accounts in the year the dividends are approved by the shareholders.

3. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Estimated impairment of investments in associates

The Group assesses annually if investments in associates have suffered any impairment in accordance with the accounting policy stated in note 2(m). The recoverable amount of the investment in one of the associates, Computershare Hong Kong Investor Services Limited ("CHIS"), is determined using discounted cash flows calculations. These calculations require the use of estimated dividends and an appropriate discount rate as stated in note 20(a)(ii).

If the discount rate moves above 27 per cent, or annual dividend falls by more than 68 per cent, an impairment loss may be considered necessary.

4. Segment Information

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

4. Segment Information (Continued)

	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. Costs of the Listing Function are further explained in note 6.

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.

4. Segment Information (Continued)

The **Clearing Business** refers to the operations of the three Clearing Houses, namely HKSCC, SEOCH and 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 assets and liabilities and unclaimed dividends.

5. Trading Fees and Trading Tariff

	2004 $'000	2003 $'000
Trading fees and trading tariff are derived from:		
Securities traded on the Cash Market	**459,524**	301,075
Derivatives contracts traded on the Derivatives Market	**222,769**	184,136
	682,293	485,211

6. Stock Exchange Listing Fees

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

	2004				
	Equity			Debt &	
	Main Board	GEM	Subtotal	Derivatives	Total
	$'000	$'000	$'000	$'000	$'000
Income					
Annual listing fees	224,875	25,435	250,310	2,048	252,358
Initial and subsequent issue listing fees	43,932	12,654	56,586	62,882	119,468
Prospectus vetting fees	2,690	300	2,990	205	3,195
Other listing fees	2,116	1,290	3,406	–	3,406
Total income	273,613	39,679	313,292	65,135	378,427
Costs of Listing Function					
Staff costs and related expenses	80,806	30,223	111,029	5,464	116,493
Information technology and computer maintenance expenses	2,217	584	2,801	3	2,804
Premises expenses	5,706	2,113	7,819	381	8,200
Legal and professional fees	2,471	1,446	3,917	–	3,917
Depreciation	10,417	3,769	14,186	544	14,730
Payment to SFC under dual filing regime	16,353	3,647	20,000	–	20,000
Other operating expenses	5,702	1,889	7,591	181	7,772
Total costs	123,672	43,671	167,343	6,573	173,916
Contribution	149,941	(3,992)	145,949	58,562	204,511

6. Stock Exchange Listing Fees (Continued)

2003 (As restated)

	Equity			Debt &	
	Main Board	GEM	Subtotal	Derivatives	Total
	$'000	$'000	$'000	$'000	$'000
Income					
Annual listing fees	212,387	22,940	235,327	3,124	238,451
Initial and subsequent issue listing fees	32,011	22,514	54,525	34,143	88,668
Prospectus vetting fees	2,095	1,065	3,160	30	3,190
Other listing fees	2,456	1,021	3,477	–	3,477
Total income	248,949	47,540	296,489	37,297	333,786
Costs of Listing Function					
Staff costs and related expenses	61,200	32,284	93,484	5,306	98,790
Information technology and computer maintenance expenses	1,850	616	2,466	11	2,477
Premises expenses	4,560	2,298	6,858	347	7,205
Legal and professional fees	12,393	1,721	14,114	–	14,114
Depreciation	9,432	4,662	14,094	678	14,772
Payment to SFC under dual filing regime	12,387	2,613	15,000	–	15,000
Other operating expenses	3,634	1,889	5,523	302	5,825
Total costs	105,456	46,083	151,539	6,644	158,183
Contribution	143,493	1,457	144,950	30,653	175,603

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

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

7. Investment Income

	2004 $'000	As restated 2003 $'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

7. Investment Income (Continued)

(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 whose economic characteristics and risks 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 CDMD Fund of $20,000 (2003: $56,000).

8. 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

9. 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.

10. Profit before Taxation

	2004 $'000	As restated 2003 $'000
Profit before taxation is stated after crediting/(charging):		
Amortisation of lease premium for land	(548)	(548)
Auditors' remuneration		
– audit fees	(1,862)	(1,620)
– secondment fee	(1,800)	(600)
– non-audit fees	(1,403)	(773)
Interest on bank loans and overdrafts repayable within five years	(95)	(827)
Operating lease rentals		
– land and buildings	(43,797)	(48,485)
– computer systems and equipment	(9,292)	(39,323)
Rental income from investment property	465	459
Direct operating expenses of the investment property that generates rental income	(165)	(164)
Depreciation	(183,400)	(181,739)
Impairment loss of investments in associates	–	(380)
Impairment loss of club debenture	(75)	(860)
(Loss)/gain on disposal or write-off of fixed assets		
– retirement of redundant IT systems	(165)	(10,133)
– others	141	(1,414)
Exchange differences		
– trading and non-trading securities	–	28,167
– financial assets (excluding those at fair value through profit or loss)	(26)	–
– Others	(185)	–

11. Directors' Emoluments

All Directors, including one Executive Director, received emoluments during the year (2003: 15 of the 20 Directors, including two Executive Directors, received emoluments). The aggregate emoluments paid and payable to the Directors during the year were as follows:

	2004 $'000	As restated 2003 $'000
Executive Directors:		
Salaries, other allowances and benefits in kind	**7,275**	8,725
Employee share option benefits (note a)	**2,204**	1,464
Employer's contribution to provident fund	**900**	855
Performance bonus	**900**	200
	11,279	11,244
Non-executive Directors:		
Fees	**1,200**	841
	12,479	12,085

(a) Employee share option benefits represent fair value at grant date of share options issued under the Post-Listing Scheme amortised to the profit and loss account during the year disregarding whether the options have been vested/exercised or not.

(b) The emoluments, including employee share option benefits for options issued under the Post-Listing Scheme, of the Directors were within the following bands:

	2004 Number of Directors	As restated 2003 Number of Directors
$1 – $500,000	**12**	13
$4,000,001 – $4,500,000	**–**	1
$7,000,001 – $7,500,000	**–**	1
$11,000,001 – $11,500,000	**1**	–
	13	15

11. Directors' Emoluments (Continued)

The emoluments including employee share option benefits of every Director, including the Chief Executive who is an ex-officio member for the years ended 31 December 2004 and 2003, are set out below:

Name of Director	2004 Fees $	Salary $	Performance bonus $	Employee share option benefits $	Other benefits (note 1) $	Employer's contribution to provident fund (note 2) $	Total $	As restated 2003 Total $
Charles Y K Lee	100,000	–	–	–	–	–	100,000	74,148
John C C Chan (note 3)	–	–	–	–	–	–	–	–
Paul M Y Chow (note 4)	–	7,200,000	900,000	2,204,345	74,425	900,000	11,278,770	7,107,365
Paul C H Fan (note 3)	–	–	–	–	–	–	–	–
Henry H L Fan (note 5)	100,000	–	–	–	–	–	100,000	13,352
Fong Hup	100,000	–	–	–	–	–	100,000	74,148
Tim Freshwater	100,000	–	–	–	–	–	100,000	74,148
Bill C P Kwok	100,000	–	–	–	–	–	100,000	74,148
K C Kwong (note 3)	–	–	–	–	–	–	–	4,136,734
Dannis J H Lee	100,000	–	–	–	–	–	100,000	74,148
Vincent K H Lee	100,000	–	–	–	–	–	100,000	74,148
Leong Ka Chai	100,000	–	–	–	–	–	100,000	74,148
Liu Jinbao (note 6)	–	–	–	–	–	–	–	11,932
John G C Seto (note 3)	–	–	–	–	–	–	–	–
Lo Ka Shui	100,000	–	–	–	–	–	100,000	74,148
John E Strickland	100,000	–	–	–	–	–	100,000	74,148
Rodney G Ward (note 3)	–	–	–	–	–	–	–	–
David M Webb	100,000	–	–	–	–	–	100,000	74,148
Oscar S H Wong	100,000	–	–	–	–	–	100,000	74,148
Yue Wai Keung (note 3)	–	–	–	–	–	–	–	–

Notes:

1. *Other benefits include leave pay, insurance premium, and club membership.*
2. *The employee who retires before normal retirement age is eligible to 18% of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases at an annual increment of 18% thereafter reaching 100% after completion of seven years of service.*
3. *Retired on 15 April 2003.*
4. *Appointed on 1 May 2003.*
5. *Appointed on 15 November 2003.*
6. *Resigned on 28 May 2003.*

12. Five Top-paid Employees

One (2003: two) of the five top-paid employees is a Director, whose emoluments are disclosed in note 11. Details of the emoluments of the other four (2003: three) top-paid employees are as follows:

	2004 $'000 (four employees)	2003 $'000 (three employees)
Salaries, other allowances and benefits in kind (note a)	**17,287**	12,321
Employee share option benefits (note b)	**5,375**	–
Performance bonus	**2,470**	293
Retirement benefit costs	**2,135**	1,365
Compensation for loss of office	**–**	1,575
	27,267	15,554

(a) The emoluments disclosed above exclude individual income tax paid or incurred by an employee of $410,000 (2003: $91,000) in respect of his services as the Chief Representative of the Group's representative office in the Mainland.

(b) Employee share option benefits represent fair value at grant date of share options issued under the Post-Listing Scheme amortised to the profit and loss account during the year disregarding whether the options have been vested/exercised or not.

(c) The emoluments of these four (2003: three) employees, including employee share option benefits for options issued under the Post-Listing Scheme, are within the following bands:

	2004 Number of employees	As restated 2003 Number of employees
$4,000,001 – $4,500,000	**–**	1
$5,500,001 – $6,000,000	**1**	2
$6,000,001 – $6,500,000	**2**	–
$9,000,001 – $9,500,000	**1**	–
	4	3

The employees, whose emoluments are disclosed above, include senior executives who were also Directors of the subsidiaries during the years. No Directors of the subsidiaries waived any emoluments.

13. Staff Costs and Related Expenses

(a) Details of staff costs and related expenses are as follows:

	2004 $'000	As restated 2003 $'000
Salaries, other allowances and benefits	**477,022**	463,697
Employee share option benefits	**14,290**	2,771
Unutilised annual leave	**2,330**	4,275
Termination benefits	**4,418**	12,040
Retirement benefit costs	**47,594**	45,561
	545,654	528,344

(b) Retirement Benefit Costs

The Group has sponsored a defined contribution provident fund scheme, namely the Hong Kong Exchanges and Clearing Provident Fund Scheme ("the ORSO Plan"), which is registered under ORSO and has obtained Mandatory Provident Fund ("MPF") exemption. The ORSO Plan is for all full-time permanent employees. Contributions to the ORSO Plan by the Group and employees are calculated as a percentage of employees' basic salaries. In compliance with the MPF Ordinance, HKEx has participated in a master trust MPF scheme, the AIA-JF Premium MPF Scheme ("the MPF Scheme"), to provide retirement benefits to full-time permanent employees who elect to join the MPF Scheme and all temporary or part-time employees who are not eligible for joining the ORSO Plan. Contributions to the MPF Scheme are in accordance with the statutory limits prescribed by the MPF Ordinance.

The retirement benefit costs charged to the consolidated profit and loss account represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme.

For the ORSO Plan, contributions during the year are not offset by contributions forfeited in respect of employees who left the ORSO Plan before the contributions were fully vested. Instead, forfeited contributions are credited to a reserve account of the ORSO Plan for the benefit of its members.

	2004 $'000	2003 $'000
Forfeited contributions during the year and retained in the ORSO Plan	**5,847**	8,799

14. Information Technology and Computer Maintenance Expenses

	2004 $'000	2003 $'000
Costs of services and goods:		
– consumed by the Group	**161,142**	195,434
– directly consumed by Participants	**60,482**	51,214
	221,624	246,648

15. Taxation

(a) 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 i)	**219,086**	125,503
(Over)/under provision in respect of prior years	**(79)**	1,170
	219,007	126,673
Deferred taxation (note 37 and note ii)	**(25,366)**	(14,619)
Taxation charge	**193,641**	112,054

(i) 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.

(ii) 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.

15. Taxation (Continued)

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of 17.5 per cent (2003: 17.5 per cent) as follows:

	2004 $'000	As restated 2003 $'000
Profit before taxation (excluding share of profit less losses of associates)	**1,237,641**	796,098
Calculated at a taxation rate of 17.5 per cent (2003: 17.5 per cent)	**216,587**	139,317
Income not subject to taxation	**(32,906)**	(41,192)
Expenses not deductible for taxation purposes	**6,485**	11,349
Change in deferred tax arising from unrecognised tax losses	**3,411**	(4,974)
Adjustment of deferred tax	**143**	200
(Over)/under provision in respect of prior years	**(79)**	1,170
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	**–**	6,184
Taxation charge	**193,641**	112,054

16. Earnings per Share

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 as set out in note 33 do not have a material dilutive effect on the basic earnings per share.

17. Fixed Assets

(a) Group

	Leasehold buildings $'000	Computer trading and clearing systems $'000	Other computer hardware and software $'000	Leasehold improvements, furniture, equipment and motor vehicles $'000	Total $'000
Net book value at 1 Jan 2003					
– as previously reported (note ii)	117,000	444,232	105,304	71,572	738,108
– effect of adopting HKAS 17	(98,500)	–	–	–	(98,500)
– as restated (note i)	18,500	444,232	105,304	71,572	639,608
Additions	–	13,431	16,775	6,041	36,247
Disposals	–	(3,474)	(6,659)	(1,604)	(11,737)
Depreciation	(748)	(109,510)	(39,703)	(31,778)	(181,739)
Revaluation (note 34)	548	–	–	–	548
Net book value at 31 Dec 2003	18,300	344,679	75,717	44,231	482,927
At 31 Dec 2003					
At cost	–	1,345,403	347,385	231,519	1,924,307
At valuation	18,300	–	–	–	18,300
Accumulated depreciation	–	(1,000,724)	(271,668)	(187,288)	(1,459,680)
Net book value	18,300	344,679	75,717	44,231	482,927
Net book value at 1 Jan 2004					
– as previously reported (note ii)	111,000	344,679	75,717	44,231	575,627
– effect of adopting HKAS 17	(92,700)	–	–	–	(92,700)
– as restated	18,300	344,679	75,717	44,231	482,927
Additions	–	12,739	10,275	1,905	24,919
Disposals	–	(159)	(9)	(14)	(182)
Depreciation	(736)	(116,882)	(38,487)	(27,295)	(183,400)
Revaluation (note 34)	36	–	–	–	36
Net book value at 31 Dec 2004	17,600	240,377	47,496	18,827	324,300
At 31 Dec 2004					
At cost	–	1,223,047	352,106	229,674	1,804,827
At valuation	17,600	–	–	–	17,600
Accumulated depreciation	–	(982,670)	(304,610)	(210,847)	(1,498,127)
Net book value	17,600	240,377	47,496	18,827	324,300

(i) The analysis of net book value as at 1 January 2003 was as follows:

At cost	–	1,462,366	380,773	239,201	2,082,340
At valuation	18,500	–	–	–	18,500
Accumulated depreciation	–	(1,018,134)	(275,469)	(167,629)	(1,461,232)
Net book value	18,500	444,232	105,304	71,572	639,608

17. Fixed Assets (Continued)

(a) Group (Continued)

(ii) Amount of leasehold buildings included the land element of the leasehold properties, which is now disclosed as "Lease premium for land" (note 19).

(iii) Leasehold buildings were revalued as at 31 December 2004 on the basis of their depreciated replacement costs calculated by Jones Lang LaSalle, an independent firm of qualified property valuers. A revaluation gain of $36,000 was credited to leasehold building revaluation reserve during 2004 (2003: $548,000) (note 34).

(iv) The cost of leasehold buildings of the Group was $26,900,000 (2003: $26,900,000). The carrying value of these leasehold buildings as at 31 December 2004 would have been $13,153,000 (2003: $14,229,000) had they been carried at cost less accumulated depreciation.

(b) HKEx

	Other computer hardware and software $'000	Leasehold improvements, furniture, equipment and motor vehicles $'000	Total $'000
Net book value at 1 Jan 2003 (note i)	36,252	7,346	43,598
Additions	8,935	4,346	13,281
Disposals	(6,316)	(8)	(6,324)
Depreciation	(9,259)	(4,438)	(13,697)
Net book value at 31 Dec 2003	29,612	7,246	36,858
At 31 Dec 2003			
Cost	43,278	16,226	59,504
Accumulated depreciation	(13,666)	(8,980)	(22,646)
Net book value	29,612	7,246	36,858
Net book value at 1 Jan 2004	**29,612**	**7,246**	**36,858**
Additions	**5,178**	**343**	**5,521**
Depreciation	**(12,728)**	**(4,487)**	**(17,215)**
Net book value at 31 Dec 2004	**22,062**	**3,102**	**25,164**
At 31 Dec 2004			
Cost	**46,695**	**16,565**	**63,260**
Accumulated depreciation	**(24,633)**	**(13,463)**	**(38,096)**
Net book value	**22,062**	**3,102**	**25,164**

(i) The analysis of net book value as at 1 January 2003 was as follows:

At cost	44,229	11,893	56,122
Accumulated depreciation	(7,977)	(4,547)	(12,524)
Net book value	36,252	7,346	43,598

18. Investment Property

	Group 2004 $'000	2003 $'000
At 1 Jan	**10,000**	10,000
Fair value gain	**3,300**	–
At 31 Dec	**13,300**	10,000

The investment property is held under long-term lease and situated in Hong Kong. The cost of investment property was $8,229,000 (2003: $8,229,000). The investment property was revalued as at 31 December 2004 on the basis of its open market value by Jones Lang LaSalle, an independent firm of qualified property valuers. The fair value gain during the year amounted to $3,300,000 (2003: Nil) and was credited to the profit and loss account under other income (note 8).

19. Lease Premium for Land

	Group 2004 $'000	As restated 2003 $'000
Net book value at 1 Jan		
– as previously reported	**–**	–
– effect of adopting HKAS 17	**95,766**	96,314
– as restated	**95,766**	96,314
Amortisation	**(548)**	(548)
Net book value at 31 Dec	**95,218**	95,766
Current portion of non-current assets	**(548)**	(548)
Non-current portion	**94,670**	95,218

The leasehold land is held under long-term lease and situated in Hong Kong.

20. Investments in Associates

	Group	
	2004 **$'000**	As restated 2003 $'000
Share of net assets of associates	**13,790**	11,707
Goodwill (note a)	**24,941**	24,941
	38,731	36,648

(a) Goodwill

	2004 **$'000**	As restated 2003 $'000
Net book amount at 1 Jan (note i)		
– as previously reported	**22,295**	25,321
– effect of adopting HKFRS 3, HKAS 36 and HKAS 38	**2,646**	–
– as restated	**24,941**	25,321
Impairment loss (note ii)	**–**	(380)
Net book amount at 31 Dec	**24,941**	24,941
Represented by:		
Opening value upon adoption of HKFRS 3	**25,321**	25,321
Accumulated impairment	**(380)**	(380)
	24,941	24,941

(i) Goodwill as at 1 January 2003 represented opening value upon adoption of HKFRS 3 of $25,321,000.

(ii) Impairment tests for investments in associates

The recoverable amount of the investment in CHIS is determined using discounted cash flows calculations which represents the present value of estimated future cash flows expected to arise from dividends to be received from CHIS and its ultimate disposal. The discount rate used is the ten-year Hong Kong Government bond rate as at 31 December 2004 of 3.55% (2003: 4.39%).

The recoverable amount of the investment in ADP Wilco Processing Services Limited ("AWPS") is based on the share of the net assets of the associate, which comprise predominantly cash and bank balances.

During the year ended 31 December 2003, an impairment loss of $380,000 arose for the goodwill of AWPS (included in Cash Market segment) as the associate did not generate any income.

20. Investments in Associates (Continued)

(b) Details of the unlisted associates as at 31 December 2004 were as follows:

Name	Place of incorporation	Principal activities	Particulars of shares held	Interest held
Computershare Hong Kong Investor Services Limited	Hong Kong	Provision of share registration services	5,854 Class A ordinary shares	24%
ADP Wilco Processing Services Limited	Hong Kong	Provision of transaction processing services to Stock Exchange Participants	6 Class B ordinary shares	30%

AWPS has an accounting year end of 30 June, which is not coterminous with the Group's accounting year end. The company is currently undergoing voluntary liquidation.

(c) The summarised financial information based on the unaudited management accounts of the associates is as follows:

	2004 $'000	2003 $'000
Assets	**82,540**	65,269
Liabilities	**26,172**	17,595
Income	**209,953**	118,979
Profit	**53,708**	35,999

21. Clearing House Funds

	Group 2004 $'000	Group 2003 $'000
Net assets of the Clearing House Funds are as follows:		
HKSCC Guarantee Fund	**339,598**	371,289
SEOCH Reserve Fund	**160,119**	131,274
HKCC Reserve Fund	**1,361,770**	1,048,767
	1,861,487	1,551,330
Net assets of the Clearing House Funds are composed of:		
Non-trading securities, at fair value		
–unlisted debt securities	**–**	125,643
Available-for-sale financial assets, at fair value		
–unlisted debt securities	**127,569**	–
Time deposits with original maturity over three months	**144,610**	140,000
Cash and cash equivalents	**1,604,089**	1,209,644
Contributions receivable from Clearing Participants fully secured by bank guarantees (note a)	**–**	92,234
	1,876,268	1,567,521
Less: Other liabilities	**(14,781)**	(16,191)
	1,861,487	1,551,330
The Clearing House Funds are funded by:		
Clearing Participants' contributions (note b):		
– cash	**1,298,752**	891,811
– bank guarantees	**–**	92,234
Designated reserves (note 35):		
– Clearing houses' contributions	**320,200**	320,200
– Forfeiture of defaulted Clearing Participants' contributions	**1,928**	1,928
– Accumulated investment income net of expenses attributable to:		
– Clearing Participants' contributions	**182,839**	183,305
– Clearing houses' contributions	**55,659**	60,233
	560,626	565,666
Revaluation reserve (note 34(b))	**2,109**	1,619
	1,861,487	1,551,330

21. Clearing House Funds (Continued)

(a) In accordance with HKAS 39, non-cash collateral is no longer recognised on balance sheet. As a result, contributions receivable from Clearing Participants fully secured by bank guarantees of $322,724,000 and the corresponding Clearing Participants' contributions by bank guarantees have been derecognised in 2004.

(b) Amount includes Participants' additional deposits of $961,502,000 (2003: $641,045,000).

(c) The maturity profile of the net assets of the Clearing House Funds is as follows:

	2004 $'000	2003 $'000
Amounts maturing/to be settled after more than twelve months	**157,858**	265,643
Amounts maturing/to be settled within twelve months	**1,703,629**	1,285,687
	1,861,487	1,551,330

(d) The HKSCC Guarantee Fund provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Broker Participants in CCASS arising from their Stock Exchange trades accepted for settlement on the CNS basis and defective securities deposited into CCASS. The SEOCH Reserve Fund and the HKCC Reserve Fund were established for the exclusive purpose of supporting SEOCH and HKCC to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to SEOCH and HKCC respectively.

For the HKSCC Guarantee Fund, investment income was insufficient to cover the fund's expenses during the year. As a result, a loss of $5,797,000 (2003: $2,262,000) arose. In prior years, the loss was not appropriated to the fund but included in the Group's retained earnings. Following the clarification of the clearing house rule by the SFC in December 2004, the accumulated losses of $8,059,000 were appropriated to the fund.

22. Compensation Fund Reserve Account

	Group	
	2004 **$'000**	2003 $'000
Net assets of the Compensation Fund Reserve Account are composed of:		
Non-trading securities, at fair value		
– unlisted debt securities	**–**	18,318
Available-for-sale financial assets, at fair value		
– unlisted debt securities	**18,831**	–
Cash and cash equivalents	**29,137**	26,819
Other receivable	**100**	250
	48,068	45,387
Less: Other liabilities	**(10,617)**	(8,528)
	37,451	36,859
The Fund represents:		
Accumulated investment income net of expenses included in designated reserves (note 35)	**37,117**	36,541
Revaluation reserve (note 34(b))	**334**	318
	37,451	36,859

(a) The maturity profile of the net assets of the Compensation Fund Reserve Account is as follows:

	2004 **$'000**	2003 $'000
Amounts maturing/to be settled after more than twelve months	**18,831**	18,318
Amounts maturing/to be settled within twelve months	**18,620**	18,541
	37,451	36,859

22. Compensation Fund Reserve Account (Continued)

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

(i) The interest received from the SFC on the statutory deposits paid in respect of each Stock Exchange Trading Right into the Compensation Fund maintained by the SFC.

(ii) Amounts received or paid out in relation to each of the Stock Exchange Trading Rights granted or revoked by the Stock Exchange respectively.

(iii) Amounts reserved for the replenishment to the Compensation Fund.

The Compensation Fund is further explained in note 41(a)(i).

23. Cash and Derivatives Market Development Fund

	Group	
	2004 $'000	2003 $'000
Net assets of HKCC's CDMD Fund	–	925
The Fund is composed of:		
Non-trading securities, at fair value		
– unlisted debt securities	–	925
	–	925
The Fund represents:		
Accumulated investment income net of expenses appropriated from retained earnings	–	914
Revaluation reserve (note 34(b))	–	11
	–	925

The CDMD Fund was established by the cash received from The Hong Kong Futures Guarantee Corporation Limited (the former clearing house of the Futures Exchange) for the purpose of providing funding for the development and betterment of the cash and derivatives markets in Hong Kong. The Fund was fully utilised in 2004.

24. Non-trading Securities

	Group	
	2004 $'000	2003 $'000
Analysis of non-trading securities:		
Non-current	**–**	77,258
	–	77,258
Non-trading securities, at fair value:		
Equity securities		
– listed outside Hong Kong	**–**	77,258
	–	77,258

Non-trading securities represented the Group's investment in Singapore Exchange Limited, which was designated as an available-for-sale financial asset on 1 January 2004 and disposed of during 2004.

25. Margin Funds on Derivatives Contracts

	Group	
	2004 $'000	2003 $'000
The Margin Funds comprise:		
SEOCH Clearing Participants' Margin Funds	**915,250**	1,083,679
HKCC Clearing Participants' Margin Funds	**9,614,442**	6,790,831
	10,529,692	7,874,510
The assets of the Margin Funds comprise:		
Non-trading securities, at fair value		
– listed debt securities	**–**	102,780
– unlisted debt securities	**–**	2,066,289
Listed securities deposited as alternatives to cash deposits, at market value (note a)	**–**	805,430
Financial assets at fair value through profit or loss, on designation		
– bank deposits with embedded derivatives	**130,871**	–
Available-for-sale financial assets, at fair value		
– listed debt securities	**339,158**	–
– unlisted debt securities	**3,280,786**	–
Time deposits with original maturity over three months	**300,784**	210,000
Cash and cash equivalents	**6,443,406**	4,690,011
Margin receivable from Clearing Participants	**34,687**	–
	10,529,692	7,874,510
The Group's liabilities in respect of the Margin Funds are as follows:		
Margin deposits and securities received from SEOCH and HKCC Participants on derivatives contracts	**10,529,692**	7,874,510

25. Margin Funds on Derivatives Contracts (Continued)

(a) Following the adoption of HKAS 39 in 2004, non-cash collateral deposited by Participants is no longer recognised on the balance sheet. As a result, listed securities deposited as alternatives to cash deposits of $1,114,605,000 are not included in the balance sheet in 2004.

(b) The maturity profile of the assets of Margin Funds is as follows:

	Group	
	2004 $'000	2003 $'000
Amounts maturing/to be settled after more than twelve months	**2,138,362**	1,675,233
Amounts maturing/to be settled within twelve months	**8,391,330**	6,199,277
	10,529,692	7,874,510

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

(a) Accounts receivable, prepayments and deposits

	Group		HKEx	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Receivable from Exchange and Clearing Participants:				
– CNS money obligations	**4,261,202**	4,059,677	**–**	–
– transaction levy, stamp duty and fees receivable	**215,479**	215,907	**–**	–
– others	**13,103**	20,842	**–**	–
Other fees receivable	**158,282**	217,359	**–**	–
Interest and dividend receivable	**142**	62,309	**–**	–
Other receivables, prepayments and deposits	**43,638**	68,586	**20,638**	18,995
	4,691,846	4,644,680	**20,638**	18,995

The carrying amounts of accounts receivable and deposits approximate their fair value.

26. Accounts Receivable, Prepayments and Deposits/ Accounts Payable, Accruals and Other Liabilities (Continued)

(b) Accounts payable, accruals and other liabilities

	Group		HKEx	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Payable to Exchange and Clearing Participants:				
– CNS money obligations	**4,261,382**	4,027,540	**–**	–
– cash collateral and marks	**95,677**	191,252	**–**	–
– arising from stock option activities	**–**	32,287	**–**	–
– others	**54,368**	80,171	**–**	–
Transaction levy payable to the SFC	**63,736**	50,369	**–**	–
Unclaimed dividends (note c)	**143,177**	120,853	**25,815**	9,411
Stamp duty payable	**70,854**	118,862	**–**	–
Deposits received	**29,376**	22,188	**–**	–
Other payables and accruals	**183,780**	136,382	**84,786**	52,315
	4,902,350	4,779,904	**110,601**	61,726

The carrying amounts of accounts payable and other liabilities approximate their fair value.

(c) Unclaimed dividends for the Group represent dividends declared by listed companies which are held by HKSCC Nominees Limited but not yet claimed by shareholders of the companies concerned, and dividends declared by HKEx but not yet claimed by its shareholders.

(d) 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.

27. Financial Assets/Liabilities at Fair Value Through Profit or Loss

	Group 2004 $'000	Group 2003 $'000
Analysis of financial assets at fair value through profit or loss:		
Held for trading		
Equity securities, at fair value		
– listed in Hong Kong	93,154	–
– listed outside Hong Kong	151,954	–
	245,108	–
Debt securities, at fair value		
– listed outside Hong Kong	1,278,858	–
– unlisted	1,200,195	–
	2,479,053	–
Derivative financial instruments, at fair value		
– forward foreign exchange contracts	247	–
Designated as financial assets at fair value through profit or loss		
– bank deposits with embedded derivatives, at fair value	37,185	–
	2,761,593	–
Analysis of financial liabilities at fair value through profit or loss:		
Held for trading		
Derivative financial instruments, at fair value		
– forward foreign exchange contracts	10,749	–

Following the adoption of HKAS 39 in 2004, certain financial assets and financial liabilities were redesignated as financial assets/liabilities through profit or loss on 1 January 2004. There was no such redesignation in 2003 as retrospective application of HKAS 39 is not permitted.

28. Trading Securities

	Group	
	2004 **$'000**	2003 $'000
Equity securities, at fair value		
– listed in Hong Kong	–	133,745
– listed outside Hong Kong	–	147,019
	–	280,764
Debt securities, at fair value		
– listed in Hong Kong	–	96,906
– listed outside Hong Kong	–	1,016,580
	–	1,113,486
Unlisted debt securities, at fair value	–	1,818,748
	–	3,212,998

In accordance with HKAS 39, all trading securities were redesignated as financial assets at fair value through profit or loss on 1 January 2004.

29. Participants' Admission Fees Received

The admission fees are non-interest bearing and may be repayable upon the expiry of seven years from the date of admission of a Participant or upon the termination of a Participant's participation in CCASS, whichever is later. HKSCC may, at its discretion, grant early refunds of admission fees to terminated Participants after six months from the date of termination of their participation in CCASS and to Broker Participants after six months from the date of sale of their Stock Exchange Trading Right.

30. Provisions

(a) Group

	Reinstatement costs $'000	Employee benefit costs $'000	Total $'000
At 1 Jan 2004	24,578	23,525	48,103
Provision for the year	20	32,969	32,989
Amount used during the year	–	(30,478)	(30,478)
Unused amount reversed during the year	(281)	–	(281)
Amount paid during the year	(213)	(2,804)	(3,017)
At 31 Dec 2004	24,104	23,212	47,316

	2004 $'000	2003 $'000
Analysis of provisions:		
Current	23,212	25,011
Non-current	24,104	23,092
	47,316	48,103

(b) HKEx

	Reinstatement costs $'000	Employee benefit costs $'000	Total $'000
At 1 Jan 2004	535	23,525	24,060
Provision for the year	20	32,969	32,989
Amount used during the year	–	(30,478)	(30,478)
Amount paid during the year	–	(2,804)	(2,804)
At 31 Dec 2004	555	23,212	23,767

	2004 $'000	2003 $'000
Analysis of provisions:		
Current	23,212	23,825
Non-current	555	235
	23,767	24,060

31. Investments in and Amounts due from/(to) Subsidiaries

(a) Investments in subsidiaries

	HKEx	
	2004 **$'000**	2003 $'000
Investments in unlisted shares, at cost	**4,145,198**	4,145,198

(b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries are interest-free and have no fixed terms of repayment.

(c) Particulars of subsidiaries

HKEx had direct or indirect interests in the following subsidiaries as at 31 December 2004, all of which are wholly-owned private companies incorporated and operating in Hong Kong except for HKEx (China) Limited, which operates mainly in the Mainland. Details of these companies are as follows:

Company	Issued and fully paid up share capital	Principal activities	Interest held
Direct subsidiaries:			
The Stock Exchange of Hong Kong Limited	A shares $929	Operates the single, unified stock exchange in Hong Kong for the purposes of the Securities and Futures Ordinance	100%
Hong Kong Futures Exchange Limited	Ordinary $19,600,000 Standard $850,000	Operates a futures and options exchange	100%
Hong Kong Securities Clearing Company Limited	Ordinary $2	Operates CCASS and the central securities depository and provides custody and nominee services for eligible securities listed in Hong Kong	100%
HKEC Nominees Limited	Ordinary $2	Nominee services	100%
Hong Kong Financial Markets Development Limited	Ordinary $2	Promotes the securities, futures and financial industry	100%

31. Investments in and Amounts due from/(to) Subsidiaries (Continued)

(c) Particulars of subsidiaries (Continued)

Company	Issued and fully paid up share capital	Principal activities	Interest held
Direct subsidiaries: (continued)			
HKEx (Singapore) Limited	Ordinary $2	Investment holding	100%
HKEx (China) Limited	Ordinary $2	Promotes HKEx products and services in the Mainland	100%
Indirect subsidiaries:			
The SEHK Options Clearing House Limited	Ordinary $1,000,000	Operates a clearing house for option contracts traded on the Stock Exchange	100%
HKEx Information Services Limited	Ordinary $100	Sale of stock market information	100%
Prime View Company Limited	Ordinary $20	Property holding	100%
The Stock Exchange Club Limited	Ordinary $8	Property holding	100%
The Stock Exchange Nominee Limited	Ordinary $2	Nominee services	100%
HKFE Clearing Corporation Limited	Ordinary $1,000,000	Operates a clearing house for derivatives contracts traded on the Futures Exchange	100%
HKFE Clearing Linkage Limited	Ordinary $2	Dormant	100%
HKSCC Nominees Limited	Ordinary $20	Acting as common nominee in respect of securities held in the CCASS depository	100%
Many Profit Limited	Ordinary $2	Investment holding	100%
Freestar Corporation Limited	Ordinary $2	Investment holding	100%
Star Prime Limited	Ordinary $2	Investment holding	100%
HK Conversion Agency Services Limited	Ordinary $2	Conversion agency services	100%

32. Share Capital and Share Premium

	2004 $'000	2003 $'000
Authorised:		
2,000,000,000 shares of $1 each	**2,000,000**	2,000,000

Issued and fully paid:

	Number of shares of $1 each	Share capital $'000	Share premium $'000	Total $'000
At 1 Jan 2003	1,043,580,846	1,043,581	19,012	1,062,593
Shares issued under employee share option scheme	5,418,000	5,418	35,326	40,744
At 31 Dec 2003	1,048,998,846	1,048,999	54,338	1,103,337
Shares issued under employee share option scheme	**7,640,000**	**7,640**	**49,696**	**57,336**
At 31 Dec 2004	**1,056,638,846**	**1,056,639**	**104,034**	**1,160,673**

During the year, Pre-Listing employee share options were exercised to subscribe for 7,640,000 shares (2003: 5,418,000) in HKEx at a consideration of $7.52 per share on or before 31 March 2004 and $6.88 per share after 31 March 2004, of which $1.00 per share was credited to share capital and the balance was credited to the share premium account.

33. Employee Share-based Compensation Reserve

	2004 $'000	As restated 2003 $'000
Employee share-based compensation reserve		
At 1 Jan, as previously reported	–	–
Effect of adopting HKFRS 2	2,771	–
At 1 Jan, as restated	2,771	–
Employee share option benefits	14,290	2,771
At 31 Dec	**17,061**	2,771

33. Employee Share-based Compensation Reserve (Continued)

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

Under the Pre-Listing Scheme of HKEx, share options were granted to employees on 20 June 2000 which are exercisable between 6 March 2002 and 30 May 2010 at an exercise price of $7.52 per share. Following the declaration of a special dividend and final dividend for 2003, at the annual general meeting ("AGM") held on 31 March 2004, shareholders of HKEx approved the adjustments to the subscription price and the contract size of the outstanding options granted under the Pre-Listing Scheme. The subscription price of the shares issuable under the options granted was adjusted from $7.52 per share to $6.88 per share and the aggregate contract size of the options granted but not yet exercised as at 31 March 2004 was adjusted from 6,615,465 shares to 7,288,668 shares.

Under the Post-Listing Scheme of HKEx, share options were granted to:

(i) an executive Director on 2 May 2003 which are exercisable between 2 May 2005 and 1 May 2013 at an exercise price of $9.05 per share;

(ii) an employee on 14 August 2003 which are exercisable between 14 August 2005 and 13 August 2013 at an exercise price of $13.60 per share;

(iii) an employee on 18 August 2003 which are exercisable between 18 August 2005 and 17 August 2013 at an exercise price of $13.65 per share;

(iv) an employee on 15 January 2004 which are exercisable between 15 January 2006 and 14 January 2014 at an exercise price of $18.90 per share;

(v) a number of employees on 31 March 2004 which are exercisable between 31 March 2006 and 30 March 2014 at an exercise price of $16.96 per share; and

(vi) an employee on 17 May 2004 which are exercisable between 17 May 2006 and 16 May 2014 at an exercise price of $15.91 per share.

33. Employee Share-based Compensation Reserve (Continued)

(a) At the AGM held on 31 March 2004, shareholders of HKEx approved the adjustments to the subscription price and the contract size of the options granted under the Post-Listing Scheme in (i) to (iv) above that were not yet exercised prior to the AGM. The adjustments made to the first four option grants under the Post-Listing Scheme are as follows:

Date of grant	Exercise price before adjustment	Exercise price after adjustment	Number of shares issuable under the options granted before adjustment	Number of shares issuable under the options granted after adjustment	Closing price immediately before the date on which the option was granted	Closing price immediately before the date on which the option was adjusted
2 May 2003	$9.05	$8.28	3,000,000	3,280,000	$9.10	$16.85
14 August 2003	$13.60	$12.45	1,000,000	1,094,000	$13.95	$16.85
18 August 2003	$13.65	$12.49	1,800,000	1,968,000	$13.35	$16.85
15 January 2004	$18.90	$17.30	1,000,000	1,094,000	$19.00	$16.85

Shares are issued when options are exercised. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

(b) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2004		2003	
	Average exercise price per share $	**Number of options**	Average exercise price per share $	Number of options
Pre-Listing Scheme				
Outstanding at 1 Jan	7.52	14,171,626	7.52	23,253,020
Exercised	7.50	(7,640,000)	7.52	(5,418,000)
Forfeited	7.00	(524,829)	7.52	(3,663,394)
Adjusted*	N/A	673,203	–	–
Outstanding at 31 Dec	6.88	6,680,000	7.52	14,171,626
Post-Listing Scheme				
Outstanding at 1 Jan	11.26	5,800,000	–	–
Granted	17.21	6,888,000	11.26	5,800,000
Forfeited	16.96	(106,000)	–	–
Adjusted*	N/A	636,000	–	–
Outstanding at 31 Dec	13.78	13,218,000	11.26	5,800,000
Total	11.46	19,898,000	8.61	19,971,626

* *Adjustment approved at the AGM*

33. Employee Share-based Compensation Reserve (Continued)

(c) At 31 December 2004, out of the 19,898,000 outstanding options (2003: 19,971,626), 2,093,000 options (2003: 9,355,792) were exercisable at a weighted average exercise price of $6.88 (2003: $7.52).

During the year, Pre-Listing employee share options were exercised to subscribe for 7,640,000 shares (2003: 5,418,000 shares) in HKEx at a weighted average exercise price of $7.50 each (2003: $7.52 each). The weighted average closing share price on the dates on which the options were exercised was $18.45 (2003: $11.59) per share.

(d) Share options outstanding at the end of the year have the following remaining contractual lives and exercise prices:

	2004		2003	
	Remaining contractual life	**Number of options**	Remaining contractual life	Number of options
Exercise price				
$6.88/(2003: $7.52)	**5.41 years**	**6,680,000**	6.41 years	14,171,626
$8.28/(2003: $9.05)	**8.33 years**	**3,280,000**	9.33 years	3,000,000
$12.45/(2003: $13.60)	**8.62 years**	**1,094,000**	9.62 years	1,000,000
$12.49/(2003: $13.65)	**8.63 years**	**1,968,000**	9.63 years	1,800,000
$17.30/(2003:$18.90)	**9.04 years**	**1,094,000**	–	–
$16.96	**9.24 years**	**5,582,000**	–	–
$15.91	**9.37 years**	**200,000**	–	–
	7.70 years	**19,898,000**	7.30 years	19,971,626

33. Employee Share-based Compensation Reserve (Continued)

(e) According to the Binomial Option Pricing Model, the value and adjusted value of the options granted during the year and 2003 are as follows:

	Date of grant					
	2 May 2003	14 Aug 2003	18 Aug 2003	15 Jan 2004	31 Mar 2004	17 May 2004
Option value						
Before adjustment	$8,010,000	$4,560,000	$8,226,000	$6,550,000	$32,250,960	$1,156,000
After adjustment *	$8,036,000	$4,561,980	$8,226,240	$6,564,000	Not subject to adjustment	Not subject to adjustment
Variables						
Closing share price at date of grant	$9.05	$13.60	$13.65	$18.90	$16.70	$14.65
Risk Free Rate (being the yield of 10-year Exchange Fund Notes)	4.30% as at 30 Apr 2003	4.84% as at 14 Aug 2003	4.76% as at 18 Aug 2003	3.96% as at 15 Jan 2004	3.78% as at 31 Mar 2004	4.55% as at 17 May 2004
Expected Volatility – note (i)	36%	36%	36%	34%	35%	37%
Expiration of the option	10 years from 2 May 2003	10 years from 14 Aug 2003	10 years from 18 Aug 2003	10 years from 15 Jan 2004	10 years from 31 Mar 2004	10 years from 17 May 2004
Expected ordinary dividend	5.60% (2003 prospective dividend yield of the shares as at 2 May 2003)	4.49% (2003 prospective dividend yield of the shares as at 14 Aug 2003)	4.47% (2003 prospective dividend yield of the shares as at 18 Aug 2003)	3.23% (2004 prospective dividend yield of the shares as at 15 Jan 2004)	3.59% (2004 prospective dividend yield of the shares as at 31 Mar 2004)	3.77% (2004 prospective dividend yield of the shares as at 17 May 2004)

* *adjustment approved at the AGM*

(i) The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the one year immediately preceding the grant date.

(ii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in HKEx set out above.

33. Employee Share-based Compensation Reserve (Continued)

(f) Had all the outstanding employee share options been fully exercised on 31 December 2004, the Group would have received $228,096,340 in proceeds. The market value of the shares issued based on the closing price of $20.80 per share on that date would have been $413,878,400. The employees concerned under the Pre-Listing Scheme would have made a gain of $13.92 per share or, in aggregate, $92,985,600. The executive Director concerned under the Post-Listing Scheme would have made a gain of $12.52 per share or, in aggregate, $41,065,600. The employees concerned under the Post-Listing Scheme granted on 14 August 2003, 18 August 2003, 15 January 2004, 31 March 2004 and 17 May 2004 would have made a gain of $8.35 per share or, in aggregate, $9,134,900, $8.31 per share or, in aggregate, $16,354,080, $3.50 per share or, in aggregate, $3,829,000, $3.84 per share or, in aggregate, $21,434,880, $4.89 per share or, in aggregate, $978,000 respectively.

34. Revaluation Reserves

	Group			
	Investment property revaluation reserve $'000	Leasehold buildings revaluation reserve $'000	Investment revaluation reserve $'000	Total $'000
At 1 Jan 2003, as previously reported	1,771	14,242	13,886	29,899
Effect of changes in accounting policies (note 2(b))	(1,771)	(12,149)	–	(13,920)
At 1 Jan 2003, as restated	–	2,093	13,886	15,979
Change in valuation of leasehold buildings (note 17(a))	–	548	–	548
Change in fair value of non-trading securities	–	–	27,585	27,585
Realisation of change in fair value of non-trading securities on maturity and disposal	–	–	(7,392)	(7,392)
Deferred tax arising from change in valuation of leasehold buildings (note 37(b))	–	(134)	–	(134)
Deferred tax arising from change in fair value of non-trading securities (note 37(b))	–	–	(87)	(87)
At 31 Dec 2003, as restated	–	2,507	33,992	36,499
At 1 Jan 2004, as previously reported	**1,771**	**10,668**	**33,992**	**46,431**
Effect of changes in accounting policies (note 2(b))	**(1,771)**	**(8,161)**	**–**	**(9,932)**
At 1 Jan 2004, as restated	**–**	**2,507**	**33,992**	**36,499**
Change in valuation of leasehold buildings (note 17(a))	**–**	**36**	**–**	**36**
Change in fair value of available-for-sale financial assets	**–**	**–**	**10,535**	**10,535**
Realisation of change in fair value of financial assets on maturity and disposal	**–**	**–**	**(26,741)**	**(26,741)**
Deferred tax arising from change in valuation of leasehold buildings (note 37(b))	**–**	**(6)**	**–**	**(6)**
Deferred tax arising from change in fair value of available-for- sale financial assets (note 37(b))	**–**	**–**	**(1,494)**	**(1,494)**
At 31 Dec 2004	**–**	**2,537**	**16,292**	**18,829**

34. Revaluation Reserves (Continued)

(a) The revaluation reserves are segregated for their respective specific purposes and are stated net of applicable deferred taxes.

(b) Includes $2,109,000, $Nil and $334,000 (2003: $1,619,000, $11,000 and $318,000 respectively) of gross revaluation surpluses which are attributable to investments of the Clearing House Funds, the CDMD Fund and the Compensation Fund Reserve Account respectively.

35. Designated Reserves

These reserves are segregated for their respective purposes. Details of the movements on the reserves during the year are as follows:

	Clearing House Funds reserves (note a) $'000	Compensation Fund Reserve Account reserve $'000	CDMD Fund reserve $'000	Development reserve (note b) $'000	Total $'000
At 1 Jan 2003	555,308	35,827	914	135,762	727,811
Surplus of investment income net of expenses transferred from retained earnings	8,430	714	–	–	9,144
Transfer to retained earnings	–	–	–	(49,226)	(49,226)
Transfer from/(to) retained earnings	8,430	714	–	(49,226)	(40,082)
Forfeiture of defaulted Clearing Participants' contributions	1,928	–	–	–	1,928
At 31 Dec 2003	565,666	36,541	914	86,536	689,657
(Deficit)/surplus of investment income net of expenses transferred from retained earnings	(5,040)	576	–	–	(4,464)
Transfer to retained earnings	–	–	(914)	(3,283)	(4,197)
Transfer (to)/from retained earnings	(5,040)	576	(914)	(3,283)	(8,661)
At 31 Dec 2004	560,626	37,117	–	83,253	680,996

35. Designated Reserves (Continued)

(a) Clearing House Funds reserves

	HKSCC Guarantee Fund reserve $'000	SEOCH Reserve Fund reserve $'000	HKCC Reserve Fund reserve $'000	Total $'000
At 1 Jan 2003	255,912	47,185	252,211	555,308
Surplus of investment income net of expenses of Clearing House Funds transferred from retained earnings	–	1,386	7,044	8,430
Forfeiture of defaulted Clearing Participants' contributions	–	–	1,928	1,928
At 31 Dec 2003	255,912	48,571	261,183	565,666
(Deficit)/surplus of investment income net of expenses of Clearing House Funds transferred from retained earnings	**(8,059)**	**203**	**2,816**	**(5,040)**
At 31 Dec 2004	**247,853**	**48,774**	**263,999**	**560,626**

(b) Development reserve

The reserve was set aside for systems development for the Stock Exchange. During 2004, $3,283,000 (2003: $49,226,000) of the reserve was utilised and transferred to the Group's retained earnings (note 38) for funding qualifying projects completed in 2004 (2003: $21,109,000 relates to qualifying projects completed in 2003 and $28,117,000 in 2002).

36. Merger Reserve

The Group has taken advantage of the merger relief available under section 48C of the Hong Kong Companies Ordinance and treated the premium created by the issuance of shares on 6 March 2000, the date HKEx became the holding company of the Stock Exchange and the Futures Exchange and their subsidiaries, as a merger reserve. In the consolidated balance sheet, the full amount of the merger reserve has been used to offset against the reserve arising on consolidation as explained in note 38(c).

37. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5 per cent (2003: 17.5 per cent).

(a) The movements on the deferred tax liabilities/(assets) account are as follows:

	Group		HKEx	
	2004 $'000	As restated 2003 $'000	**2004 $'000**	2003 $'000
At 1 Jan, as previously reported	**58,665**	73,281	**150**	219
Effect of adopting new accounting policies (note 2(b))	**(5,150)**	(5,368)	**–**	–
At 1 Jan, as restated	**53,515**	67,913	**150**	219
Transfer to the profit and loss account (note 15(a))	**(25,366)**	(14,619)	**(1,377)**	(69)
Transfer from shareholders' equity (note b)	**1,500**	221	**–**	–
At 31 Dec (note e)	**29,649**	53,515	**(1,227)**	150

(b) The deferred taxation transfer from shareholders' equity during the year is as follows:

	Group	
	2004 $'000	As restated 2003 $'000
Reserves in shareholders' equity:		
– leasehold buildings revaluation reserve (note 34)	**6**	134
– investment revaluation reserve (note 34)	**1,494**	87
	1,500	221

(c) Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of $208,207,000 as at 31 December 2004 (2003: $181,769,000) carried forward for offsetting against future taxable income.

37. Deferred Taxation (Continued)

(d) The movements in deferred tax liabilities/(assets) during the year are as follows:

(i) The Group

	Accelerated tax depreciation		Revaluation of properties		Tax losses		Revaluation of financial assets		Employee benefits		Total	
	2004 $'000	As restated 2003 $'000	2004 $'000	As restated 2003 $'000	2004 $'000	2003 $'000	2004 $'000	2003 $'000	2004 $'000	2003 $'000	2004 $'000	As restated 2003 $'000
At 1 Jan, as previously reported	64,736	82,670	5,288	5,401	(8,856)	(16,330)	1,627	1,540	(4,130)	–	58,665	73,281
Effect of adopting new accounting policies (note 2(b))	(883)	(759)	(4,267)	(4,609)	–	–	–	–	–	–	(5,150)	(5,368)
At 1 Jan, as restated	63,853	81,911	1,021	792	(8,856)	(16,330)	1,627	1,540	(4,130)	–	53,515	67,913
Charged/(credited) to profit and loss account	(25,768)	(18,058)	636	95	(302)	7,474	–	–	68	(4,130)	(25,366)	(14,619)
Charged to equity	–	–	6	134	–	–	1,494	87	–	–	1,500	221
At 31 Dec	38,085	63,853	1,663	1,021	(9,158)	(8,856)	3,121	1,627	(4,062)	(4,130)	29,649	53,515

(ii) HKEx

	Accelerated tax depreciation		Tax losses		Employee benefits		Total	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000	2004 $'000	2003 $'000	2004 $'000	2003 $'000
At 1 Jan	4,825	5,955	(545)	(5,736)	(4,130)	–	150	219
Charged/(credited) to profit and loss account	(1,990)	(1,130)	545	5,191	68	(4,130)	(1,377)	(69)
At 31 Dec	2,835	4,825	–	(545)	(4,062)	(4,130)	(1,227)	150

37. Deferred Taxation (Continued)

(e) Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	Group		HKEx	
	2004 **$'000**	As restated 2003 $'000	**2004** **$'000**	2003 $'000
Net deferred tax assets recognised on the balance sheet	**(1,227)**	–	**(1,227)**	–
Net deferred tax liabilities recognised on the balance sheet	**30,876**	53,515	**–**	150
	29,649	53,515	**(1,227)**	150

38. Retained Earnings (Including Proposed/Declared Dividends)

	Note	Group 2004 $'000	Group As restated 2003 $'000	HKEx 2004 $'000	HKEx As restated 2003 $'000
At 31 Dec 2003/31 Dec 2002					
Retained earnings/(accumulated losses), as previously reported		1,560,940	3,221,321	(1,822,587)	108,073
Proposed/declared dividends		2,202,898	448,740	2,202,898	448,740
		3,763,838	3,670,061	380,311	556,813
Effect of changes in accounting policies	2(b)	18,023	17,102	(2,771)	–
At 31 Dec 2003/31 Dec 2002					
Retained earnings, as restated		3,781,861	3,687,163	377,540	556,813
Effect of initial adoption of HKAS 39	2(r)	28	–	–	–
At 1 Jan					
Retained earnings, as restated		3,781,889	3,687,163	377,540	556,813
Profit for the year		1,056,884	692,686	2,519,509	458,797
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)	(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)	(15,661)	(647)
		(2,218,559)	(449,387)	(2,218,559)	(449,387)
2004/2003 interim dividend		(454,283)	(188,452)	(454,283)	(188,452)
Dividend on shares issued for employee share options exercised after declaration of 2004/2003 interim dividend		(8)	(231)	(8)	(231)
		(454,291)	(188,683)	(454,291)	(188,683)
At 31 Dec		2,174,584	3,781,861	224,199	377,540
Representing:					
Retained earnings/(accumulated losses)		1,677,964	1,578,963	(272,421)	(1,825,358)
Proposed/declared dividends		496,620	2,202,898	496,620	2,202,898
At 31 Dec		2,174,584	3,781,861	224,199	377,540

38. Retained Earnings (Including Proposed/Declared Dividends) (Continued)

(a) Profit attributable to shareholders includes a profit of $2,519,509,000 (2003: $458,797,000) which has been dealt with in the accounts of HKEx, the holding company of the Group.

(b) 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).

(c) The reserve arising on consolidation of $4,116,436,000, representing the difference between the cost of acquiring the subsidiaries at the time of the merger and their respective issued share capital, was offset against merger reserve of $2,997,115,000 (note 36) and retained earnings of $1,119,321,000.

39. Notes to the Consolidated Cash Flow Statement

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

	2004 $'000	As restated 2003 $'000
Profit before taxation	**1,250,525**	804,740
Adjustments for:		
Net interest income	**(81,865)**	(201,284)
Dividends received from non-trading securities	**–**	(14,097)
Dividends from available-for-sale financial assets	**(1,070)**	–
Gain on trading securities and exchange differences on investments	**–**	(70,583)
Net unrealised and realised gains and interest income on financial assets at fair value through profit or loss	**(114,358)**	–
Gain on disposal of available-for-sale financial assets	**(24,841)**	–
Amortisation of lease premium for land	**548**	548
Fair value gain on an investment property	**(3,300)**	–
Depreciation	**183,400**	181,739
Employee share option benefits	**14,290**	2,771
Impairment loss of non-trading securities	**–**	32,303
Impairment loss of investments in associates	**–**	380
Impairment loss of club debenture	**75**	860
(Reversal of provision for)/provision for impairment losses of trade receivables	**(850)**	1,789
Changes in provisions	**(526)**	(763)
Share of profits less losses of associates	**(12,884)**	(8,642)
Loss on retirement of redundant IT systems	**165**	10,133
(Gain)/loss on disposal of other fixed assets	**(141)**	1,414
Operating profit before working capital changes	**1,209,168**	741,308
Net decrease in trading securities	**–**	385,709
Net decrease in financial assets and financial liabilities at fair value through profit or loss	**548,516**	–
Settlement of amount transferred to/(from) retained earnings for Clearing House Funds and Compensation Fund Reserve Account	**4,464**	(9,144)
Settlement of amount transferred from CDMD Fund to retained earnings	**914**	–
Increase in accounts receivable, prepayments and deposits	**(108,478)**	(1,535,771)
Increase in other current liabilities	**135,824**	1,738,705
Net cash inflow from operations	**1,790,408**	1,320,807
Interest received	**26,481**	187,569
Cash received on financial assets at fair value through profit or loss	**75,877**	–
Interest paid	**(1,181)**	(1,492)
Hong Kong Profits tax paid	**(75,232)**	(98,138)
Net cash inflow from operating activities	**1,816,353**	1,408,746

39. Notes to the Consolidated Cash Flow Statement (Continued)

(b) Analysis of cash and cash equivalents

	2004 $'000	2003 $'000
Time deposits with original maturity within three months	**829,879**	1,134,255
Cash at bank and in hand	**205,166**	221,135
Cash and cash equivalents at the end of the year	**1,035,045**	1,355,390

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

40. Commitments

(a) Commitments in respect of capital expenditures:

	Group		HKEx	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Contracted but not provided for	**4,484**	18,359	**–**	1,791
Authorised but not contracted for	**73,554**	72,275	**12,898**	8,273
	78,038	90,634	**12,898**	10,064

The commitments in respect of capital expenditures are mainly for the development and purchases of computer systems.

40. Commitments (Continued)

(b) Commitments for total future minimum lease payments under operating leases in respect of:

	Group		HKEx	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Land and buildings, payable				
– within one year	**45,844**	47,552	**1,307**	1,149
– in the second to fifth years	**10,060**	49,345	**1,278**	2,457
	55,904	96,897	**2,585**	3,606
Computer systems and equipment, payable				
– within one year	**64,838**	59,022	**43,049**	40,202
– in the second to fifth years	**39,021**	56,458	**17,139**	27,499
	103,859	115,480	**60,188**	67,701
	159,763	212,377	**62,773**	71,307

As at 31 December 2004, in respect of computer systems and equipment, the majority of the leases would mature within two years and the Group did not have any purchase options.

In addition to the above, the Group has a commitment to contribute additional capital of up to $5,600,000 (2003: $5,600,000) to an associate, ADP Wilco Processing Services Limited, when it signs up the first client or when its cash balances fall below a certain level. The company is currently undergoing voluntary liquidation.

41. Contingent Liabilities

(a) **Group**

(i) The Compensation Fund is a fund set up under the repealed SO for the purpose of compensating any person (other than a Stock Exchange Participant) dealing with a Stock Exchange Participant for any pecuniary losses suffered as a result of a default by the Stock Exchange Participant. According to section 109(3) of the SO, the maximum compensation amount is $8 million for each Stock Exchange Participant's default. Under section 113(5A) of the SO, the Stock Exchange may, upon satisfying certain conditions, and with the approval of the SFC, allow an additional payment to successful claimants before apportionment. Under section 107(1) of the SO, the Stock Exchange has contingent liabilities to the Compensation Fund as it is obligated to replenish the Compensation Fund upon the SFC's request. The amounts to be replenished should be equal to the amount paid in connection with the satisfaction of the claims, including any legal and other expenses paid or incurred in relation to the claims but capped at $8 million per default. As at 31 December 2004, there were outstanding claims received in respect of 10 defaulted Stock Exchange Participants (2003: 13).

41. Contingent Liabilities (Continued)

(a) Group (Continued)

(i) 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 such 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, Exchange Participants are no longer required to make deposits to the Investor Compensation Fund and the Stock Exchange is not required to replenish the Investor Compensation Fund. Hence, deposits to the Commodity Exchange Compensation Fund were returned to the Futures Exchange by the SFC in January 2004. The Futures Exchange had in turn reimbursed holders of Futures Exchange Trading Rights their contributions to the Commodity Exchange Compensation Fund. Similarly, deposits to the Compensation Fund would be returned to the Stock Exchange in accordance with the SFO pending completion of any determination of outstanding claims and replenishment to the Compensation Fund.

(ii) 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).

(iii) 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.

41. Contingent Liabilities (Continued)

(b) HKEx

(i) Apart from the matter mentioned in (a)(iii) above, 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 banking facilities had ever been utilised as at 31 December 2003. During the year, the banking facilities were not renewed and the guarantee given by HKEx expired.

(ii) HKEx has given a guarantee to secure banking facilities of SGD 12 million to HKEx (Singapore) Limited for financing its investment since 16 April 2001. During the year, the Singapore dollar credit facility (31 December 2003: SGD 11 million or $50 million) was fully repaid, and the guarantee given by HKEx had expired.

42. Future Operating Lease Arrangements

As at 31 December 2004, the Group had future aggregate minimum lease receipts under a non-cancellable operating lease as follows:

	Group	
	2004 $'000	2003 $'000
Land and buildings		
– within one year	**501**	402
– in the second to fifth years	**439**	–
	940	402

43. Non-cash Collateral Received from Participants

As at 31 December 2004, the following non-cash collateral had been received from Clearing Participants for covering part of their obligations:

	Group	
	2004 $'000	2003 $'000
Clearing House Funds		
Bank guarantees	**322,724**	92,234
Margin Funds		
Equity securities, listed in Hong Kong	**610,318**	575,195
US Treasury Bills	**504,287**	230,235
	1,114,605	805,430
	1,437,329	897,664

On 31 December 2003, non-cash collateral deposited by Participants was recorded as assets and liabilities in the balance sheet. Following the adoption of HKAS 39 on 1 January 2004, non-cash collateral deposited by Participants is no longer recognised in the balance sheet and accordingly the amounts were not recorded as assets and liabilities in the balance sheet at 31 December 2004.

44. Material Related Party Transactions

Certain Directors of HKEx are investor participants of HKSCC ("Investor Participants") or directors and/or shareholders of (i) Stock Exchange Participants and Futures Exchange Participants ("Exchange Participants"), Clearing Participants and Investor Participants; (ii) companies listed on the Stock Exchange; and (iii) Exchange Participants for buying shares on behalf of HKSCC. Securities and derivatives contracts traded by, and fees levied on, these Exchange Participants, Clearing Participants and Investor Participants, fees levied on these listed companies and fees paid to these Exchange Participants for buying shares on behalf of HKSCC are all undertaken in the ordinary course of business of the Group on the standard terms and conditions applicable to all other Exchange Participants, Clearing Participants and Investor Participants, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

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

(a) An associate

	Group		HKEx	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Income received from/(expenses paid to) an associate, CHIS:				
– Dividend income	**10,801**	4,800	**–**	–
– Loan interest income	**–**	21	**–**	–
– Share registration service fees	**(354)**	(516)	**(354)**	(516)

44. Material Related Party Transactions (Continued)

(b) Related companies with common directors

	Group		HKEx	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Rental payments (including air conditioning and cleaning service charges) to Shine Hill Development Limited ("Shine Hill") (note i)	**4,698**	4,487	**–**	–
Consultancy fee to Goldman Sachs (Asia) LLC (note ii)	**–**	862	**–**	862

(i) On 5 February 2003, the Futures Exchange as the tenant entered into a tenancy agreement ("the Lease") with Shine Hill as the landlord. The Futures Exchange is a wholly-owned subsidiary of HKEx. Shine Hill is a subsidiary of Great Eagle Holdings Limited ("Great Eagle"). Dr LO Ka Shui is an independent non-executive Director of HKEx and the deputy chairman, managing director and substantial shareholder of Great Eagle. The Lease was an arm's length transaction entered into on normal commercial terms.

(ii) During 2003, consultancy fee was paid to Goldman Sachs (Asia) LLC where Mr FRESHWATER, Timothy George, an independent non-executive Director of HKEx, is a director. The transaction was carried out in the ordinary course of business on normal commercial terms.

(c) Key management personnel compensation

	Group		HKEx	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Salaries and other short-term employee benefits	**51,488**	47,256	**42,838**	37,107
Termination benefits	**1,569**	3,475	**750**	3,475
Post employment benefits	**396**	2,314	**298**	1,917
Retirement benefit costs	**5,425**	5,248	**4,491**	4,109
Employee share option benefits	**8,439**	2,771	**8,137**	2,771
	67,317	61,064	**56,514**	49,379

44. Material Related Party Transactions (Continued)

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

	Group		HKEx	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Amounts due from:				
– Related companies with common directors	**867**	845	**–**	–
Amounts due to:				
– An associate	**(55)**	(10)	**(55)**	(10)
– Related companies with common directors	**(144)**	(89)	**–**	–
– Key management personnel	**(5,894)**	(1,285)	**(4,960)**	(927)

(e) Subsidiaries

	HKEx	
	2004 $'000	2003 $'000
Transactions with subsidiaries:		
– Management fee and equipment rental fee charged to subsidiaries	**246,172**	231,784
– Expenses recharged to subsidiaries	**633,545**	657,348
	879,717	889,132
Balances with subsidiaries:		
– Amounts due from subsidiaries	**497,463**	408,250
– Amounts due to subsidiaries	**(180,603)**	(59,402)
	316,860	348,848

The transactions and balances with subsidiaries are eliminated on consolidation.

(f) Save as aforesaid, the Group and HKEx have entered into other transactions with companies where there are common directors but the amounts are immaterial.

45. Banking Facilities with Assets Pledged

The Group did not have any assets pledged as at 31 December 2003 and 31 December 2004.

46. Financial Risk Management

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

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

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

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. The external fund managers are stable and financially strong financial institutions and each has a worldwide aggregate fund size of a minimum of US$10 billion under management.

Investment and fund management is governed by investment policies and risk management guidelines 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 risks (eg permissible asset type, asset allocation, liquidity, credit, counterparty concentration, maturity, foreign exchange, interest rate and market risks) of the investments.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rates relating to investments denominated in foreign currencies. When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts 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, the aggregate net open foreign currency positions amounted to HK$1,996 million, of which HK$170 million were non-USD exposures (2003: HK$1,663 million, of which HK$204 million were non-USD exposures), and the total nominal value of outstanding forward foreign exchange contracts amounted to HK$358 million (2003: HK$322 million). All forward foreign exchange contracts mature within one month.

46. Financial Risk Management (Continued)

(a) Market risk (Continued)

(ii) Equity and commodity price risk

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

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

(b) Credit risk

(i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are made for losses that have been incurred at the balance sheet date. The Group limits its exposure to credit risk by rigorously selecting the counterparties (ie deposit-takers and issuers) and by diversification. As at 31 December 2004, all bonds held were of investment grade. Deposits are placed only with the note-issuing banks in Hong Kong and investment grade licensed banks and restricted licence banks approved by the Board from time to time. All investments are subject to maximum concentration limit predetermined by the Board. The Group mitigates its exposure to risks relating to accounts receivables from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

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

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

46. Financial Risk Management (Continued)

(b) Credit risk (Continued)

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

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

Position limits are imposed by HKCC to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend their position limits. As of 31 December 2004, bank guarantees of $902,500,000 were accepted (2003: $728,000,000) for such purpose.

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

(c) Liquidity risk

Due to the dynamic nature of the Group's underlying businesses, investments are kept sufficiently liquid to meet operating needs and possible liquidity requirements of the Clearing House Funds and Margin Funds. In addition, banking facilities have been put in place for contingency purposes. As at 31 December 2004, the Group's total available banking facilities amounted to $1,608 million (2003: $2,764 million), of which $1,500 million were repurchase facilities to augment the liquidity of Margin Funds.

(d) Fair value and cash flow interest rate risks

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

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

46. Financial Risk Management (Continued)

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

	2004							
	Overnight $'000	> Overnight to 1 month $'000	> 1 month to 1 year $'000	> 1 year to 3 years $'000	> 3 years $'000	Non-interest bearing $'000	Total $'000	Effective interest rate of interest bearing items
Non-current assets								
Clearing House Funds	1,550,359	51,060	114,321	157,858	–	(12,111)	1,861,487	0.60%
Compensation Fund Reserve Account	400	28,737	–	18,831	–	(10,517)	37,451	1.21%
Time deposits with maturity over one year	38,941	–	–	–	–	–	38,941	N/A
Other non-interest bearing non-current assets	–	–	–	–	–	485,370	485,370	N/A
	1,589,700	79,797	114,321	176,689	–	462,742	2,423,249	
Current assets								
Accounts receivable, prepayments and deposits	–	–	–	–	–	4,691,846	4,691,846	N/A
Margin Funds on derivatives contracts	4,220,879	2,761,283	1,524,730	1,988,113	–	34,687	10,529,692	0.65%
Financial assets at fair value through profit or loss	10,031	154,413	912,981	1,002,374	436,440	245,354	2,761,593	2.80%
Time deposits with original maturity over three months	–	402	938	–	–	–	1,340	0.94%
Cash and cash equivalents	541,776	465,397	27,872	–	–	–	1,035,045	0.27%
Other non-interest bearing current assets	–	–	–	–	–	639	639	N/A
	4,772,686	3,381,495	2,466,521	2,990,487	436,440	4,972,526	19,020,155	
Current liabilities								
Margin deposits received from Clearing Participants	10,529,692	–	–	–	–	–	10,529,692	0.00%
Accounts payable, accruals and other liabilities	148,946	–	–	–	–	4,753,404	4,902,350	0.04%
Other non-interest bearing current liabilities	–	–	–	–	–	522,637	522,637	N/A
	10,678,638	–	–	–	–	5,276,041	15,954,679	
Non-current liabilities								
Participants' contributions to Clearing House Funds	931,427	–	–	–	–	367,325	1,298,752	0.07%
Other non-interest bearing non-current liabilities	–	–	–	–	–	137,830	137,830	N/A
	931,427	–	–	–	–	505,155	1,436,582	
Net (liabilities)/assets	(5,247,679)	3,461,292	2,580,842	3,167,176	436,440	(345,928)	4,052,143	

46. Financial Risk Management (Continued)

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

2003

	Overnight $'000	> Overnight to 1 month $'000	> 1 month to 1 year $'000	> 1 year to 3 years $'000	> 3 years $'000	Non-interest bearing $'000	Total $'000	Effective interest rate of interest bearing items
Non-current assets								
Clearing House Funds	1,205,514	–	–	265,643	–	80,173	1,551,330	0.64%
Compensation Fund Reserve Account	244	26,575	–	18,318	–	(8,278)	36,859	1.19%
CDMD Fund	–	–	–	925	–	–	925	2.70%
Non-trading securities	–	–	–	–	–	77,258	77,258	N/A
Time deposits with maturity over one year	316,456	–	–	67,000	10,000	–	393,456	2.51%
Other non-interest bearing non-current assets	–	–	–	–	–	629,607	629,607	N/A
	1,522,214	26,575	–	351,886	10,000	778,760	2,689,435	
Current assets								
Accounts receivable, prepayments and deposits	–	–	–	–	–	4,644,680	4,644,680	N/A
Margin Funds on derivatives contracts	4,119,550	580,100	1,042,653	1,326,777	–	805,430	7,874,510	0.64%
Trading securities	138,277	152,253	795,946	1,312,380	533,378	280,764	3,212,998	2.94%
Time deposits with original maturity over three months	–	16,194	12,663	–	–	–	28,857	0.56%
Cash and cash equivalents	1,001,917	333,655	19,818	–	–	–	1,355,390	0.11%
Other non-interest bearing current assets	–	–	–	–	–	2,106	2,106	N/A
	5,259,744	1,082,202	1,871,080	2,639,157	533,378	5,732,980	17,118,541	
Current liabilities								
Bank loans	–	–	50,286	–	–	–	50,286	1.62%
Margin deposits and securities received from Clearing Participants	7,874,510	–	–	–	–	–	7,874,510	0.00%
Accounts payable, accruals and other liabilities	225,595	–	–	–	–	4,554,309	4,779,904	0.02%
Other non-interest bearing current liabilities	–	–	–	–	–	343,549	343,549	N/A
	8,100,105	–	50,286	–	–	4,897,858	13,048,249	
Non-current liabilities								
Participants' contributions to Clearing House Funds	548,811	–	–	–	–	435,234	984,045	0.01%
Other non–interest bearing non-current liabilities	–	–	–	–	–	161,557	161,557	N/A
	548,811	–	–	–	–	596,791	1,145,602	
Net (liabilities)/assets	(1,866,958)	1,108,777	1,820,794	2,991,043	543,378	1,017,091	5,614,125	

46. Financial Risk Management (Continued)

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

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

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

46. Financial Risk Management (Continued)

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

	2003				
	Overnight $'000	> Overnight to 1 month $'000	> 1 month to 1 year $'000	> 1 year to 3 years $'000	Total $'000
Non-current assets					
Clearing House Funds	1,205,514	–	–	–	1,205,514
Compensation Fund Reserve Account	244	–	–	–	244
Time deposits with maturity over one year	316,456	–	–	–	316,456
	1,522,214	–	–	–	1,522,214
Current assets					
Margin Funds on derivatives contracts	4,119,550	50,100	426,382	–	4,596,032
Trading securities	138,277	85,692	168,890	8,433	401,292
Cash and cash equivalents	1,001,917	–	–	–	1,001,917
	5,259,744	135,792	595,272	8,433	5,999,241
Current liabilities					
Margin deposits and securities received from Clearing Participants	7,874,510	–	–	–	7,874,510
Accounts payable, accruals and other liabilities	225,595	–	–	–	225,595
	8,100,105	–	–	–	8,100,105
Non-current liabilities					
Participants' contributions to Clearing House Funds	548,811	–	–	–	548,811
	548,811	–	–	–	548,811

46. Financial Risk Management (Continued)

(e) Fair values of financial assets and financial liabilities

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

	Carrying amount in balance sheet		Fair value	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Financial assets				
Time deposits with original maturity over one year	**38,941**	393,456	**37,808**	390,559
Other financial assets included in other non-current assets (note i)	**9,935**	400	**9,833**	400
Financial liabilities				
Participants' admission fees received included in non-current liabilities (note i)	**82,850**	84,950	**82,306**	84,622
Participants' contributions to Clearing House Funds:				
– Minimum contributions (note i)	**337,250**	343,000	**335,035**	341,674
– Participants' additional deposits	**961,502**	641,045	**961,502**	641,045
Provisions (note i) - non-current	**24,104**	23,092	**23,875**	22,331

(i) The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets/liabilities, adjusted by an estimated credit spread. Assets/liabilities without a contractual maturity are assumed to mature exactly one year after the balance sheet date. The discount rates used range from 0.66% to 1.30% in 2004 (2003: 0.39% to 2.27%).

47. Comparative Figures

(a) The comparative figure of time deposits with maturity over one year has been reclassified to non-current assets in order to conform with the current year's presentation.

(b) For available-for-sale financial assets sold or matured, changes in fair value during the year up to disposal or maturity are not recognised as "change in fair value of available-for-sale financial assets" during the year and accordingly not reversed in the "realisation of change in fair value of financial assets on maturity or disposal" (there is no impact on the profit and loss account). The 2003 comparatives for "change in fair value of non-trading securities" and "realisation of change in fair value of non-trading securities on maturity or disposal" in the Consolidated Statement of Changes in Equity have been amended to conform to the current year's presentation.

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

Information for Shareholders

ANNUAL REPORT

This annual report is printed in English and Chinese and is available on HKEx's corporate website at *www.hkex.com.hk* under the "Investor Relations Corner". Printed copies in either or both languages are posted to Shareholders in accordance with their indicated preference. Shareholders may at any time choose to change their choice of language or means of receipt of the Company's corporate communications free of charge by notice in writing to the Company Secretary or HKEx's registrar.

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 2005 AGM will be held on 12 April 2005. Details of the 2005 AGM are set out in the Notice of AGM which accompanies this annual report to Shareholders together with a proxy form. They are also available on HKEx's corporate website.

REGISTERED OFFICE

Address:	12th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
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Fax number:	+852 2295 3106
Email address:	info@hkex.com.hk
Website:	http://www.hkex.com.hk

REPRESENTATIVE OFFICE IN BEIJING

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Fax number:	+8610 8518 3288
Email address:	bjo@hkex.com.hk

Guangzhou Special Representative

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Fax number:	+8620 2237 3167

Shanghai Special Representative

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OUR CONTACT DETAILS

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Investor Services

Name:	Ms Bonnie Chan, Vice President
Address:	10th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
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Fax number:	+852 2295 0980

Corporate Communications

Name:	Mr Henry Law, Head of Corporate Communications Department
Address:	12th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
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Fax number:	+852 2868 4084

Secretarial Services

Name:	Mr Joseph Mau, Company Secretary, Head of Secretarial Services Department
Address:	12th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
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Fax number:	+852 2878 7029

HKEx'S REGISTRAR AND TRANSFER OFFICE

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

FINANCIAL CALENDAR

2004 AGM	31 March 2004
Announcement of first quarter results	12 May 2004
Announcement of interim results	11 August 2004
Announcement of third quarter results	10 November 2004
Announcement of final results	28 February 2005
2005 AGM	12 April 2005

DIVIDENDS

Interim dividend	$0.43 per share
Payment date for interim dividend	13 September 2004
Proposed final dividend	$0.47 per share
Ex-dividend date for final dividend	4 April 2005
Book closing dates for final dividend	7-12 April 2005
Record date for final dividend	12 April 2005
Payment date for final dividend	on or about 25 April 2005

SHARE INFORMATION

Share Listing

HKEx's shares were first listed on the Stock Exchange on 27 June 2000.

Stock Code

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

Board lot	2,000 shares

PRICE AND TURNOVER HISTORY

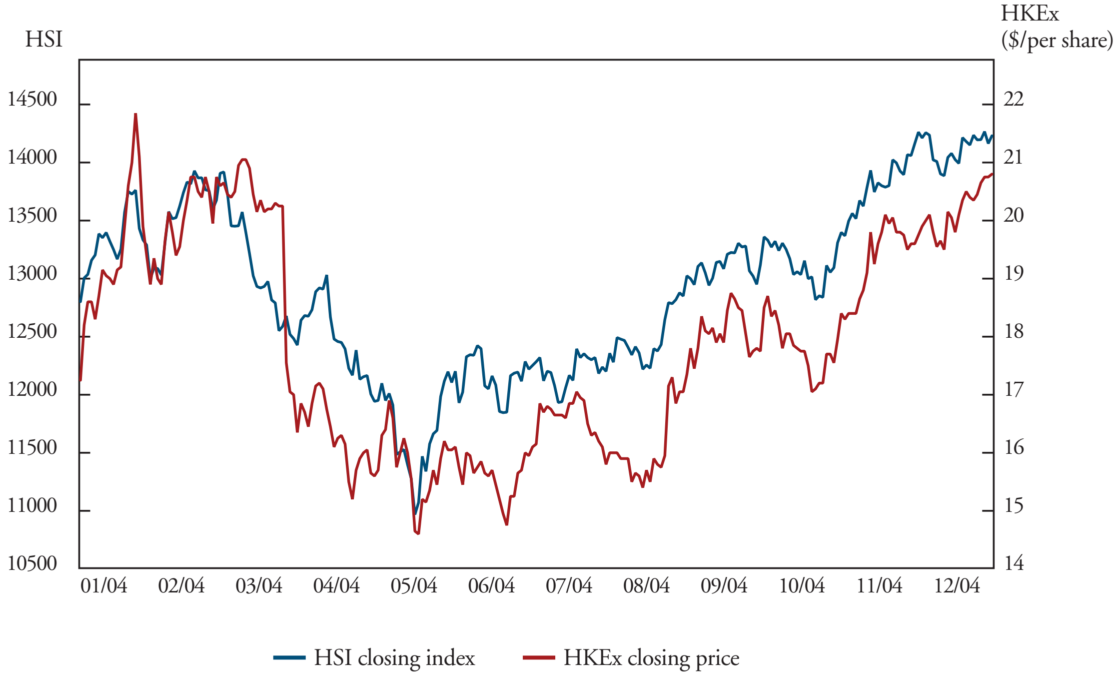
2004	Price per Share High ($)	Low ($)	Turnover (in millions) (Shares)	($)
January	21.90	16.90	164.3	3,187.0
February	21.15	18.60	128.0	2,572.3
March*	21.15	16.30	152.6	2,984.6
April	17.30	15.05	85.3	1,377.4
May	16.90	14.40	103.2	1,622.6
June	16.25	14.70	95.2	1,476.9
July	17.10	15.70	75.1	1,242.1
August	17.45	15.40	111.1	1,804.1
September	18.95	17.10	104.1	1,872.1
October	18.85	16.80	66.2	1,178.6
November	20.15	17.45	104.3	1,998.1
December	20.85	19.40	71.1	1,425.4

* *Shares traded ex-dividend on 24 March 2004 (2003 final and special dividends in the sum of $0.42 per share and $1.68 per share respectively)*

MARKET CAPITALISATION

Public Float Capitalisation as at 31 December 2004 $21,978 million
(Issued capital: 1,056,638,846 shares; market price at 31 December 2004: $20.80 per share)

SHARE PRICE OF HKEx COMPARED WITH HANG SENG INDEX



Glossary

2003 AGM	Annual general meeting held on 15 April 2003
2004 AGM	Annual general meeting held on 31 March 2004
2005 AGM	Annual general meeting to be held on 12 April 2005
AMS/3	The Third Generation Automatic Order Matching and Execution System
CCASS	Central Clearing and Settlement System
CG Code	Code on Corporate Governance Practices
CG Report	Corporate Governance Report as set out in the Listing Rules
CSRC	China Securities Regulatory Commission
DCASS	Derivatives Clearing and Settlement System
eIPO	Electronic IPO service
Elected Directors	Directors elected by Shareholders of HKEx at general meetings
EP	Exchange Participant
ETF	Exchange Traded Fund
Financial Secretary	Financial Secretary of Hong Kong
GEM	Growth Enterprise Market
GEM Listing Rules	Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Government	The government of the Hong Kong Special Administrative Region of People's Republic of China
Government Appointed Directors	Directors appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKATS	Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKFE or the Futures Exchange	Hong Kong Futures Exchange Limited
HKFRS(s)	Hong Kong Financial Reporting Standards, including Hong Kong Financial Reporting Standards, Statements of Standard Accounting Practices, Hong Kong Accounting Standards and interpretations approved by the Council of the HKICPA
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSCC	Hong Kong Securities Clearing Company Limited
Hong Kong	Hong Kong Special Administrative Region of People's Republic of China
IFA	Independent financial adviser
INED	Independent Non-executive Director
IFRS(s)	International Financial Reporting Standards
IP	Investor Participant
IPO	Initial public offering
Listing Committees	Main Board Listing Committee and the GEM Listing Committee
Listing Rules	Main Board Listing Rules and the GEM Listing Rules
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDF	Market Data Feed
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers
Post-Listing Scheme	Post-Listing Share Option Scheme approved by Shareholders on 31 May 2000 which was subsequently amended by Shareholders on 17 April 2002 so as to comply with the new Listing Rules which came into effect on 1 September 2001
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by Shareholders on 31 May 2000
SEHK or the Stock Exchange or the Exchange	The Stock Exchange of Hong Kong Limited
SEOCH	The SEHK Options Clearing House Limited
SFC	The Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	Shareholders of HKEx
USD	US dollars
$/HKD	Hong Kong dollars
SGD	Singapore dollars

Market Highlights

As at 2004 Year-end

(Financial figures are expressed in Hong Kong dollars)

SECURITIES MARKET

	Main Board	GEM	Total
Market capitalisation	$6,629.2 billion	$66.7 billion	$6,695.9 billion
Funds raised	$276.2 billion	$5.3 billion	$281.5 billion
Funds raised by IPOs	$94.5 billion	$2.7 billion	$97.2 billion
Funds raised in secondary markets	$181.7 billion	$2.6 billion	$184.3 billion
Funds raised by H share, red chips and Non-H share Mainland Private Enterprises#	$111.2 billion	$2.5 billion	$113.7 billion
Number of new listings	49*	21	70
Number of listed companies	892	204	1,096
Total turnover	$3,948.4 billion	$25.8 billion	$3,974.2 billion
Total turnover of warrants	$527.4 billion	$0.5 million	$527.4 billion
Total turnover of H share, red chips and Non-H share Mainland Private Enterprises	$1,652.8 billion	$12.3 billion	$1,665.1 billion

DERIVATIVES MARKET

Futures	Volume (Contracts)
Hang Seng Index Futures	8,601,559
Mini-Hang Seng Index Futures	1,457,681
H-shares Index Futures	1,743,700

Options	
Hang Seng Index Options	2,029,068
Stock Options	5,611,832

Notes: Figures have been rounded
 # Includes IPO and post-listing funds raised
** Of which two were transfer of listing from GEM*

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%
	$'000	As restated $'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.*

Hong Kong Exchanges and Clearing Limited
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