



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

Quarterly Report 2005

For the three months ended 31 March

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Independent Non-executive Chairman

LEE Yeh Kwong, Charles* GBS, JP

Independent Non-executive Directors

CHEUNG Kin Tung, Marvin* SBS, OBE, JP

(appointment effective 12 April 2005)

FAN Hung Ling, Henry* SBS, JP

(re-appointment effective 12 April 2005)

FONG Hup*

(re-appointment effective 12 April 2005)

FRESHWATER, Timothy George*

KWOK Chi Piu, Bill

(re-elected on 12 April 2005)

* Government Appointed Directors

COMMITTEES

AUDIT COMMITTEE

STRICKLAND, John Estmond (Chairman)

FONG Hup (Deputy Chairman)

CHEUNG Kin Tung, Marvin

(appointment effective 13 April 2005)

FAN Hung Ling, Henry

LEE Kwan Ho, Vincent Marshall

WEBB, David Michael

(resigned on 13 April 2005)

EXECUTIVE COMMITTEE

LEE Yeh Kwong, Charles (Chairman)

CHOW Man Yiu, Paul

CONROY, Patrick Kevin

KWOK Chi Piu, Bill

(appointment effective 13 April 2005)

LEE Jor Hung, Dannis

LEONG Ka Chai

(retired on 12 April 2005)

INVESTMENT ADVISORY COMMITTEE

FRESHWATER, Timothy George (Chairman)

WONG Sai Hung, Oscar (Deputy Chairman)

SUN, David

WEBB, David Michael

NOMINATION COMMITTEE

LEE Yeh Kwong, Charles (Chairman)

FONG Hup

(appointment effective 20 April 2005)

KWOK Chi Piu, Bill

(retired on 12 April 2005)

LEE Kwan Ho, Vincent Marshall

(appointment effective 13 April 2005)

WEBB, David Michael

(appointment effective 20 April 2005)

WONG Sai Hung, Oscar

Executive Director, Chief Executive

CHOW Man Yiu, Paul JP

LEE Jor Hung, Dannis BBS

LEE Kwan Ho, Vincent Marshall

(re-elected on 12 April 2005)

LEONG Ka Chai* JP

(retired on 12 April 2005)

LO Ka Shui* GBS, JP

STRICKLAND, John Estmond GBS, JP

WEBB, David Michael

WONG Sai Hung, Oscar

REMUNERATION COMMITTEE

LO Ka Shui (Chairman)

CHEUNG Kin Tung, Marvin

(appointment effective 13 April 2005)

LEE Jor Hung, Dannis

LEE Kwan Ho, Vincent Marshall

(retired on 12 April 2005)

RISK MANAGEMENT COMMITTEE

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

LEE Yeh Kwong, Charles (Chairman)

DICKENS, Mark**

(retired on 31 March 2005)

FAN Hung Ling, Henry

KWOK Chi Piu, Bill

LAM Kin**

LEONG Ka Chai**

OR Ching Fai, Raymond**

(retired on 31 March 2005)

WONG Tung-shun, Peter**

(appointment effective 1 April 2005)

YUE Wai Man, Eddie**

** Appointed by the Financial Secretary

COMPANY SECRETARY

MAU Kam Shing, Joseph

AUTHORISED REPRESENTATIVES

CHOW Man Yiu, Paul

MAU Kam Shing, Joseph

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISORS

Allen & Overy

FINANCIAL HIGHLIGHTS

(Financial figures are expressed in Hong Kong Dollar)

	Unaudited Three months ended 31 Mar 2005	Unaudited Three months ended 31 Mar 2004	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	\$18.4 billion	\$19.7 billion	(7%)
Average daily number of derivatives contracts traded on the Futures Exchange	63,885	53,087	20%
Average daily number of stock options contracts traded on the Stock Exchange	26,583	25,723	3%
	\$'000	As restated \$'000	
RESULTS			
Income	574,252	648,871	(11%)
Operating expenses	282,675	284,886	(1%)
Operating profit	291,577	363,985	(20%)
Share of profits less losses of associates	2,617	2,980	(12%)
Profit before taxation	294,194	366,965	(20%)
Taxation	(48,773)	(54,069)	(10%)
Profit attributable to shareholders	245,421	312,896	(22%)
Shareholders' funds	4,237,281	4,052,143 ^Φ	5%
Total assets *	19,379,696	21,443,404 ^Φ	(10%)
Net assets per share [#]	\$4.00	\$3.83 ^Φ	4%
Earnings per share	\$0.23	\$0.30	(23%)

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

^Φ Audited as at 31 December 2004.

[#] Based on 1,058,062,846 shares issued and fully paid as at 31 March 2005 (31 December 2004: 1,056,638,846 shares).

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong Dollar)

Business Review

Listing

Consultations on Enhancing Listing Regulation

In January 2005, the Government and the Securities and Futures Commission (“SFC”) each published a consultation paper setting out their proposals on giving statutory backing to major listing requirements. Hong Kong Exchanges and Clearing Limited (“HKEx”) supports statutory backing for the more important listing requirements in the Listing Rules (Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Main Board Listing Rules”) and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”)) with the objective of further reinforcing the listing regime in Hong Kong, as recommended by the Government in its consultation conclusions on proposals to enhance the regulation of listing published in March 2004. HKEx submitted a combined response to the said consultation papers on 24 March 2005, and highlighted HKEx’s concerns about the proposals and its recommendations. The full text of the HKEx’s submission is available on the HKEx website.

HKEx has been working with the Government and the SFC on further developing the proposals in a manner which minimises disruption to the market and achieves the objective of giving “teeth” to major listing requirements.

Proposed New Structure for Listing Decision-Making

The Consultation Paper on New Structure for Listing Decision-Making issued on 18 February 2005 to solicit public views on the overall listing decision-making structure together with the proposed amendments to Chapters 2A and 2B of the Main Board Listing Rules for implementing such a structure closed on 22 April 2005. The management is analysing the feedback and finalising the proposed amendments to the Main Board Listing Rules and similar amendments to the GEM Listing Rules. The objective of the proposed new structure is to put in place a simpler administrative framework for listing decision-making whilst retaining the checks and balances for minimising and managing regulatory risk including potential conflicts of interest within HKEx and its subsidiaries (“the Group”).

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

It is and has been HKEx’s intention to revise the current mechanisms for information dissemination by Main Board issuers and to align the Main Board practice with the Growth Enterprise Market (“GEM”) practice. In the longer term, this will result in the abolition of the mandatory requirement for issuers to publish paid announcements in newspapers. As an interim measure to facilitate an orderly transition to the proposed new arrangements, the Main Board Listing Committee has approved a proposal to amend the Main Board Listing Rules to require Main Board issuers to publish a summary announcement in newspapers instead of the full version of the announcement which will be posted on the HKEx website, the issuer’s website and/or other communication channels. Subject to the system and operational readiness and approval of the relevant rule amendments by the SFC, the publication of summary announcements would be implemented.

Cash Market

Market Performance

In the first quarter of 2005, five companies were listed on the Main Board and two companies on the GEM. Total capital raised, including post-listing funds, reached \$29.8 billion. As at 31 March 2005, 891 companies were listed on the Main Board with a total market capitalisation of \$6,506 billion, and 205 companies were listed on the GEM with a total market capitalisation of \$65 billion. In addition, there were 867 derivative warrants, seven Exchange Traded Funds (“ETFs”), 162 debt securities, and four Equity Linked Instruments listed as at the end of March 2005. Average daily turnover in the first quarter of 2005 was \$18.3 billion on the Main Board and \$74 million on the GEM.

Refurbishment of the Trading Hall

The three prospective three-dimension designs of the Trading Hall have been displayed in the Trading Hall seeking the views of Exchange Participants (“EPs”) and floor traders. Having reviewed the comments received, the Board approved the model initiated by Aedas Interiors on 20 April 2005 and would further consider the concerns of the EPs while finalising the design. Temporary relocation of floor traders will be required during the renovation process but trading activities will not be interrupted. Trading booths in the new trading hall will be subject to a commitment and related fee payable by EPs who wish to maintain a booth. The refurbishment work is expected to be completed around the first quarter of 2006. The Board has accepted the Government’s offer of a three-year lease at a monthly rent of \$1,250,000 exclusive of rates, management fee, and other charges with a two-month rent free period plus an option to renew for another three years subject to market rate.

Reduction of Minimum Trading Spreads

The consultation conclusions on the reduction of minimum trading spreads were published on 4 February 2005. After taking into account the market responses, HKEx has decided to implement the Phase 1 changes in mid-2005, i.e. to reduce the minimum trading spreads for shares priced above \$30 per share. Corresponding rule amendments relating to the trading parameters, market making obligations for Pilot Programme securities and ETFs, and minimum trading spreads for structured products due to the Phase 1 changes have been prepared for the SFC’s approval after the proposed enhancements were posted on the HKEx website for comments by market participants.

Callable Bull/Bear Contracts

Callable Bull/Bear Contracts (“CBBC”) are one of the fastest growing products in Europe and Australia since they were launched three years ago, and proved to be successful with no reported problem in issuance or in trading on the secondary market. CBBC on Hong Kong stocks are already available in certain overseas markets and trading actively over-the-counter in Singapore.

HKEx is planning the introduction of CBBC to give the Hong Kong market participants an additional choice of investment products. In the past few months, HKEx held extensive discussions with issuers and overseas exchanges on the development of CBBC and consulted market practitioners, including issuers, brokers and industry associations, and the SFC on the infrastructure, market model, and risk management features to be adopted by HKEx for the launch and trading of CBBC.

Development of the ETFs Market

Subject to the approval of the amendments to the relevant rules, market making for all ETFs, including the Tracker Fund of Hong Kong, will be allowed. The rule amendments also serve to tighten the market making obligations, and establish a clawback mechanism on trading fee concessions given to market makers if they fail to fulfil their obligations.

Derivatives Market

Market Performance

On 29 March 2005, a record high open interest was achieved for Hang Seng Index Options (202,603 contracts), H-shares Index Futures (45,212 contracts), H-shares Index Options (29,679 contracts), and Stock Options (1,030,911 contracts). A record high daily volume was also achieved for H-shares Index Futures (31,770 contracts) on 23 February 2005 and H-shares Index Options (2,739 contracts) on 25 February 2005.

Product and Market Development

HKEx will introduce on 23 May 2005, the FTSE/Xinhua China 25 Index (FXI China 25) Futures and Options Contracts, which will complement the wide range of Mainland related products currently trading on HKEx's Cash and Derivatives markets.

A series of enhancement measures for stock options have been implemented, including: (i) the recruitment of two market makers to provide continuous quotes in eight option classes to increase visibility of market prices; (ii) the provision of more choices in strike prices by narrowing the strike intervals by 50 per cent in all expiry months for seven option classes; and (iii) the reduction in trading tariffs of Tier 1 option classes from \$5 to \$3 per contract.

The number of OMnet Application Programming Interface connections increased 10.9 per cent from 258 as at end of 2004 to 286 as at 31 March 2005, representing greater system flexibility for the market as a whole in establishing trading connections to the Hong Kong Futures Automated Trading System ("HKATS") and Internet trading facilities. HKEx has introduced measures to regulate excessive non-standard combination activities from being entered into HKATS to ensure the smooth functioning of HKATS, and enhanced the audit trail function in HKATS to further strengthen the market monitoring and supervision capabilities.

Education and Marketing

To further promote the stock options market, HKEx has introduced a joint education programme under which nine participating Options Trading EPs are sponsored to conduct public investor seminars and account executive briefings on stock options.

To improve the flexibility and efficiency of HKATS training, HKEx has introduced a HKATS self-learning kit for EPs. During the first quarter of 2005, a total of 28 Derivatives market training courses and seminars had been organised for EPs and public investors.

Clearing

Scriptless Project

Hong Kong Securities Clearing Company Limited (“HKSCC”) continues its discussions with the Federation of Share Registrars on the initial phase of scripless implementation, i.e. dematerialisation in the Central Clearing and Settlement System (“CCASS”). The operational arrangements are being finalised to enable HKSCC to commence the process of dematerialising physical certificates in its depository once the enabling legislation is enacted in 2006.

In the light of the scripless implementation, the Board has approved certain changes to CCASS fees which, subject to the approval of the SFC, will be implemented in stages starting from the commencement of the initial phase of dematerialisation with the ultimate objective of eliminating scrip fees upon the full implementation of the scripless market model.

Clearing Fees Reductions

Some clearing fees have been reduced, resulting in cost reductions to market participants and investors.

With effect from 1 February 2005, HKSCC has waived its stock custody fee of \$0.012 per board lot charged on a monthly basis for delisted securities and securities in prolonged suspension.

HKFE Clearing Corporation Limited (“HKCC”) and The SEHK Options Clearing House Limited (“SEOCH”) have abolished the Derivatives Clearing and Settlement System (“DCASS”) standard instruction input/processing fees of \$1.5 per transaction per side with effect from 1 March 2005.

A comprehensive fee review was completed in March 2005, and fee changes, to be implemented in two phases, were announced on 16 March 2005. Based on the level of activities in 2003, and assuming full implementation of the fee changes, the annual financial impact on HKEx would be a decrease in revenue of approximately \$48 million on a yearly basis.

Clearing Services Enhancements

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

Effective 4 April 2005, the CCASS deadline for its participants to submit their voting instructions has been extended to the business day before the relevant meeting date. System development to support further enhancements to CCASS nominee services has commenced with an aim at completing the enhancements before the end of 2005.

Risk Management Policies Harmonisation

HKEx has reviewed the capital requirements of each category of clearing participants. Rule amendments will be made to simplify the structure of the participants and harmonise the capital requirements for clearing participants of the two derivatives clearing houses.

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

Business Development and Investor Services

Conferences and Seminars for Prospective Issuers

As part of our efforts to attract a diverse range of issuers, HKEx has organised during the first quarter of 2005, 12 listing conferences in Hong Kong and in the Mainland. Among them was the first conference for the local Japanese business community, and a conference co-organised with the Federation of Hong Kong Industries for local enterprises. HKEx has continued to broaden its appeal and has participated in various overseas conferences and seminars to promote listings in Hong Kong: one of them was conducted in Taiwan, targeting potential Taiwanese issuers who are considering raising funds to finance their Mainland operations.

Communications with Mainland Delegations and Potential Issuers

To promote new listings, the executives received Mainland business and government delegations, proactively contacted Mainland potential issuers, and liaised with different Mainland state-owned enterprises during the first quarter of 2005.

Training Programmes for Listed Mainland Enterprises

In February 2005, HKEx organised a training programme at the Beijing Representative Office for the management of listed Mainland enterprises to enhance their awareness of global corporate governance practices. Another programme on the International Financial Reporting Standards was co-organised with the Hong Kong and Macao Affairs Office of the State Council and the Hong Kong Polytechnic University for the listed Mainland enterprises in Hong Kong in March.

Communications with Fund Managers and Analysts and Investor Education

HKEx has maintained continued and open dialogue with fund managers and analysts. To raise the awareness of overseas investors towards the Hong Kong Cash and Derivative markets, the management had made a number of visits to investment firms in the UK and the US in early March 2005. Public investor educational seminars to introduce HKEx's products and stock trading techniques were organised and delegations from different countries were received to provide them with a better understanding of the Hong Kong Cash and Derivatives markets, and the roles and functions of HKEx. Mentorship was also provided to university students enrolled in The Hong Kong Federation of Business Students to enrich their knowledge of the Hong Kong capital markets.

Information Services

In response to vendor feedback and technological developments, HKEx has reviewed and revised numerous market data vending policies and guidelines with a view to facilitating the data vending business. Apart from circulating the revised market data vending policies to the data vendors, HKEx held two seminars in March 2005 to prepare its data vendors for the new policies which took effect on 1 April 2005, and other upcoming data vending system developments.

Information Technology

IT Infrastructure and Operations

On 11 January 2005, HKEx appointed PCCW to consolidate the existing four market system networks into a single new Optical Ethernet network ("SDNet"). This will ensure a cost effective network infrastructure for the Hong Kong Cash and Derivatives markets. The first phase will be for HKATS/DCASS participants to migrate to the SDNet in the latter part of this year.

In March 2005, the CCASS/3 middle-tier was upgraded to the latest version. The operating system of CCASS/3 and HKATS/DCASS will be upgraded later this year to secure continued and quality system vendor support.

As of the end of March 2005, all major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives markets had maintained 100 per cent operational system uptime for the prior 24 months. To uphold this high standard of system availability and reliability, HKEx commissioned the hardware supplier of The Third Generation Automatic Order Matching and Execution System ("AMS/3"), HKATS and DCASS hardware to conduct a technical audit in early 2005.

HKEx will continue to monitor and upgrade its system capacity to meet the growth and development of the Hong Kong Cash and Derivatives markets.

Systems Development

It is the role of the Information Technology Division to provide support to the business initiatives of other Divisions/Departments. Systems development projects in progress include the upgrading of the AMS/3 security solution for the AMS/3 off-floor devices, the replacement of the soon-to-be-obsolete AMS/3 second terminal hardware, the Phase 1 reduction of the minimum trading spreads and the associated changes to the various trading parameters, and the extension of corporate action deadlines for CCASS.

HKEx will conduct its feasibility study in relation to the upgrading of the HKATS/DCASS application software. In addition, HKEx will also streamline and redevelop some of the existing satellite systems for Cash trading operations and Derivatives market risk management to achieve the highest system and operational efficiency.

Treasury

HKEx's investment funds comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling \$15.8 billion on average for the three months ended 31 March 2005 (2004: \$15.2 billion), an increase of \$0.6 billion against that for 2004. 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. As compared with that as at the end of 2004, the overall fund size as of 31 March 2005 decreased by 10 per cent or \$1.7 billion to \$14.6 billion (31 December 2004: \$16.3 billion).

Details of the asset allocation of the investments as at 31 March 2005 against those as at 31 December 2004 are set out below.

	Fund size \$ billion		Bonds		Cash or bank deposits		Global equities	
	Mar 2005	Dec 2004	Mar 2005	Dec 2004	Mar 2005	Dec 2004	Mar 2005	Dec 2004
Corporate Funds	4.1	3.9	59%	64%	35%	30%	6%	6%
Margin Funds	9.0	10.5	47%	34%	53%	66%	0%	0%
Clearing House Funds	1.5	1.9	15%	7%	85%	93%	0%	0%
Total	14.6	16.3	47%	38%	51%	60%	2%	2%

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

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 March 2005 and 31 December 2004), which have no maturity date, the maturity profile of the remaining investments as at 31 March 2005 (\$14.3 billion) and 31 December 2004 (\$16.0 billion) was as follows:

	Fund size \$ billion		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		> 3 years	
	Mar 2005	Dec 2004	Mar 2005	Dec 2004	Mar 2005	Dec 2004	Mar 2005	Dec 2004	Mar 2005	Dec 2004	Mar 2005	Dec 2004
Corporate Funds	3.8	3.6	10%	15%	28%	16%	23%	21%	23%	31%	16%	17%
Margin Funds	9.0	10.5	42%	40%	11%	26%	28%	14%	19%	20%	0%	0%
Clearing House Funds	1.5	1.9	81%	83%	2%	3%	8%	6%	9%	8%	0%	0%
Total	14.3	16.0	37%	39%	15%	21%	25%	15%	19%	21%	4%	4%

Credit exposure is well diversified. As at 31 March 2005, the bond portfolio held was of investment grade and had a weighted average credit rating of Aa2 (31 December 2004: Aa2) and a weighted average maturity of 1.4 years (31 December 2004: 1.5 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 first quarter of 2005 and fourth quarter of 2004 was as follows:

	Average VaR \$ million		Maximum VaR \$ million		Minimum VaR \$ million	
	Jan-Mar 2005	Oct-Dec 2004	Jan-Mar 2005	Oct-Dec 2004	Jan-Mar 2005	Oct-Dec 2004
Corporate Funds	15.3	14.4	16.1	16.2	14.1	13.2
Margin Funds	16.3	14.5	17.9	16.0	14.3	13.2
Clearing House Funds	0.7	0.9	1.5	0.9	0.6	0.8

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

Investments in Associates

Computershare Hong Kong Investor Services Limited

Upon the merger of Hong Kong Registrars Limited, a wholly-owned subsidiary of HKSCC, with Central Registration Hong Kong Limited (“Central”) in May 2002, the Group obtained 18 per cent interest, and acquired an additional 6 per cent interest in Central at a price of \$24,875,707. Central was subsequently renamed as Computershare Hong Kong Investor Services Limited (“CHIS”). The Group was also offered an option to acquire another 6 per cent interest in CHIS at the same price, which could be exercised in whole or in part within three years from the date of merger. On 3 May 2005, the Group exercised the option and raised its interest in CHIS to 30 per cent. Regardless of this change in its CHIS holding, HKEx remains a passive minority shareholder.

ADP Wilco Processing Services Limited

Following the Board’s decision on liquidating the Group’s investment in ADP Wilco Processing Services Limited (“AWPS”) in October 2004, the voluntary dissolution of AWPS commenced in April 2005, and is in progress. The anticipated financial impact is minimal.

Financial Review

Overall Performance

	Unaudited Three months ended 31 Mar 2005 \$ million	As restated Unaudited Three months ended 31 Mar 2004 \$ million
Income:		
Income directly affected by market turnover	308	337
Stock Exchange listing fees	96	91
Investment income	43	91
Other operating income	127	130
	574	649
Operating expenses	283	285
Operating profit	291	364
Share of profits less losses of associates	3	3
Profit before taxation	294	367
Taxation	(49)	(54)
Profit attributable to shareholders	245	313

The Group recorded a profit attributable to shareholders of \$245 million for the first quarter of 2005, compared with \$313 million, as restated for the same period in 2004. The decrease in profit was primarily attributable to investment income in 2005 being significantly lower than that in the first quarter of 2004, reflecting bond market movements in the two periods. The decline in the Cash market activities in 2005 has also resulted in a drop in turnover-related income.

Despite an increase in staff costs, the Group managed to keep its total operating expenses for the first quarter slightly below those of the same period last year.

A detailed analysis of the income and expenses is set out hereinbelow.

Income**(A) Income directly affected by market turnover**

	Unaudited Three months ended 31 Mar 2005 \$'000	Unaudited Three months ended 31 Mar 2004 \$'000	Change
Trading fees and trading tariff	182,680	192,784	(5%)
Clearing and settlement fees	91,641	106,634	(14%)
Depository, custody and nominee services fees	33,613	37,826	(11%)
Total	307,934	337,244	(9%)

The decrease in turnover-related income was mainly due to the fewer number of trading days and the lower turnover of the Cash market in the first quarter of 2005 against those of the corresponding period last year. For trading fees and trading tariff, the decrease in income derived from Cash market was partly offset by the higher income derived from an increase in the turnover of the Derivatives market. For clearing and settlement fees, they are derived predominantly from Cash market transactions. Therefore the impact due to the increase in Derivatives market transactions is insignificant. Despite being mostly ad valorem fees, clearing and settlement fees arising from Cash market transactions may not change linearly with the Cash market turnover as the fees are subject to a minimum and a maximum fee per transaction.

Key market turnover

	Unaudited Three months ended 31 Mar 2005	Unaudited Three months ended 31 Mar 2004	Change
Average daily turnover value on the Stock Exchange	\$18.4 billion	\$19.7 billion	(7%)
Average daily number of derivatives contracts traded on the Futures Exchange	63,885	53,087	20%
Average daily number of stock options contracts traded on the Stock Exchange	26,583	25,723	3%

(B) Stock Exchange listing fees

	Unaudited Three months ended 31 Mar 2005 \$'000	Unaudited Three months ended 31 Mar 2004 \$'000	Change
Annual listing fees	65,390	61,025	7%
Initial and subsequent issue listing fees	29,798	28,083	6%
Others	1,515	1,583	(4%)
Total	96,703	90,691	7%

The increase in annual listing fees was attributable to the higher number of listed securities. Although the number of new listings in the first quarter of 2005 fell compared with the same period in 2004, the reduction in initial listing fees from new listings was more than offset by the initial listing fees forfeited due to increased numbers of lapsed and withdrawn Initial Public Offering (“IPO”) applications and approved IPOs not listed within six months of application.

Key drivers for initial and subsequent issue listing fees

	Three months ended 31 Mar 2005	Three months ended 31 Mar 2004	Change
Number of newly listed derivative warrants	303	311	(3%)
Number of new listings on the Main Board	5	8	(38%)
Number of new listings on the GEM	2	8	(75%)
Total equity funds raised on the Main Board	\$29.4 billion	\$44.3 billion	(34%)
Total equity funds raised on the GEM	\$0.4 billion	\$2.8 billion	(86%)

Key drivers for annual listing fees

	As at 31 Mar 2005	As at 31 Mar 2004	Change
Number of companies listed on the Main Board	891	856	4%
Number of companies listed on the GEM	205	192	7%
Total	1,096	1,048	5%

(C) Investment income

	Unaudited Three months ended 31 Mar 2005 \$'000	As restated Unaudited Three months ended 31 Mar 2004 \$'000	Change
Income from:			
Funds available for investment	42,880	90,440	(53%)
Investment in Singapore Exchange Limited	-	825	(100%)
Total	42,880	91,265	(53%)

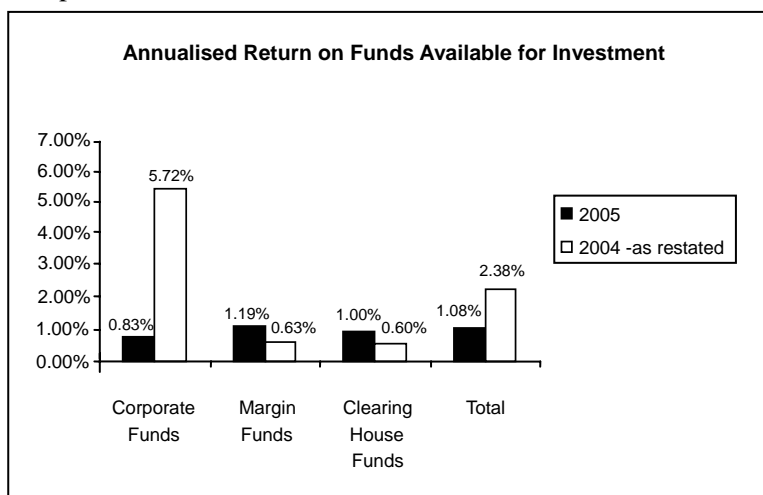
The average amount of funds available for investment was as follows:

	Three months ended 31 Mar 2005 \$ billion	Three months ended 31 Mar 2004 \$ billion	Change
Corporate Funds	4.0	5.2	(23%)
Margin Funds	10.2	8.4	21%
Clearing House Funds	1.6	1.6	0%
Total	15.8	15.2	4%

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

The drop in income from funds available for investment was primarily due to a significant decrease in fair value gains of investments in comparison with the strong mark-to-market gains in the first quarter of 2004, reflecting market movements in the bond market, and the lower amount of Corporate Funds available for investment.

The performance of funds available for investment was as follows:



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

(D) Other operating income

	Unaudited Three months ended 31 Mar 2005 \$'000	As restated Unaudited Three months ended 31 Mar 2004 \$'000	Change
Income from sale of information	78,990	80,555	(2%)
Other income			
Network, terminal user, dataline and software sub-license fees	30,938	29,089	6%
Participants' subscription and application fees	8,706	8,676	0%
Share registration services fees	507	606	(16%)
Brokerage on direct IPO applications	4,665	6,365	(27%)
Accommodation income	710	2,323	(69%)
Miscellaneous income	2,219	2,057	8%
	47,745	49,116	(3%)
Total	126,735	129,671	(2%)

Income from sale of information decreased as demand for information dropped in line with the fall in Cash market activities.

Despite the 20 per cent reduction in AMS/3 user fees that took effect on 1 January 2005 in anticipation of future cost savings resulting from the network consolidation project, network, terminal user, dataline and software sub-license fees increased due to the higher sale of additional throttles.

Accommodation income (i.e. retention interest charged on cash margin deposits in non-contract settlement currencies and securities deposited by Participants as alternatives to cash deposits of the Margin Funds) fell as there were less cash margin deposits denominated in non-contract settlement currencies during the period.

Operating expenses

	Unaudited Three months ended 31 Mar 2005 \$'000	As restated Unaudited Three months ended 31 Mar 2004 \$'000	Change
Staff costs and related expenses	141,384	132,379	7%
Information technology and computer maintenance expenses	48,906	54,614	(10%)
Premises expenses	19,794	19,530	1%
Product marketing and promotion expenses	1,687	3,168	(47%)
Legal and professional fees	2,893	3,881	(25%)
Depreciation	44,231	44,881	(1%)
Payment to SFC under dual filing regime	5,000	5,000	0%
Other operating expenses	18,780	21,433	(12%)
Total	282,675	284,886	(1%)

Staff costs and related expenses increased by \$9 million, as salary costs rose by \$5 million due to the increase in headcount and salary adjustment in 2005, and employee share option costs also increased by \$4 million due to the grant of new share options in March 2004, May 2004 and January 2005.

Information technology and computer maintenance expenses of the Group, after excluding goods and services directly consumed by the Participants of \$12 million (2004: \$13 million), were \$37 million (2004: \$42 million), which fell by \$5 million mainly due to lower system maintenance costs and reduced network line rental charges. During the period under review, capital expenditures on computer systems, hardware and software amounted to \$4 million (2004: \$6 million).

Product marketing and promotion expenses decreased mainly attributable to incentive programmes launched for the introduction and promotion of the H-shares Index Futures in the first quarter of 2004. No such incentive programmes were launched in the first quarter of 2005.

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

Taxation

	Unaudited Three months ended 31 Mar 2005 \$'000	As restated Unaudited Three months ended 31 Mar 2004 \$'000	Change
Taxation	48,773	54,069	(10%)

Taxation dropped due to the decrease in profit before taxation, but partly offset by the lower utilisation of tax losses of certain entities within the Group.

Working Capital

Working capital increased by \$222 million or 7 per cent to \$3,287 million as at 31 March 2005 (31 December 2004: \$3,065 million) mainly due to profit generated during the first quarter of 2005.

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. 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 March 2005, the aggregate net open foreign currency positions amounted to \$2,037 million, of which \$204 million were non-USD exposures (31 December 2004: \$1,996 million, of which \$170 million were non-USD exposures), and the total nominal value of outstanding forward foreign exchange contracts amounted to \$392 million (31 December 2004: \$358 million). All foreign exchange contracts have a maturity of less than two months.

The Group's foreign currency liabilities, in the form of margin deposits or collateral received, are hedged by investments in the same currencies.

Changes since 31 December 2004

There were no other significant changes in the financial position or from the information disclosed under the Management Discussion and Analysis in the annual report for the year ended 31 December 2004.

It is the Group's plan to declare dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the first quarter ended 31 March 2005 (first quarter of 2004: \$Nil).

Due to fluctuations in market conditions and changes in operating environment, certain categories of income and operating expenses may vary from quarter to quarter. Therefore, quarterly results should not be extrapolated to project the Group's full-year performance.

Prospects

The Group's performance relies heavily on the market turnover and listing activities. The rising interest rates, the performance of US Dollar, the instability of energy prices, and the continued close economic tie with the Mainland will all have significant impact on the Hong Kong capital markets.

HKEx will continue its efforts to provide quality markets supported by a robust regulatory regime and a reliable, cost-effective market infrastructure. HKEx will proactively reinforce its status of being the premier international marketplace for the listing and trading of Hong Kong and Mainland-related equities and derivatives.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Financial figures are expressed in Hong Kong Dollar)

	Note	Unaudited Three months ended 31 Mar 2005 \$'000	As restated Unaudited Three months ended 31 Mar 2004 \$'000
INCOME	2		
Trading fees and trading tariff	4	182,680	192,784
Stock Exchange listing fees	5	96,703	90,691
Clearing and settlement fees		91,641	106,634
Depository, custody and nominee services fees		33,613	37,826
Income from sale of information		78,990	80,555
Investment income	6	42,880	91,265
Other income	7	47,745	49,116
	3	574,252	648,871
OPERATING EXPENSES			
Staff costs and related expenses	8	141,384	132,379
Information technology and computer maintenance expenses	9	48,906	54,614
Premises expenses		19,794	19,530
Product marketing and promotion expenses		1,687	3,168
Legal and professional fees		2,893	3,881
Depreciation		44,231	44,881
Payment to SFC under dual filing regime		5,000	5,000
Other operating expenses	10	18,780	21,433
	3	282,675	284,886
OPERATING PROFIT	3	291,577	363,985
SHARE OF PROFITS LESS LOSSES OF ASSOCIATES	3, 14(b)	2,617	2,980
PROFIT BEFORE TAXATION	3	294,194	366,965
TAXATION	3/11	(48,773)	(54,069)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	3/25	245,421	312,896
Earnings per share	12	\$0.23	\$0.30

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Financial figures are expressed in Hong Kong Dollar)

	Share capital and share premium (note 21) \$'000	Employee share-based compensation reserve (note 22) \$'000	Revaluation reserves (note 23) \$'000	Designated reserves (note 24) \$'000	Retained earnings (note 25) \$'000	Total equity \$'000
At 1 Jan 2005	1,160,673	17,061	18,829	680,996	2,174,584	4,052,143
Change in fair value of available-for-sale financial assets	-	-	(78,639)	-	-	(78,639)
Realisation of change in fair value of available- for-sale financial assets on maturity and disposal	-	-	38	-	-	38
Deferred tax arising from change in fair value of available-for-sale financial assets	-	-	3,161	-	-	3,161
Net loss recognised directly in equity	-	-	(75,440)	-	-	(75,440)
Profit attributable to shareholders	-	-	-	-	245,421	245,421
Total recognised (loss) / profit	-	-	(75,440)	-	245,421	169,981
Shares issued under employee share option schemes	9,797	-	-	-	-	9,797
Employee share option benefits	-	5,360	-	-	-	5,360
Transfer of reserves	-	-	-	(280)	280	-
At 31 Mar 2005	1,170,470	22,421	(56,611)	680,716	2,420,285	4,237,281

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D)

	Share capital and share premium \$'000	Employee share-based compensation reserve \$'000	Revaluation reserves \$'000	Designated reserves \$'000	Retained earnings \$'000	Total equity \$'000
At 31 Dec 2003, as previously reported	1,103,337	-	46,431	689,657	3,763,838	5,603,263
Effect of changes in accounting policies	-	2,771	(9,932)	-	18,023	10,862
At 31 Dec 2003, as restated	1,103,337	2,771	36,499	689,657	3,781,861	5,614,125
Effect of initial adoption of HKAS 39	-	-	-	-	28	28
At 1 Jan 2004, as restated	1,103,337	2,771	36,499	689,657	3,781,889	5,614,153
Change in fair value of available-for-sale financial assets	-	-	2,665	-	-	2,665
Realisation of change in fair value of financial assets on maturity and disposal	-	-	148	-	-	148
Deferred tax arising from change in fair value of available-for-sale financial assets	-	-	(777)	-	-	(777)
Net profit recognised directly in equity	-	-	2,036	-	-	2,036
Profit attributable to shareholders	-	-	-	-	312,896	312,896
Total recognised profit	-	-	2,036	-	312,896	314,932
2003 special and final dividends	-	-	-	-	(2,218,559)	(2,218,559)
Shares issued under employee share option schemes	56,084	-	-	-	-	56,084
Employee share option benefits	-	1,794	-	-	-	1,794
Transfer of reserves	-	-	-	703	(703)	-
At 31 Mar 2004, as restated	1,159,421	4,565	38,535	690,360	1,875,523	3,768,404

CONDENSED CONSOLIDATED BALANCE SHEET

(Financial figures are expressed in Hong Kong Dollar)

	Note	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
NON-CURRENT ASSETS			
Fixed assets	13	285,562	324,300
Investment property		13,300	13,300
Lease premium for land		94,534	94,670
Investments in associates	14	36,548	38,731
Clearing House Funds	15	1,479,884	1,861,487
Compensation Fund Reserve Account	16	37,270	37,451
Time deposit with maturity over one year		39,075	38,941
Deferred tax assets		1,991	1,227
Other assets		12,952	13,142
		2,001,116	2,423,249
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	17	4,332,871	4,691,846
Lease premium for land		548	548
Taxation recoverable		26	91
Margin Funds on derivatives contracts	18	9,045,471	10,529,692
Financial assets at fair value through profit or loss	19	2,627,195	2,761,593
Time deposits with original maturity over three months		401	1,340
Cash and cash equivalents		1,372,068	1,035,045
		17,378,580	19,020,155
CURRENT LIABILITIES			
Margin deposits from Clearing Participants on derivatives contracts	18	9,045,471	10,529,692
Accounts payable, accruals and other liabilities	17	4,632,562	4,902,350
Financial liabilities at fair value through profit or loss	19	2,176	10,749
Participants' admission fees received		3,250	4,850
Deferred revenue		238,623	284,148
Taxation payable		145,009	199,678
Provisions	20	24,137	23,212
		14,091,228	15,954,679
NET CURRENT ASSETS		3,287,352	3,065,476
TOTAL ASSETS LESS CURRENT LIABILITIES		5,288,468	5,488,725

CONDENSED CONSOLIDATED BALANCE SHEET (CONT'D)

	Note	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
NON-CURRENT LIABILITIES			
Participants' admission fees received		83,800	82,850
Participants' contributions to Clearing House Funds	15	918,655	1,298,752
Deferred tax liabilities		24,628	30,876
Provisions	20	24,104	24,104
		1,051,187	1,436,582
NET ASSETS			
		4,237,281	4,052,143
CAPITAL AND RESERVES			
Share capital	21	1,058,063	1,056,639
Share premium	21	112,407	104,034
Employee share-based compensation reserve	22	22,421	17,061
Revaluation reserves	23	(56,611)	18,829
Designated reserves	24	680,716	680,996
Retained earnings	25	1,922,995	1,677,964
Proposed/declared dividends	25	497,290	496,620
SHAREHOLDERS' FUNDS			
		4,237,281	4,052,143

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Financial figures are expressed in Hong Kong Dollar)

	Note	Unaudited Three months ended 31 Mar 2005 \$'000	Unaudited Three months ended 31 Mar 2004 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	26(a)	309,205	1,207,900
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		(6,843)	(4,189)
Proceeds from sales of fixed assets		-	156
Proceeds from sales of other assets		-	1,175
Decrease in time deposits with original maturity more than three months		805	348,220
Dividends received from an associate		4,800	2,400
Dividends received from available-for-sale financial assets		-	1,070
Interest received from available-for-sale financial assets		19,909	12,225
Interest paid on bank loan		-	(827)
Net cash inflow from investing activities		18,671	360,230
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		9,797	56,084
Admission fees refunded to less receipts from Participants		(650)	(2,700)
Repayment of bank loan		-	(50,286)
Net cash inflow from financing activities		9,147	3,098
Net increase in cash and cash equivalents		337,023	1,571,228
Cash and cash equivalents at 31 Dec 2004/2003		1,035,045	1,355,390
Effect of initial adoption of HKAS 39		-	25,886
Cash and cash equivalents at 31 Mar 2005/2004	26(b)	1,372,068	2,952,504

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

(Financial figures are expressed in Hong Kong Dollar)

1. Basis of Preparation and Accounting Policies

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

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

The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2004.

As disclosed in the 2004 annual accounts, the Group adopted various new Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA in the fourth quarter of 2004. The results for the three months ended 31 March 2004 have been restated in accordance with the new HKFRSs.

The effect of changes in accounting policies on the condensed consolidated profit and loss account for the three months ended 31 March 2004 is as follows:

	Effect of adopting						Total \$'000
	HKAS 1 \$'000	HKAS 17 \$'000	HKFRS 2 \$'000	HKFRS 3, HKAS 36 & HKAS 38 \$'000	HKAS 32 & HKAS 39 \$'000	Other reclassification \$'000	
Increase / (decrease) in investment income	-	-	-	-	622	(2,323)	(1,701)
Increase in other income	-	-	-	-	-	2,323	2,323
Increase in staff costs and related expenses	-	-	(1,794)	-	-	-	(1,794)
Increase in premises expenses	-	(137)	-	-	-	-	(137)
Decrease in depreciation	-	471	-	-	-	-	471
Increase in other operating expenses	-	-	-	-	(287)	-	(287)
Increase / (decrease) in share of profits less losses of associates	(610)	-	-	662	-	-	52
Decrease / (increase) in taxation	610	(7)	-	-	(153)	-	450
Total increase / (decrease) in profit	-	327	(1,794)	662	182	-	(623)
Increase / (decrease) in basic earnings per share	-	0.03 cents	(0.17 cents)	0.06 cents	0.02 cents	-	(0.06 cents)

1. Basis of Preparation and Accounting Policies (continued)

The effect of changes in accounting policies on equity as at 31 March 2004 is as follows:

	Effect of adopting						Total \$'000
	HKAS 17 \$'000	HKFRS 2 \$'000	HKFRS 3, HKAS 36 & HKAS 38 \$'000	HKAS 32 & HKAS 39 \$'000	HKAS 40 \$'000	HKAS- INT 21 \$'000	
<i>Increase / (decrease) in equity</i>							
Employee share-based compensation reserve	-	4,565	-	-	-	-	4,565
Revaluation reserves	(8,161)	-	-	-	(1,771)	-	(9,932)
Retained earnings	17,014	(4,565)	3,308	210	1,771	(310)	17,428

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

2. Turnover

Turnover comprises trading fees and trading tariff from securities and options traded on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) and derivatives contracts traded on Hong Kong Futures Exchange Limited (“the Futures Exchange”), Stock Exchange listing fees, clearing and settlement fees, depository, custody and nominee services fees, income from sale of information, investment income (including investment income net of interest expenses of Clearing House Funds) and other income, which are **disclosed as Income** in the condensed consolidated profit and loss account.

3. Segment Information

The Group’s income is derived solely from business activities in Hong Kong. An analysis of the Group’s income and results for the period by business segments is as follows:

	Unaudited Three months ended 31 Mar 2005				
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Group \$'000
Income	263,325	91,246	139,961	79,720	574,252
Costs	133,466	37,480	94,193	17,536	282,675
Segment results	129,859	53,766	45,768	62,184	291,577
Share of profits less losses of associates	(4)	-	2,621	-	2,617
Segment profits before taxation	129,855	53,766	48,389	62,184	294,194
Taxation					(48,773)
Profit attributable to shareholders					245,421

3. Segment Information (continued)

	As restated Unaudited Three months ended 31 Mar 2004				
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Group \$'000
Income	302,936	82,319	182,014	81,602	648,871
Costs	135,728	36,375	93,695	19,088	284,886
Segment results	167,208	45,944	88,319	62,514	363,985
Share of profits less losses of associates	-	-	2,980	-	2,980
Segment profits before taxation	167,208	45,944	91,299	62,514	366,965
Taxation					(54,069)
Profit attributable to shareholders					312,896

The **Cash Market** business 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 Functions are further explained in note 5.

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

The **Clearing Business** refers to the operations of the three Clearing Houses, namely Hong Kong Securities Clearing Company Limited (“HKSCC”), The SEHK Options Clearing House Limited (“SEOCH”) and HKFE Clearing Corporation Limited (“HKCC”), which are responsible for clearing, settlement and custodian activities and the related risk management of the Cash and Derivatives markets operated by the Group. Its income is derived primarily from interest earned on the Clearing House Funds and fees from providing clearing, settlement, depository and nominee services.

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

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

4. Trading Fees and Trading Tariff

	Unaudited Three months ended 31 Mar 2005 \$'000	Unaudited Three months ended 31 Mar 2004 \$'000
Trading fees and trading tariff are derived from:		
Securities traded on the Cash market	123,743	140,353
Derivatives contracts traded on the Derivatives market	58,937	52,431
	182,680	192,784

5. Stock Exchange Listing Fees

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

	Unaudited Three months ended 31 Mar 2005				
	Equity			Debt & Derivatives	Total
	Main Board	GEM	Subtotal	\$'000	\$'000
	\$'000	\$'000	\$'000		
Income					
Annual listing fees	58,451	6,479	64,930	460	65,390
Initial and subsequent issue listing fees	12,066	1,340	13,406	16,392	29,798
Prospectus vetting fees	415	60	475	90	565
Other listing fees	690	260	950	-	950
Total income	71,622	8,139	79,761	16,942	96,703
Costs of Listing Function					
Staff costs and related expenses	23,643	6,423	30,066	1,303	31,369
Information technology and computer maintenance expenses	371	93	464	-	464
Premises expenses	1,594	437	2,031	98	2,129
Legal and professional fees	461	425	886	-	886
Depreciation	1,914	554	2,468	80	2,548
Payment to SFC under dual filing regime	4,067	933	5,000	-	5,000
Other operating expenses	1,329	394	1,723	72	1,795
Total costs	33,379	9,259	42,638	1,553	44,191
Contribution	38,243	(1,120)	37,123	15,389	52,512

5. Stock Exchange Listing Fees (continued)

	As restated Unaudited Three months ended 31 Mar 2004				
	Equity			Debt & Derivatives	Total
	Main Board	GEM	Subtotal		
\$'000	\$'000	\$'000	\$'000	\$'000	
Income					
Annual listing fees	54,105	6,339	60,444	581	61,025
Initial and subsequent issue listing fees	7,410	3,855	11,265	16,818	28,083
Prospectus vetting fees	620	105	725	-	725
Other listing fees	652	206	858	-	858
Total income	62,787	10,505	73,292	17,399	90,691
Costs of Listing Function					
Staff costs and related expenses	17,091	7,582	24,673	856	25,529
Information technology and computer maintenance expenses	601	151	752	-	752
Premises expenses	1,223	539	1,762	63	1,825
Legal and professional fees	1,390	674	2,064	-	2,064
Depreciation	2,868	1,194	4,062	112	4,174
Payment to SFC under dual filing regime	4,096	904	5,000	-	5,000
Other operating expenses	1,764	610	2,374	37	2,411
Total costs	29,033	11,654	40,687	1,068	41,755
Contribution	33,754	(1,149)	32,605	16,331	48,936

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

The costs listed above are regulatory in nature, which comprise direct costs of the Listing Function on vetting Initial Public Offerings (“IPOs”) and enforcing the 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 (e.g. marketing and promotion, brand-building, and providing an efficient market infrastructure and market access facilities) to attract issuers to list on the Stock Exchange, which contribute to the Stock Exchange listing fee income above, are not included as they are part and parcel of the activities of the Group and cannot be separately quantified. Moreover, the costs do not cover costs of support services and other central overheads attributable to the Listing Function.

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (CONT'D)

6. Investment Income

	Unaudited Three months ended 31 Mar 2005 \$'000	As restated Unaudited Three months ended 31 Mar 2004 \$'000
Interest income		
- bank deposits	20,070	5,010
- listed available-for-sale financial assets	1,611	781
- unlisted available-for-sale financial assets	18,298	11,444
	39,979	17,235
Interest expenses	(2,904)	(104)
Net interest income	37,075	17,131
Net realised and unrealised gains /(losses) and interest income on financial assets at fair value through profit or loss		
- bank deposits with embedded derivatives	266	1,045
- listed securities	10,590	27,891
- unlisted securities	(8,794)	38,601
- exchange difference	2,623	4,205
	4,685	71,742
Gains/(losses) on disposal and maturity of available-for-sale financial assets		
- unlisted securities	-	101
- exchange difference	-	(151)
	-	(50)
Dividend income		
- listed available-for-sale financial assets	-	1,070
- listed financial assets at fair value through profit or loss	981	1,137
	981	2,207
Other exchange difference	139	235
Total investment income	42,880	91,265
Total investment income is derived from:		
Corporate Funds (note a)	8,368	75,761
Margin Funds	30,635	13,146
Clearing House Funds	3,877	2,358
	42,880	91,265

- (a) Investment income derived from Corporate Funds includes investment income of Compensation Fund Reserve Account of \$186,000 (2004: \$131,000) and Cash and Derivatives Market Development Fund ("CDMD Fund") of \$Nil (2004: \$6,000).

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (CONT'D)

7. Other income

	Unaudited Three months ended 31 Mar 2005 \$'000	As restated Unaudited Three months ended 31 Mar 2004 \$'000
Network, terminal user, dataline and software sub-license fees	30,938	29,089
Participants' subscription and application fees	8,706	8,676
Share registration services fees	507	606
Brokerage on direct IPO applications	4,665	6,365
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	710	2,323
Miscellaneous income	2,219	2,057
	47,745	49,116

8. Staff Costs and Related Expenses

Details of staff costs and related expenses are as follows:

	Unaudited Three months ended 31 Mar 2005 \$'000	As restated Unaudited Three months ended 31 Mar 2004 \$'000
Salaries, and other short-term employee benefits	123,390	117,505
Employee share option benefits	5,360	1,794
Termination benefits	-	1,224
Retirement benefit costs (note a):		
- ORSO Plan	12,570	11,758
- MPF Scheme	64	98
	141,384	132,379

- (a) The Group has sponsored two defined contribution post-retirement benefit plans - the Hong Kong Exchanges and Clearing Provident Fund Scheme ("the ORSO Plan") and the AIA-JF Premium MPF Scheme ("the MPF Scheme"). The retirement benefit costs charged to the condensed consolidated profit and loss account represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme.

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (CONT'D)

9. Information Technology and Computer Maintenance Expenses

	Unaudited Three months ended 31 Mar 2005 \$'000	Unaudited Three months ended 31 Mar 2004 \$'000
Costs of services and goods:		
- consumed by the Group	36,731	41,481
- directly consumed by Participants	12,175	13,133
	48,906	54,614

10. Other Operating Expenses

	Unaudited Three months ended 31 Mar 2005 \$'000	As restated Unaudited Three months ended 31 Mar 2004 \$'000
Reversal of provision for impairment losses of trade receivables	(440)	(503)
Insurance	4,098	4,290
Financial data subscription fees	1,559	2,032
Custodian and fund management fees	1,943	2,097
Bank charges	745	2,118
Repair and maintenance expenses	1,762	1,573
Other miscellaneous expenses	9,113	9,826
	18,780	21,433

11. Taxation

Taxation in the condensed consolidated profit and loss account represents:

	Unaudited Three months ended 31 Mar 2005 \$'000	As restated Unaudited Three months ended 31 Mar 2004 \$'000
Provision for Hong Kong Profits Tax (note a)	52,624	61,419
Deferred taxation	(3,851)	(7,350)
	48,773	54,069

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

12. Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$245,421,000 (2004: \$312,896,000) and the weighted average of 1,056,924,490 shares (2004: 1,050,318,758 shares) in issue during the three-month period.

The employee share options outstanding did not have a material dilutive effect on the basic earnings per share.

13. Fixed Assets

The Group is heavily reliant on the capability and reliability of its computer systems for its business operations, including those required for its electronic trading platforms and for post-trading clearing and settlement services. The total cost of additions to fixed assets of the Group during the three months to 31 March 2005 was \$5,493,000 (2004: \$6,248,000) of which \$3,792,000 (2004: \$6,050,000) or 69 per cent (2004: 97 per cent) was on computer systems, hardware and software. The total cost and net book value of disposals and write-offs of fixed assets during the three months to 31 March 2005 were \$280,000 and \$Nil respectively (2004: \$3,472,000 and \$149,000 respectively).

14. Investments in Associates

	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
Share of net assets of associates	11,607	13,790
Goodwill	24,941	24,941
	36,548	38,731

(a) Details of the unlisted associates as at 31 March 2005 were as follows:

Name	Place of incorporation	Principal activities	Particulars of shares held	Interest held
Computershare Hong Kong Investor Services Limited ("CHIS")	Hong Kong	Provision of share registration services	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%

ADP Wilco Processing Services Limited ("AWPS") has an accounting year end of 30 June, which is not coterminous with the Group's accounting year end. Voluntary liquidation of AWPS commenced in April 2005.

(b) Share of profits less losses of associates

	Unaudited Three months ended 31 Mar 2005 \$'000	Unaudited Three months ended 31 Mar 2004 \$'000
Share of profit less losses of associates	3,163	3,590
Share of taxation of associates	(546)	(610)
	2,617	2,980

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (CONT'D)

15. Clearing House Funds

	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
Net assets of the Clearing House Funds are as follows:		
HKSCC Guarantee Fund	339,099	339,598
SEOCH Reserve Fund	256,678	160,119
HKCC Reserve Fund	884,107	1,361,770
	1,479,884	1,861,487
Net assets of the Clearing House Funds are composed of:		
Available-for-sale financial assets, at fair value		
- listed debt securities	102,238	-
- unlisted debt securities	124,787	127,569
Time deposits with original maturity over three months	30,421	144,610
Cash and cash equivalents	1,234,399	1,604,089
	1,491,845	1,876,268
Less: Other liabilities	(11,961)	(14,781)
	1,479,884	1,861,487
The Clearing House Funds are funded by:		
Clearing Participants' cash contributions (note a)	918,655	1,298,752
Designated reserves (note 24):		
- Clearing houses' contributions	320,200	320,200
- Forfeiture of defaulted Clearing Participants' contributions	1,928	1,928
- Accumulated investment income net of expenses attributable to:		
- Clearing Participants' contributions	184,076	182,839
- Clearing houses' contributions	55,941	55,659
	562,145	560,626
Revaluation reserve (Note 23(c))	(916)	2,109
	1,479,884	1,861,487
The maturity profile of the net assets of the Clearing House Funds is as follows:		
Amounts maturing after more than twelve months	132,659	157,858
Amounts maturing within twelve months	1,347,225	1,703,629
	1,479,884	1,861,487

15. Clearing House Funds (continued)

- (a) Amount includes Participants' additional deposits of \$580,405,000 (31 December 2004: \$961,502,000).
- (b) The HKSCC Guarantee Fund provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Broker Participants in Central Clearing and Settlement System ("CCASS") arising from their Stock Exchange trades accepted for settlement on the Continuous Net Settlement ("CNS") basis and defective securities deposited into CCASS. The SEOCH Reserve Fund and the HKCC Reserve Fund were established for the exclusive purpose of supporting SEOCH and HKCC to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to SEOCH and HKCC respectively.

16. Compensation Fund Reserve Account

	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
Net assets of the Compensation Fund Reserve Account are composed of:		
Available-for-sale financial assets, at fair value		
- unlisted debt securities	18,072	18,831
Cash and cash equivalents	30,962	29,137
Other receivable	-	100
	49,034	48,068
Less: Other liabilities	(11,764)	(10,617)
	37,270	37,451
The Fund represents:		
Accumulated investment income net of expenses included in designated reserves (note 24)	37,303	37,117
Revaluation reserve (note 23(c))	(33)	334
	37,270	37,451
The maturity profile of the net assets of the Compensation Fund Reserve Account is as follows:		
Amounts maturing after more than twelve months	-	18,831
Amounts maturing within twelve months	37,270	18,620
	37,270	37,451

16. Compensation Fund Reserve Account (continued)

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

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

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

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

The Group’s accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities amounted to \$4,332,871,000 (31 December 2004: \$4,691,846,000) and \$4,632,562,000 (31 December 2004: \$4,902,350,000) respectively. These mainly represent the Group’s CNS money obligations under the T+2 settlement cycle. The Group’s CNS money obligations receivable represent 93 per cent (31 December 2004: 91 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations payable represent 87 per cent (31 December 2004: 87 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. Fees receivable are due immediately or up to 30 days depending on the type of services rendered.

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (CONT'D)

18. Margin Funds on Derivatives Contracts

	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
The Margin Funds comprise:		
SEOCH Clearing Participants' Margin Funds	933,241	915,250
HKCC Clearing Participants' Margin Funds	8,112,230	9,614,442
	9,045,471	10,529,692
The assets of the Margin Funds comprise:		
Financial assets at fair value through profit or loss, on designation		
- bank deposits with embedded derivatives	-	130,871
Available-for-sale financial assets, at fair value		
- listed debt securities	419,516	339,158
- unlisted debt securities	3,796,223	3,280,786
Time deposits with original maturity over three months	100,218	300,784
Cash and cash equivalents	4,722,037	6,443,406
Margin receivable from Clearing Participants	7,477	34,687
	9,045,471	10,529,692
The Group's liabilities in respect of the Margin Funds are as follows:		
Margin deposits from SEOCH and HKCC		
Participants on derivatives contracts	9,045,471	10,529,692
The maturity profile of the assets of Margin Funds is as follows:		
Amounts maturing after more than twelve months	1,744,375	2,138,362
Amounts maturing within twelve months	7,301,096	8,391,330
	9,045,471	10,529,692

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

	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
Analysis of financial assets at fair value through profit or loss:		
<i>Held for trading</i>		
Equity securities, at fair value		
- listed in Hong Kong	117,586	93,154
- listed outside Hong Kong	136,808	151,954
	254,394	245,108
<i>Held for trading</i>		
Debt securities, at fair value		
- listed in Hong Kong	18,487	-
- listed outside Hong Kong	1,145,194	1,278,858
- unlisted	1,207,071	1,200,195
	2,370,752	2,479,053
<i>Held for trading</i>		
Derivative financial instruments, at fair value		
- forward foreign exchange contracts	2,049	247
<i>Designated as financial assets at fair value through profit or loss</i>		
Bank deposits with embedded derivatives, at fair value	-	37,185
	2,627,195	2,761,593
Analysis of financial liabilities at fair value through profit or loss:		
<i>Held for trading</i>		
Derivative financial instruments, at fair value		
- forward foreign exchange contracts	2,176	10,749

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (CONT'D)

20. Provision

	Reinstatement costs \$'000	Employee benefit costs \$'000	Total \$'000
At 1 Jan 2005	24,104	23,212	47,316
Provision for the period	-	9,660	9,660
Amount used during the period	-	(8,420)	(8,420)
Amount paid during the period	-	(315)	(315)
At 31 Mar 2005	24,104	24,137	48,241
		Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
Analysis of provisions:			
Current		24,137	23,212
Non-current		24,104	24,104
		48,241	47,316

21. Share Capital and Share Premium

		Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'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 2004	1,048,998,846	1,048,999	54,338	1,103,337
Shares issued under employee share option schemes	7,640,000	7,640	49,696	57,336
At 31 Dec 2004	1,056,638,846	1,056,639	104,034	1,160,673
Shares issued under employee share option schemes	1,424,000	1,424	8,373	9,797
At 31 Mar 2005	1,058,062,846	1,058,063	112,407	1,170,470

During the period, employee share options granted under the Pre-Listing Share Option Scheme ("Pre-Listing Scheme") were exercised to subscribe for 1,424,000 shares (year ended 31 December 2004: 7,640,000 shares) in HKEx at an average consideration of \$6.88 per share (year ended 31 December 2004: \$7.50 per share), of which \$1.00 per share was credited to share capital and the balance was credited to the share premium account.

22. Employee Share-based Compensation Reserve

	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
At 1 Jan	17,061	2,771
Employee share option benefits	5,360	14,290
At 31 Mar 2005/31 Dec 2004	22,421	17,061

- (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.

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

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

	Unaudited Three months ended 31 Mar 2005		Audited Year ended 31 Dec 2004	
	Average exercise price per share \$	Number of shares issuable under options granted	Average exercise price per share \$	Number of shares issuable under options granted
Pre-Listing Scheme				
Outstanding at 1 Jan	6.88	6,680,000	7.52	14,171,626
Exercised	6.88	(1,424,000)	7.50	(7,640,000)
Forfeited	-	-	7.00	(524,829)
Adjusted *	-	-	N/A	673,203
Outstanding at 31 Mar 2005/ 31 Dec 2004	6.88	5,256,000	6.88	6,680,000
Post-Listing Scheme				
Outstanding at 1 Jan	13.78	13,218,000	11.26	5,800,000
Granted	19.25	5,884,000	17.21	6,888,000
Forfeited	-	-	16.96	(106,000)
Adjusted *	-	-	N/A	636,000
Outstanding at 31 Mar 2005/ 31 Dec 2004	15.46	19,102,000	13.78	13,218,000
Total	13.61	24,358,000	11.46	19,898,000

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

22. Employee Share-based Compensation Reserve (continued)

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

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

- (i) The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the one year immediately preceding the grant date.
- (ii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in HKEx set out above.
- (iii) Expected ordinary dividend is based on 2005 prospective dividend yield of the shares as at 26 January 2005.
- (d) Had all the outstanding employee share options been fully exercised on 31 March 2005, the Group would have received \$331,566,220 in proceeds. The market value of the shares issued based on the closing price of \$20.15 per share on that date would have been \$490,813,700. The theoretical gains made by the employees or executive Director concerned would be as follows:

	Number of shares issuable under options granted as at 31 March 2005	Exercise price \$	Gain per share \$	Aggregate gain \$'000
Pre-Listing Scheme				
- granted to employees on 20 Jun 2000	5,256,000	6.88	13.27	69,747
Post-Listing Scheme				
- granted to an executive Director on 2 May 2003	3,280,000	8.28	11.87	38,934
- granted to an employee on 14 Aug 2003	1,094,000	12.45	7.70	8,424
- granted to an employee on 18 Aug 2003	1,968,000	12.49	7.66	15,075
- granted to an employee on 15 Jan 2004	1,094,000	17.30	2.85	3,118
- granted to employees on 31 Mar 2004	5,582,000	16.96	3.19	17,806
- granted to an employee on 17 May 2004	200,000	15.91	4.24	848
- granted to employees on 26 Jan 2005	5,884,000	19.25	0.90	5,295
Total	24,358,000			159,247

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (CONT'D)

23. Revaluation Reserves

	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
Leasehold buildings revaluation reserve (note b)	2,537	2,537
Investment revaluation reserve (note c)	(59,148)	16,292
	(56,611)	18,829

- (a) The revaluation reserves are segregated for their respective specific purposes and are stated net of applicable deferred taxes.
- (b) Leasehold buildings are revalued on a six-monthly basis at the end of June and December each year.
- (c) Includes gross investment revaluation deficits of \$916,000 and \$33,000 (31 December 2004: gross surpluses of \$2,109,000 and \$334,000 respectively) which are attributable to investments of the Clearing House Funds and the Compensation Fund Reserve Account respectively. The significant decrease in investment revaluation reserve is mainly due to the decrease in fair value of available-for-sale financial assets of the Margin Funds.

24. Designated Reserves

	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
Clearing House Funds reserves		
- HKSCC Guarantee Fund reserve	247,712	247,853
- SEOCH Reserve Fund reserve	49,188	48,774
- HKCC Reserve Fund reserve	265,245	263,999
	562,145	560,626
Compensation Fund Reserve Account reserve	37,303	37,117
Development reserve (note b)	81,268	83,253
	680,716	680,996

- (a) These reserves are segregated for their respective purposes.
- (b) Development reserve was set aside for systems development for the Stock Exchange. During the three months ended 31 March 2005, \$1,985,000 (2004: \$Nil) of the reserve was utilised and transferred to the Group's retained earnings (note 25) for funding systems development projects relating to the securities market.

25. Retained Earnings (Including Proposed/Declared Dividends)

	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
At 1 Jan		
Retained earnings	1,677,964	1,578,991
Proposed/declared dividends	496,620	2,202,898
Profit for the period/year (note a)	245,421	1,056,884
(Surplus)/deficit of investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves	(1,519)	5,040
Investment income net of expenses of Compensation Fund Reserve Account for the period/year transferred to Compensation Fund Reserve Account reserve	(186)	(576)
Transfer from CDMD Fund reserve (note b)	-	914
Transfer from Development reserve	1,985	3,283
Dividends paid:		
2003 special and final dividends	-	(2,202,898)
Dividend on shares issued for employee share options exercised after declaration of 2003 special and final dividends	-	(15,661)
	-	(2,218,559)
2004 interim dividend	-	(454,283)
Dividend on shares issued for employee share options exercised after declaration of 2004 interim dividend	-	(8)
	-	(454,291)
At 31 Mar/31 Dec	2,420,285	2,174,584
Representing:		
Retained earnings	1,922,995	1,677,964
Proposed/declared dividends	497,290	496,620
At 31 Mar/31 Dec	2,420,285	2,174,584

(a) The Group's profit for the period/year includes a net profit attributable to investment income net of expenses of the Clearing House Funds, Compensation Fund Reserve Account and CDMD Fund for an aggregate amount of \$1,705,000 (year ended 31 December 2004: deficit of \$2,182,000).

(b) The CDMD Fund reserve was fully utilised in 2004 for funding initiatives that were for the development and betterment of the Cash and Derivatives markets in Hong Kong.

26. Notes to the Consolidated Cash Flow Statement

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

	Unaudited Three months ended 31 Mar 2005 \$'000	Unaudited Three months ended 31 Mar 2004 \$'000
Profit before taxation	294,194	366,965
Adjustments for:		
Net interest income	(37,075)	(17,131)
Dividends from available-for-sale financial assets	-	(1,070)
Net realised and unrealised gains/(losses) and interest income on financial assets at fair value through profit or loss	(4,685)	(71,742)
Amortisation of lease premium for land	136	137
Depreciation	44,231	44,881
Employee share option benefits	5,360	1,794
Reversal of provision for impairment losses of trade receivables	(440)	(503)
Changes in provisions	925	240
Share of profits less losses of associates	(2,617)	(2,980)
Gain on disposal of fixed assets	-	(7)
Operating profit before working capital changes	300,029	320,584
Net decrease in financial assets and financial liabilities at fair value through profit or loss	86,612	726,726
Settlement of amount transferred from retained earnings to Clearing House Funds and Compensation Fund Reserve Account	(1,705)	(703)
Decrease in accounts receivable, prepayments and deposits	298,003	890,516
Decrease in other current liabilities	(305,687)	(764,778)
Net cash inflow from operations	377,252	1,172,345
Interest received	20,070	5,010
Cash received on financial assets at fair value through profit or loss	21,991	30,590
Interest paid	(2,880)	(9)
Hong Kong Profits tax paid	(107,228)	(36)
Net cash inflow from operating activities	309,205	1,207,900

26. Notes to the Consolidated Cash Flow Statement (continued)

(b) Analysis of cash and cash equivalents

	Unaudited Three months ended 31 Mar 2005 \$'000	Unaudited Three months ended 31 Mar 2004 \$'000
Time deposits with original maturity within three months	1,221,825	2,720,027
Cash at bank and in hand	150,243	232,477
Cash and cash equivalents at 31 Mar	1,372,068	2,952,504

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

27. Commitments

Commitments in respect of capital expenditures:

	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
Contracted but not provided for	6,564	4,484
Authorised but not contracted for	65,840	73,554
	72,404	78,038

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

28. Contingent Liabilities

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

Pursuant to the SFO, the Stock Exchange issued a notice on 3 April 2003 inviting claims against the Compensation Fund in relation to any default of a Stock Exchange Participant occurring before 1 April 2003. The claims period expired on 3 October 2003 and no claims were received in response to that notice. Claims made after the claims period are, unless the Stock Exchange otherwise determines, barred. As at 31 March 2005, no such claims had been received in response to the said notice.

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

- (b) The Stock Exchange has undertaken to indemnify the Collector of Stamp Revenue against any loss of revenue resulting from any underpayment or default or delay in payment of stamp duty by its Participants, up to \$200,000 in respect of the default of any one Participant. In the unlikely event that all of its 424 trading Participants as at 31 March 2005 (31 December 2004: 434) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity will amount to \$85 million (31 December 2004: \$87 million).
- (c) HKEx gave an undertaking on 6 March 2000 in favour of HKSCC to contribute an amount not exceeding \$50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the debts and liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs, charges and expenses of winding up.

29. Non-cash Collateral Received from Participants

As at 31 March 2005, the following non-cash collateral had been received from Clearing Participants for covering part of their obligations:

	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
Clearing House Funds		
Bank guarantees	168,481	322,724
Margin Funds		
Equity securities, listed in Hong Kong	534,178	610,318
US Treasury Bills	269,618	504,287
	803,796	1,114,605
Total	972,277	1,437,329

30. Material Related Party Transactions

Certain Directors of HKEx are investor participants of HKSCC (“Investor Participants”) or directors and/or shareholders of (i) Stock Exchange Participants and Futures Exchange Participants (“Exchange Participants”), Clearing Participants and Investor Participants; (ii) companies listed on the Stock Exchange; and (iii) Exchange Participants for buying shares on behalf of HKSCC. Securities and derivatives contracts traded by, and fees levied on, these Exchange Participants, Clearing Participants and Investor Participants, fees levied on these listed companies and fees paid to these Exchange Participants for buying shares on behalf of HKSCC are all undertaken in the ordinary course of business of the Group on the standard terms and conditions applicable to all other Exchange Participants, Clearing Participants and Investor Participants, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

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

- (a) An associate

	Unaudited Three months ended 31 Mar 2005 \$'000	Unaudited Three months ended 31 Mar 2004 \$'000
Income received from/(expenses paid to) an associate, CHIS:		
- Dividend income	4,800	2,400
- Share registration service fees	(158)	(107)

- (b) Related companies with common directors

	Unaudited Three months ended 31 Mar 2005 \$'000	Unaudited Three months ended 31 Mar 2004 \$'000
Rental payments (including air conditioning and cleaning service charges) to Shine Hill Development Limited (“Shine Hill”) (note i)	1,331	680

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

30. Material Related Party Transactions (continued)

(c) Key management personnel compensation

	Unaudited Three months ended 31 Mar 2005 \$'000	Unaudited Three months ended 31 Mar 2004 \$'000
Salaries and other short-term employee benefits	12,615	11,303
Employee share option benefits	2,359	1,794
Retirement benefit costs	1,377	1,364
	16,351	14,461

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

	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
Amounts due from:		
- An associate	4,800	-
- Related companies with common directors	867	867
Amounts due to:		
- An associate	(128)	(55)
- Related companies with common directors	(141)	(144)
- Key management personnel	(1,417)	(5,894)

(e) Post-retirement benefit plan

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

(f) Save as aforesaid, the Group has entered into other transactions with companies where there are common directors but the amounts are immaterial.

31. Financial Risk Management

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

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

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

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rates relating to investments denominated in foreign currencies. When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts 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 March 2005, the aggregate net open foreign currency positions amounted to HK\$2,037 million, of which HK\$204 million were non-USD exposures (31 December 2004: HK\$1,996 million, of which HK\$170 million were non-USD exposures), and the total nominal value of outstanding forward foreign exchange contracts amounted to HK\$392 million (31 December 2004: HK\$358 million). All forward foreign exchange contracts mature within two months.

(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 commodities is not permitted under the Group's Investment Policy.

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

31. Financial Risk Management (continued)

(b) Credit risk

(i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are made for losses that have been incurred at the balance sheet date. The Group limits its exposure to credit risk by rigorously selecting the counterparties (i.e. deposit-takers and issuers) and by diversification. As at 31 March 2005, all bonds held were of investment grade. Deposits are placed only with the note-issuing banks in Hong Kong and investment grade licensed banks and restricted licence banks approved by the Board from time to time. All investments are subject to a maximum concentration limit predetermined by the Board. The Group mitigates its exposure to risks relating to accounts receivables from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

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

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

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

Position limits are imposed by HKCC to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. As of 31 March 2005, bank guarantees of \$980,400,000 were accepted (31 December 2004: \$902,500,000) for such purpose.

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

31. Financial Risk Management (continued)

(c) Liquidity risk

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

(d) Fair value and cash flow interest rate risks

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

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

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (CONT'D)

31. Financial Risk Management (continued)

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

Unaudited at 31 Mar 2005								Effective interest rate of interest bearing items
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		
Non-current assets								
Clearing House Funds	1,203,396	28,002	124,788	132,659	-	(8,961)	1,479,884	2.30%
Compensation Fund Reserve Account	200	26,758	22,076	-	-	(11,764)	37,270	2.57%
Time deposit with maturity over one year	39,075	-	-	-	-	-	39,075	N/A *
Other non-interest bearing non-current assets	-	-	-	-	-	444,887	444,887	N/A
	1,242,671	54,760	146,864	132,659	-	424,162	2,001,116	
Current assets								
Accounts receivable, prepayments and deposits	-	-	-	-	-	4,332,871	4,332,871	N/A
Margin Funds on derivatives contracts	3,789,615	1,069,603	2,484,586	1,694,190	-	7,477	9,045,471	1.97%
Financial assets at fair value through profit or loss	-	186,145	987,311	752,928	444,368	256,443	2,627,195	3.07%
Time deposits with original maturity over three months	-	-	401	-	-	-	401	0.93%
Cash and cash equivalents	388,457	956,736	26,875	-	-	-	1,372,068	2.00%
Other non-interest bearing current assets	-	-	-	-	-	574	574	N/A
	4,178,072	2,212,484	3,499,173	2,447,118	444,368	4,597,365	17,378,580	
Current liabilities								
Margin deposits from Clearing Participants on derivatives contracts	9,045,471	-	-	-	-	-	9,045,471	0.57%
Accounts payable, accruals and other liabilities	138,494	-	-	-	-	4,494,068	4,632,562	0.53%
Other non-interest bearing current liabilities	-	-	-	-	-	413,195	413,195	N/A
	9,183,965	-	-	-	-	4,907,263	14,091,228	
Non-current liabilities								
Participants' contributions to Clearing House Funds	455,292	-	-	-	-	463,363	918,655	1.96%
Other non-interest bearing non-current liabilities	-	-	-	-	-	132,532	132,532	N/A
	455,292	-	-	-	-	595,895	1,051,187	
Net (liabilities) / assets	(4,218,514)	2,267,244	3,646,037	2,579,777	444,368	(481,631)	4,237,281	

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

31. Financial Risk Management (continued)

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

Audited at 31 Dec 2004								Effective interest rate of interest bearing items
	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	
Non-current assets								
Clearing House Funds	1,550,359	51,060	114,321	157,858	-	(12,111)	1,861,487	0.60%
Compensation Fund Reserve Account	400	28,737	-	18,831	-	(10,517)	37,451	1.21%
Time deposit with maturity over one year	38,941	-	-	-	-	-	38,941	N/A *
Other non-interest bearing non-current assets	-	-	-	-	-	485,370	485,370	N/A
	1,589,700	79,797	114,321	176,689	-	462,742	2,423,249	
Current assets								
Accounts receivable, prepayments and deposits	-	-	-	-	-	4,691,846	4,691,846	N/A
Margin Funds on derivatives contracts	4,220,879	2,761,283	1,524,730	1,988,113	-	34,687	10,529,692	0.65%
Financial assets at fair value through profit or loss	10,031	154,413	912,981	1,002,374	436,440	245,354	2,761,593	2.80%
Time deposits with original maturity over three months	-	402	938	-	-	-	1,340	0.94%
Cash and cash equivalents	541,776	465,397	27,872	-	-	-	1,035,045	0.27%
Other non-interest bearing current assets	-	-	-	-	-	639	639	N/A
	4,772,686	3,381,495	2,466,521	2,990,487	436,440	4,972,526	19,020,155	
Current liabilities								
Margin deposits from Clearing Participants on derivatives contracts	10,529,692	-	-	-	-	-	10,529,692	0.00%
Accounts payable, accruals and other liabilities	148,946	-	-	-	-	4,753,404	4,902,350	0.04%
Other non-interest bearing current liabilities	-	-	-	-	-	522,637	522,637	N/A
	10,678,638	-	-	-	-	5,276,041	15,954,679	
Non-current liabilities								
Participants' contributions to Clearing House Funds	931,427	-	-	-	-	367,325	1,298,752	0.07%
Other non-interest bearing non-current liabilities	-	-	-	-	-	137,830	137,830	N/A
	931,427	-	-	-	-	505,155	1,436,582	
Net (liabilities) / assets	(5,247,679)	3,461,292	2,580,842	3,167,176	436,440	(345,928)	4,052,143	

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

31. Financial Risk Management (continued)

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

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

	Unaudited at 31 Mar 2005					Total \$'000
	Overnight \$'000	> Overnight to 1 month \$'000	> 1 month to 1 year \$'000	> 1 year to 3 years \$'000	> 3 years \$'000	
Non-current assets						
Clearing House Funds	1,203,396	-	-	-	-	1,203,396
Compensation Fund Reserve Account	200	-	-	-	-	200
Time deposit with maturity over one year	39,075	-	-	-	-	39,075
	1,242,671	-	-	-	-	1,242,671
Current assets						
Margin Funds on derivatives contracts	3,789,615	50,083	100,097	50,387	-	3,990,182
Financial assets at fair value through profit or loss	-	106,943	215,646	15,553	12,892	351,034
Cash and cash equivalents	388,457	-	-	-	-	388,457
	4,178,072	157,026	315,743	65,940	12,892	4,729,673
Current liabilities						
Margin deposits from Clearing Participants on derivatives contracts	9,045,471	-	-	-	-	9,045,471
Accounts payable, accruals and other liabilities	138,494	-	-	-	-	138,494
	9,183,965	-	-	-	-	9,183,965
Non-current liabilities						
Participants' contributions to Clearing House Funds	455,292	-	-	-	-	455,292
	455,292	-	-	-	-	455,292

31. Financial Risk Management (continued)

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

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

31. Financial Risk Management (continued)

(e) Fair values of financial assets and financial liabilities

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

	Carrying amount in balance sheet		Fair value	
	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000	Unaudited at 31 Mar 2005 \$'000	Audited at 31 Dec 2004 \$'000
Financial assets				
Time deposit with maturity over one year	39,075	38,941	36,798	37,808
Other financial assets included in other non-current assets (note i)	9,940	9,935	9,806	9,833
Financial liabilities				
Participants' admission fees received included in non-current liabilities (note i)	83,800	82,850	81,174	82,306
Participants' contributions to Clearing House Funds:				
- Minimum contributions (note i)	338,250	337,250	327,651	335,035
- Participants' additional deposits	580,405	961,502	580,405	961,502
Provisions – non-current (note i)	24,104	24,104	23,349	23,875

- (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 discounted rates used range from 3.24% to 3.65% for 31 March 2005 (31 December 2004: 0.66% to 1.30%).

32. Events after Balance Sheet Date

In May 2005, the Group acquired a further 6% interest in an associate, Computershare Hong Kong Investor Services Limited, for a consideration of approximately \$25 million.

33. Comparative Figures

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

OTHER INFORMATION

(Financial figures are expressed in Hong Kong Dollar)

Outstanding Share Options

Details of the share options outstanding as at 31 March 2005 under the Pre-Listing Share Option Scheme (“Pre-Listing Scheme”) and the Post-Listing Share Option Scheme (“Post-Listing Scheme”) were as follows:

Pre-Listing Scheme

Date of Grant	Exercise Price	Number of shares issuable under the options granted					Exercise Period
		As at 1 January 2005	Issued upon subscription during the three months ended 31 March 2005	Lapsed during the three months ended 31 March 2005	As at 31 March 2005		
Employees (note 1)							
20 June 2000	\$6.88	6,680,000	1,424,000 (note 2)	-	5,256,000	6 March 2002 – 30 May 2010 (note 3)	

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

Post-Listing Scheme

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

OTHER INFORMATION (CONT'D)*Notes:*

1. *Employees working under employment contracts that were regarded as “continuous contracts” for the purpose of the Employment Ordinance of Hong Kong.*
2. *The weighted average closing price immediately before the dates on which the options were exercised was \$19.87.*
3. *Options granted are exercisable between 6 March 2002 and 30 May 2010, in tranches of 25 per cent each reaching 100 per cent as from 6 March 2005.*
4. *The option was granted to Mr Chow Man Yiu, Paul, a Director and the Chief Executive of HKEx.*
5. *Option granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of grant.*
6. *The closing price immediately before the date of grant was \$19.05.*
7. *HKEx has used the Binomial Option Pricing Model for estimating the fair value of options issued under the Post-Listing Scheme. The assumptions used in the calculation are:*
 - *Risk-free rate of return – the yield of 10-year Exchange Fund Notes*
 - *Expected volatility of share price – annualised volatility for 1 year immediately preceding the grant date*
 - *Expected dividend yield – annual dividend (excluding special dividend) of the most recent financial year and the closing price on grant date*

The amount written off in the profit and loss account for the three months ended 31 March 2005 was \$5,360,000 (31 March 2004: \$1,794,000).

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

The Binomial Option Pricing Model was developed to estimate the fair value of American style options. It is one of the commonly used models to estimate the fair value of an option which can be exercised before the expiry of the option period. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

Directors' and Chief Executive's Interests and Short Positions

As at 31 March 2005, the Directors, the Chief Executive and their respective associates had the following interests in the shares and underlying shares of HKEx, as recorded in the register maintained by HKEx pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"):

Name of Director	Number of Shares / Underlying Shares Held				Total	% of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Chow Man Yiu, Paul	3,280,000 <i>(note 1)</i>	-	-	-	3,280,000	0.31
Lee Jor Hung, Dannis	-	-	1,610,000 <i>(note 2)</i>	-	1,610,000	0.15
Lee Kwan Ho, Vincent Marshall	-	-	-	2,940,000 <i>(note 3)</i>	2,940,000	0.28
John Estmond Strickland	18,000 <i>(note 4)</i>	-	-	-	18,000	0.00
David Michael Webb	2 <i>(note 5)</i>	2 <i>(note 6)</i>	6 <i>(note 7)</i>	-	10	0.00

Notes:

- This represented the outstanding number of shares issuable under a share option granted pursuant to the Post-Listing Scheme to Mr Chow, a Director and the Chief Executive of HKEx on 2 May 2003. The said option is exercisable between 2 May 2005 and 1 May 2013 at an exercise price of \$8.28 per share. The number of shares issuable under the option granted and the exercise price had been adjusted in accordance with the resolution passed by Shareholders at the Annual General Meeting held on 31 March 2004.*
- 1,610,000 shares were owned by DL Brokerage Limited, a private company beneficially wholly-owned by Mr Lee.*
- Effective January 2005, the shares were held by Lee Tung Hai Family Trust, a discretionary trust of which Mr Lee is a beneficiary.*
- The shares were held by Mr Strickland as beneficial owner.*
- The shares were held by Mr Webb as beneficial owner.*
- The shares were owned by the spouse of Mr Webb.*
- The shares were owned by Fundamental Consultants Limited, Member One Limited and Member Two Limited which are under the control of Mr Webb.*

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 for Securities Transactions by Directors of Listed Issuers ("Model Code") or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the Directors and the Chief Executive (including their spouses and children under the age of 18) had, as at 31 March 2005, any interest in, or had been granted any right to subscribe for the securities and options of HKEx and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Disclosable Interests and Short Positions of Shareholders under the SFO

As at 31 March 2005, JP Morgan Chase & Co and its controlled corporations were holding 63,315,154 shares of HKEx, representing approximately 5.98 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 Controllers

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

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

As at 31 March 2005, the Minority Controllers were in aggregate holding 54.4 per cent of the issued share capital of HKEx (31 March 2004: 53.7 per cent).

Corporate Governance

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

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

To ensure stricter compliance with the CG Code, relevant amendments to the Articles of Association were proposed and approved by shareholders at the annual general meeting held on 12 April 2005 (“2005 AGM”) and subsequently approved by the SFC on 18 April 2005 pursuant to Section 67 of the SFO.

OTHER INFORMATION (CONT'D)

At the 2005 AGM, Dr Kwok Chi Piu, Bill and Mr Lee Kwan Ho, Vincent Marshall were re-elected by shareholders for a specific three-year term. In addition, shareholders also resolved on the service term of Messrs Lee Jor Hung, Dannis and David Michael Webb who were elected by shareholders in 2003, to continue until the conclusion of the annual general meeting to be held in 2006; and that of Messrs John Estmond Strickland and Wong Sai Hung, Oscar who were re-elected by shareholders in 2004, to continue until the annual general meeting to be held in 2007.

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

Compliance with the Model Code

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

Board of Directors

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

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

Committees and Consultative Panels

Following the changes in the Board membership that took effect after the conclusion of the 2005 AGM, the Board appointed members to various Committees and Consultative Panels on 13 April 2005 and 20 April 2005.

Dr Kwok Chi Piu, Bill was appointed a member of the Executive Committee, and the Chairman of the Derivatives Market Consultative Panel to succeed Mr Leong Ka Chai who retired after the conclusion of the 2005 AGM.

Mr Lee Kwan Ho, Vincent Marshall was appointed a member of the Nomination Committee to succeed Dr Kwok.

Messrs Fong Hup and David Michael Webb were appointed additional members of the Nomination Committee.

OTHER INFORMATION (CONT'D)

Dr Cheung Kin Tung, Marvin was appointed a member of the Audit Committee and the Remuneration Committee to succeed Mr Webb and Mr Vincent Lee respectively. Dr Cheung was also appointed the Deputy Chairman of the Derivatives Market Consultative Panel to succeed Dr Kwok who takes the chair of the Panel.

The term of service with each Committee or Consultative Panel shall be coterminous with individual's term of directorship with HKEx.

Other members of the Committees and Consultative Panels remain unchanged.

Review of Accounts

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2005 in conjunction with HKEx's external auditors.

Management has appointed the external auditors to carry out certain agreed-upon procedures in accordance with Hong Kong Standards on Related Services 4400 "Engagements to perform agreed-upon procedures regarding financial information" issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated financial statements for the three months ended 31 March 2005.

Purchase, Sale or Redemption of HKEx's Listed Securities

During the three months ended 31 March 2005, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold any of HKEx's listed securities.

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

Hong Kong, 11 May 2005

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