Notes to the Condensed Consolidated Accounts

(Financial figures are expressed in Hong Kong Dollar)

1. Basis of Preparation and Accounting Policies

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

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

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

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

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

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

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

1. Basis of Preparation and Accounting Policies *(Continued)*

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

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

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

2. Turnover

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

3. Segment Information

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

	Unaudited Six months ended 30 Jun 2005				
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Group $'000
Income	**530,107**	**197,041**	**348,067**	**163,250**	**1,238,465**
Costs	**270,586**	**74,814**	**190,591**	**34,527**	**570,518**
Segment results	**259,521**	**122,227**	**157,476**	**128,723**	**667,947**
Share of profits less losses of associates	**(21)**	**–**	**8,656**	**–**	**8,635**
Segment profits before taxation	**259,500**	**122,227**	**166,132**	**128,723**	**676,582**
Taxation					**(105,786)**
Profit attributable to shareholders					**570,796**

	As restated Unaudited Six months ended 30 Jun 2004				
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Group $'000
Income	513,870	145,865	344,403	159,630	1,163,768
Costs	267,849	71,466	194,005	37,975	571,295
Segment results	246,021	74,399	150,398	121,655	592,473
Share of profits less losses of associates	2	–	6,142	–	6,144
Segment profits before taxation	246,023	74,399	156,540	121,655	598,617
Taxation					(101,192)
Profit attributable to shareholders					497,425

3. Segment Information *(Continued)*

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

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

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

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

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

4. Trading Fees and Trading Tariff

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

5. Stock Exchange Listing Fees

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

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

5. Stock Exchange Listing Fees *(Continued)*

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

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

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

6. Investment Income/(Loss)

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

6. Investment Income/(Loss) *(Continued)*

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

7. Other Income

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

8. Staff Costs and Related Expenses

Details of staff costs and related expenses are as follows:

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

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

9. Information Technology and Computer Maintenance Expenses

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

10. Other Operating Expenses

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

11. Taxation

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

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

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

12. Earnings Per Share

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

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

12. Earnings Per Share *(Continued)*

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

13. Fixed Assets and Investment Property

The Group is heavily reliant on the capability and reliability of its computer systems for its business operations, including those required for its electronic trading platforms and for post-trading clearing and settlement services. Fixed assets decreased mainly attributable to depreciation during the period. The total cost of additions to fixed assets of the Group during the six months to 30 June 2005 was $14,064,000 (2004: $12,439,000), of which $11,428,000 (2004: $11,035,000) or 81 per cent (2004: 89 per cent) was on computer systems, hardware and software. The total cost and net book value of disposals and write-offs of fixed assets during the six months to 30 June 2005 were $1,375,000 and $1,000 respectively (2004: $140,159,000 and $305,000 respectively).

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

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

14. Investments in Associates

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

14. Investments in Associates *(Continued)*

(a) Goodwill

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

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

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

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

(c) Share of profits less losses of associates

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

15. Clearing House Funds

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

15. Clearing House Funds *(Continued)*

(a) Amount includes Participants' additional deposits of $437,048,000 (31 December 2004: $961,502,000).

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

16. Compensation Fund Reserve Account

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

16. Compensation Fund Reserve Account *(Continued)*

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

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

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

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

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

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

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

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

18. Margin Funds on Derivatives Contracts

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

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

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

20. Provisions

	Unaudited Reinstatement costs $'000	Unaudited Employee benefit costs $'000	Unaudited Total $'000
At 1 Jan 2005	**24,104**	**23,212**	**47,316**
Provision for the period	**20**	**17,966**	**17,986**
Amount used during the period	**–**	**(15,667)**	**(15,667)**
Amount paid during the period	**–**	**(690)**	**(690)**
At 30 Jun 2005	**24,124**	**24,821**	**48,945**

	Unaudited at 30 Jun 2005 $'000	Audited at 31 Dec 2004 $'000
Analysis of provisions:		
Current	**24,821**	23,212
Non-current	**24,124**	24,104
	48,945	47,316

21. Share Capital and Share Premium

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

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

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

22. Employee Share-based Compensation Reserve

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

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

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

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

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

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

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

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

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

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

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

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

(iii) Expected ordinary dividend is based on 2005 prospective dividend yield of the shares as at 26 January 2005.

(d) Had all the outstanding employee share options been fully exercised on 30 June 2005, the Group would have received $307,709,420 in proceeds. The market value of the shares issued based on the closing price of $20.10 per share on that date would have been $425,195,400. The theoretical gains made by the employees or executive Director concerned would be as follows:

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

23. Revaluation Reserves

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

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

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

24. Designated Reserves

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

(a) These reserves are segregated for their respective purposes.

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

25. Retained Earnings (Including Proposed/Declared Dividends)

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

(a) The Group's profit for the period/year includes a net profit attributable to investment income net of expenses of the Clearing House Funds, Compensation Fund Reserve Account and CDMD Fund for an aggregate amount of $6,308,000 (year ended 31 December 2004: deficit of $2,182,000).

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

26. Notes to the Condensed Consolidated Cash Flow Statement

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

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

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

(b) Analysis of cash and cash equivalents

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

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

27. Commitments

Commitments in respect of capital expenditures:

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

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

28. Contingent Liabilities

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

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

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

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

28. Contingent Liabilities *(Continued)*

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

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

29. Non-cash Collateral Received from Participants

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

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

30. Material Related Party Transactions

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

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

(a) An associate

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

(b) Related companies with common directors

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

30. Material Related Party Transactions *(Continued)*

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

(c) Key management personnel compensation

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

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

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

(e) Post-retirement benefit plans

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

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

31. Financial Risk Management

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

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

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

(a) Market risk

(i) Foreign exchange risk

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

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

(ii) Equity and commodity price risks

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

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

31. Financial Risk Management *(Continued)*

(b) Credit risk

(i) Investment and accounts receivable-related risk

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

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

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

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

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

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

31. Financial Risk Management *(Continued)*

(c) Liquidity risk

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

(d) Fair value and cash flow interest rate risks

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

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

31. Financial Risk Management *(Continued)*

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

	Unaudited at 30 Jun 2005							
	Overnight $'000	>Overnight to 1 month $'000	>1 month to 1 year $'000	>1 year to 3 years $'000	>3 years $'000	Non-interest bearing $'000	Total $'000	Effective interest rate of interest bearing items
Non-current assets								
Clearing House Funds	1,052,931	48,104	154,849	101,703	–	(10,461)	1,347,126	3.51%
Compensation Fund Reserve Account	214	29,353	18,177	–	–	(10,170)	37,574	3.02%
Time deposit with maturity over one year	38,944	–	–	–	–	–	38,944	N/A *
Other non-interest bearing non-current assets	–	–	–	–	–	438,645	438,645	N/A
	1,092,089	77,457	173,026	101,703	–	418,014	1,862,289	
Current assets								
Accounts receivable, prepayments and deposits	–	–	–	–	–	4,327,370	4,327,370	N/A
Margin Funds on derivatives contracts	4,220,185	2,952,407	2,519,007	1,486,827	–	588	11,179,014	2.85%
Financial assets at fair value through profit or loss	–	110,895	772,354	974,882	479,937	262,502	2,600,570	3.36%
Time deposits with original maturity over three months	4,831	402	204,033	–	–	–	209,266	2.11%
Cash and cash equivalents	672,829	370,041	15,918	–	–	–	1,058,788	2.63%
Other non-interest bearing current assets	–	–	–	–	–	568	568	N/A
	4,897,845	3,433,745	3,511,312	2,461,709	479,937	4,591,028	19,375,576	
Current liabilities								
Margin deposits from Clearing Participants on derivatives contracts	11,179,014	–	–	–	–	–	11,179,014	0.83%
Accounts payable, accruals and other liabilities	144,631	–	–	–	–	4,502,015	4,646,646	0.96%
Other non-interest bearing current liabilities	–	–	–	–	–	402,491	402,491	N/A
	11,323,645	–	–	–	–	4,904,506	16,228,151	
Non-current liabilities								
Participants' contributions to Clearing House Funds	309,425	–	–	–	–	471,923	781,348	3.20%
Other non-interest bearing non-current liabilities	–	–	–	–	–	125,575	125,575	N/A
	309,425	–	–	–	–	597,498	906,923	
Net (liabilities)/assets	(5,643,136)	3,511,202	3,684,338	2,563,412	479,937	(492,962)	4,102,791	

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

31. Financial Risk Management *(Continued)*

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

	Audited at 31 Dec 2004							
	Overnight $'000	>Overnight to 1 month $'000	>1 month to 1 year $'000	>1 year to 3 years $'000	>3 years $'000	Non-interest bearing $'000	Total $'000	Effective interest rate of interest bearing items
Non-current assets								
Clearing House Funds	1,550,359	51,060	114,321	157,858	–	(12,111)	1,861,487	0.60%
Compensation Fund Reserve Account	400	28,737	–	18,831	–	(10,517)	37,451	1.21%
Time deposit with maturity over one year	38,941	–	–	–	–	–	38,941	N/A*
Other non-interest bearing non-current assets	–	–	–	–	–	485,370	485,370	N/A
	1,589,700	79,797	114,321	176,689	–	462,742	2,423,249	
Current assets								
Accounts receivable, prepayments and deposits	–	–	–	–	–	4,691,846	4,691,846	N/A
Margin Funds on derivatives contracts	4,220,879	2,761,283	1,524,730	1,988,113	–	34,687	10,529,692	0.65%
Financial assets at fair value through profit or loss	10,031	154,413	912,981	1,002,374	436,440	245,354	2,761,593	2.80%
Time deposits with original maturity over three months	–	402	938	–	–	–	1,340	0.94%
Cash and cash equivalents	541,776	465,397	27,872	–	–	–	1,035,045	0.27%
Other non-interest bearing current assets	–	–	–	–	–	639	639	N/A
	4,772,686	3,381,495	2,466,521	2,990,487	436,440	4,972,526	19,020,155	
Current liabilities								
Margin deposits from Clearing Participants on derivatives contracts	10,529,692	–	–	–	–	–	10,529,692	0.00%
Accounts payable, accruals and other liabilities	148,946	–	–	–	–	4,753,404	4,902,350	0.04%
Other non-interest bearing current liabilities	–	–	–	–	–	522,637	522,637	N/A
	10,678,638	–	–	–	–	5,276,041	15,954,679	
Non-current liabilities								
Participants' contributions to Clearing House Funds	931,427	–	–	–	–	367,325	1,298,752	0.07%
Other non-interest bearing non-current liabilities	–	–	–	–	–	137,830	137,830	N/A
	931,427	–	–	–	–	505,155	1,436,582	
Net (liabilities)/assets	(5,247,679)	3,461,292	2,580,842	3,167,176	436,440	(345,928)	4,052,143	

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

31. Financial Risk Management *(Continued)*

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

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

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

31. Financial Risk Management *(Continued)*

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

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

31. Financial Risk Management *(Continued)*

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

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

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

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

32. Comparative Figures

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