This results announcement is published on the Stock Exchange's website (http://www.hkex.com.hk) and the interim report will be available from the same website on or before 27 August 2003.

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

2003 INTERIM RESULTS

The Board of Directors of Hong Kong Exchanges and Clearing Limited (HKEx) submit the unaudited consolidated results of HKEx and its subsidiaries (the Group) for the six-month period ended 30 June 2003 as follows:

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

	Note	**Unaudited Six months ended 30 Jun 2003 $'000**	Unaudited and restated Six months ended 30 Jun 2002 $'000
INCOME	*2*		
Trading fees and trading tariff		**184,509**	166,932
Stock Exchange listing fees		**160,059**	165,007
Clearing and settlement fees		**92,312**	96,402
Depository, custody and nominee services fees		**94,593**	87,216
Income from sale of information		**126,253**	158,538
Investment income	*3*	**178,290**	135,008
Other income	*4*	**71,032**	83,486
		907,048	892,589
OPERATING EXPENSES			
Staff costs and related expenses		**266,861**	262,336
Information technology and computer maintenance expenses		**137,453**	131,612
Premises expenses		**42,833**	49,881
Product marketing and promotion expenses		**3,342**	7,803
Legal and professional fees		**20,991**	6,031
Depreciation and amortisation		**93,025**	78,382
Payment to SFC under dual filing regime		**5,000**	–
Other operating expenses	*5*	**91,186**	41,109
		660,691	577,154
OPERATING PROFIT		**246,357**	315,435
SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES		**3,263**	760

PROFIT BEFORE TAXATION		**249,620**	316,195
TAXATION	*6*	**(35,234)**	(27,403)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		**214,386**	288,792
DIVIDEND		**188,452**	83,450
Earnings per share	*7*	**$0.205**	$0.277
Interim dividend declared per share		**$0.18**	$0.08
Dividend payout ratio		**88%**	29%

CONDENSED CONSOLIDATED BALANCE SHEET
(Financial figures are expressed in Hong Kong dollars)

	Note	**Unaudited at 30 Jun 2003 $'000**	Audited and restated at 31 Dec 2002 $'000
NON-CURRENT ASSETS			
Fixed assets		**649,965**	748,108
Investments in associated companies		**32,931**	35,536
Clearing House Funds		**1,403,371**	980,748
Compensation Fund Reserve Account		**36,511**	35,827
Cash and Derivatives Market Development Fund		**923**	914
Non-trading securities maturing over one year		**60,667**	87,604
Deferred tax assets	*1*	**1,117**	–
		2,185,485	1,888,737
CURRENT ASSETS			
Margin funds on derivatives contracts		**4,932,473**	4,551,601
Accounts receivable, prepayments and deposits	*9*	**1,756,545**	3,118,199
Taxation recoverable		**222**	1,774
Trading securities		**3,240,670**	3,490,046
Bank balances and time deposits		**1,269,010**	985,114
		11,198,920	12,146,734
CURRENT LIABILITIES			
Bank loans		**48,711**	49,456
Margin deposits and securities received from Clearing Participants on derivatives contracts		**4,932,473**	4,551,601
Accounts payable, accruals and other liabilities	*9*	**1,882,983**	3,007,392
Participants' admission fees received		**2,450**	3,350
Deferred revenue		**151,402**	269,774
Taxation payable		**46,516**	29,051
Provisions		**25,108**	28,863
		7,089,643	7,939,487
NET CURRENT ASSETS		**4,109,277**	4,207,247
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,294,762**	6,095,984

	Note		
NON-CURRENT LIABILITIES			
Participants' admission fees received		**86,050**	86,800
Participants' contributions to Clearing House Funds		**840,602**	425,440
Deferred tax liabilities	*1*	**70,565**	73,281
Provisions		**20,039**	20,099
		1,017,256	605,620
NET ASSETS		**5,277,506**	5,490,364
CAPITAL AND RESERVES			
Share capital		**1,046,955**	1,043,581
Share premium		**41,011**	19,012
Revaluation reserves		**26,669**	29,899
Designated reserves		**694,454**	727,811
Retained earnings	*8*	**3,279,965**	3,221,321
Proposed and declared dividend	*8*	**188,452**	448,740
SHAREHOLDERS' FUNDS		**5,277,506**	5,490,364

Notes:

1. These unaudited condensed consolidated interim accounts should be read in conjunction with the 2002 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 2002 except that the Group has adopted the new Hong Kong Statement of Accounting Practice (SSAP) 12: Income Taxes, issued by the Hong Kong Society of Accountants (HKSA), which is effective for accounting periods commencing on or after 1 January 2003. The effects of the change to the Group's accounting policy are set out below.

   Under the new SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax assets and liabilities. As a result, deferred tax assets and liabilities in 2002 are computed using a tax rate of 16 per cent and deferred tax assets and liabilities in 2003 using the higher tax rate of 17.5 per cent announced in the March 2003 Hong Kong Budget. As outstanding deferred tax liabilities carried forward from 2002 have to be recomputed at the higher tax rate in 2003, the change in tax rate has resulted in an increase in deferred tax liabilities of which $6,040,000 was absorbed as an additional deferred tax charge in the first half of 2003.

   The new SSAP 12 has been applied retrospectively and comparatives presented have been restated to conform to the changed policy. As a result, total deferred tax liabilities as at 31 December 2001 and 2002 increased by $2,853,000 (with a corresponding reduction of $5,369,000 in revaluation reserves and an increase of $2,516,000 in retained earnings) and $6,028,000 (with a corresponding reduction of $4,081,000 in revaluation reserves and reduction of $1,947,000 in retained earnings) respectively. Therefore, as detailed in note 8, opening retained earnings at 1 January 2002 and 2003 have increased by $2,516,000 and decreased by $1,947,000 respectively. The change has reduced the profit for the year ended 31 December 2002 by $4,463,000 (from $592,968,000 to $588,505,000).

2. The Group's 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.

   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:

	Six months ended 30 Jun 2003 (unaudited) $'000				
	Cash Market	**Derivatives Market**	**Clearing Business**	**Others**	**Group**
Income	437,615	138,660	206,341	124,432	907,048
Costs	213,091	72,615	149,182	–	434,888
Segment results	224,524	66,045	57,159	124,432	472,160
Unallocated costs					225,803
Operating profit					246,357
Share of profits less losses of associated companies	35	–	3,228	–	3,263
Profit before taxation					249,620
Taxation					(35,234)
Profit attributable to shareholders					214,386

	Six months ended 30 Jun 2002 (unaudited and restated) $'000				
	Cash Market	**Derivatives Market**	**Clearing Business**	**Others**	**Group**
Income	476,784	118,519	215,187	82,099	892,589
Costs	195,596	60,300	118,607	–	374,503
Segment results	281,188	58,219	96,580	82,099	518,086
Unallocated costs					202,651
Operating profit					315,435
Share of profits less losses of associated companies	–	–	760	–	760
Profit before taxation					316,195
Taxation					(27,403)
Profit attributable to shareholders					288,792

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, listing fees and income from sale of information.

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

The **Clearing Business** refers mainly to the operations of the three Clearing Houses, namely Hong Kong Securities Clearing Company Limited (HKSCC), The SEHK Options Clearing House Limited and HKFE Clearing Corporation Limited, 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 interests earned on the Clearing House Funds and the fees charged on providing clearing, settlement, depository and nominee services.

Income under the **Others Segment** represents mainly investment income derived from corporate funds, which is not directly attributable to any of the three business segments and is therefore not allocated to the business segments. Unallocated costs represent overheads which are not directly attributable to the above-mentioned business segments.

3. Investment income

	Unaudited Six months ended 30 Jun 2003 $'000	Unaudited Six months ended 30 Jun 2002 $'000
Interest income	**120,284**	147,285
Interest expenses	**(969)**	(2,466)
Net interest income	**119,315**	144,819
Non-interest investment income		
Dividends and net realised gain/(loss) on trading and non-trading securities	**32,464**	(2,366)
Net unrealised gain/(loss) on trading securities	**26,511**	(7,445)
Total investment income	**178,290**	135,008

4. Other income

	Unaudited Six months ended 30 Jun 2003 $'000	Unaudited Six months ended 30 Jun 2002 $'000
Stock Exchange network and terminal user fees	**42,116**	33,084
Participants' subscription and application fees	**18,543**	20,586
Share registration services fees	**727**	13,394
Miscellaneous income	**9,646**	16,422
	71,032	83,486

5. Other operating expenses

	Unaudited Six months ended 30 Jun 2003 $'000	Unaudited Six months ended 30 Jun 2002 $'000
Write-down of strategic investments *(note a)*	**32,667**	–
Retirement of redundant IT systems	**9,846**	2
Impairment of other property – revaluation deficit	**4,411**	–
Provision for/(reversal of provision for) doubtful debts	**3,574**	(137)
Insurance	**5,984**	4,525
Financial data subscription fees	**4,504**	4,319
Custodian and fund management fees	**4,238**	4,322
Other miscellaneous expenses	**25,962**	28,078
	91,186	41,109

(a) Includes a 100 per cent write-down ($32,303,000) of the Group's investment in BondsInAsia Limited under non-trading securities following a recent review of the group's business strategy and operations.

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

	Unaudited Six months ended 30 Jun 2003 $'000	Unaudited and restated Six months ended 30 Jun 2002 $'000
Provision for Hong Kong Profits Tax *(note a)*	**37,352**	32,932
Overprovision in respect of prior years	**–**	(5,229)
	37,352	27,703
Deferred taxation *(note b)*	**(2,871)**	(459)
	34,481	27,244
Share of taxation of associated companies	**753**	159
	35,234	27,403

(a) Hong Kong Profits Tax has been provided for at 17.5 per cent (2002: 16 per cent) on the estimated assessable profit for the period.

(b) As explained in note 1, under the new SSAP 12, deferred tax assets and liabilities in 2002 are computed using a tax rate of 16 per cent and deferred tax assets and liabilities in 2003 using the higher tax rate of 17.5 per cent announced in the March 2003 Hong Kong Budget. Deferred taxation for 2003 includes a one-off deferred tax charge of $6,040,000, which arose from recomputing outstanding deferred tax liabilities carried forward from 2002 using the higher tax rate of 17.5 per cent.

7. The calculation of basic earnings per share is based on the profit attributable to shareholders of $214,386,000 (2002: $288,792,000) and the weighted average of 1,044,626,393 shares (2002: 1,041,861,730) in issue during the six-month period. The employee share options outstanding did not have a material dilutive effect on the basic earnings per share.

8. Retained earnings

	Note	Unaudited at 30 Jun 2003 $'000	Audited and restated at 31 Dec 2002 $'000
At 1 Jan			
Retained earnings, as previously reported		**3,223,268**	3,198,763
Effect of adopting SSAP 12	*1*	**(1,947)**	2,516
Retained earnings, as restated		**3,221,321**	3,201,279
Proposed and declared dividend		**448,740**	260,166
Profit for the period/year		**214,386**	588,505
Investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves		**(5,616)**	(35,114)
Investment income net of expenses of Compensation Fund Reserve Account for the period/year transferred to Compensation Fund Reserve Account reserve		**(391)**	(681)
Transfer from Development reserve		**39,364**	–
Dividends paid:			
2001 final dividend		**–**	(260,166)
2002 final/interim dividend		**(448,740)**	(83,450)
Dividend on shares issued for employee share options exercised after declaration of 2001 final dividend		**–**	(448)
Dividend on shares issued for employee share options exercised after declaration of 2002 interim dividend		**–**	(30)
Dividend on shares issued for employee share options exercised after declaration of 2002 final dividend		**(647)**	–
At 30 Jun/31 Dec		**3,468,417**	3,670,061
Representing:			
Retained earnings		**3,279,965**	3,221,321
Proposed and declared dividend		**188,452**	448,740
At 30 Jun/31 Dec		**3,468,417**	3,670,061

9. The Group's accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities amounted to $1,756,545,000 (31 December 2002: $3,118,199,000) and $1,882,983,000 (31 December 2002: $3,007,392,000) respectively. These mainly represent the Group's Continuous Net Settlement (CNS) money obligations under the T+2 settlement cycle. The Group's CNS money obligations receivable represent 85 per cent (31 December 2002: 85 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations payable represent 76 per cent (31 December 2002: 88 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.

INTERIM DIVIDEND AND CLOSE OF REGISTER

The Board of Directors has resolved to declare an interim dividend of $0.18 per share (2002: $0.08 per share) for the year ending 31 December 2003, amounting to a total of about $188 million (2002: $83 million).

The share register will be closed from Tuesday, 9 September 2003 to Thursday, 11 September 2003, both dates inclusive, during which period no transfer of shares will be registered. Dividend warrants will be despatched to shareholders on or about Monday, 15 September 2003. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with HKEx's registrar, Hong Kong Registrars Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 8 September 2003.

FINANCIAL HIGHLIGHTS

(Financial figures are expressed in Hong Kong dollars)

	Unaudited Six months ended 30 Jun 2003	Unaudited Six months ended 30 Jun 2002	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	**$7.1 billion**	$7.6 billion	(7%)
Average daily number of derivatives contracts traded on the Futures Exchange	**39,099**	27,825	41%
Average daily number of stock options contracts traded on the Stock Exchange	**14,614**	14,618	0%

	Unaudited Six months ended 30 Jun 2003 $ million	Unaudited and restated Six months ended 30 Jun 2002 $ million	Change
RESULTS			
Income	**907**	892	2%
Operating expenses	**661**	577	14%
Operating profit	**246**	315	(22%)
Share of profits less losses of associated companies	**3**	1	329%
Profit before taxation	**249**	316	(21%)
Taxation	**(35)**	(27)	29%
Profit attributable to shareholders	**214**	289	(26%)
Shareholders' funds	**5,278**	5,490#	(4%)
Total assets*	**13,384**	14,035ϕ	(5%)
Earnings per share	**$0.205**	$0.277	(26%)
Interim dividend declared per share	**$0.18**	$0.08	125%
Dividend payout ratio	**88%**	29%	

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

\# Audited and restated (down by $6 million) as at 31 December 2002 due to the implementation of the new SSAP 12: Income Taxes

ϕ Audited as at 31 December 2002

OVERALL PERFORMANCE

The Group recorded a profit attributable to shareholders of $214 million for the interim period (2003 first quarter: $89 million; 2003 second quarter: $125 million), compared with $289 million for the same period in 2002 (2002 first quarter: $118 million; 2002 second quarter: $171 million). The $75 million or 26 per cent decrease in profit was mainly attributable to one-off items not expected to recur in the near future, which included a write-down of strategic investments ($33 million), retirement of redundant IT systems ($10 million), and severance costs ($9 million) following the recent review of the Group's business strategy and operations. Taxation rose despite a lower profit before taxation as a result of the increase in Hong Kong Profits Tax rate announced in the March 2003 Hong Kong Budget and a one-off increase in deferred tax charge ($6 million) following the implementation of a new accounting standard which became effective on 1 January 2003. In addition, IT and computer maintenance expenses and depreciation increased further by $20 million mainly due to the roll-out of the upgraded Central Clearing and Settlement System (CCASS/3) in mid-2002.

Had the above-mentioned one-off costs ($52 million less tax deduction of $1 million) and deferred tax charge not been incurred, profit attributable to shareholders for the interim period would have been $271 million, which would be 6 per cent ($18 million) lower than the corresponding period last year.

Income

Total income (including share of profits less losses of associated companies) for the period increased by 2 per cent to $910 million (2002: $893 million).

Hong Kong's economy during the period was adversely affected by the slow growth in the global economy, onset of the Severe Acute Respiratory Syndrome (SARS), rising unemployment and weakening property market. Although trading volume has picked up in the second quarter, the decline in the earlier part of this year has led to a 7 per cent drop in the average daily turnover on the Stock Exchange to $7.1 billion compared with the corresponding period last year. In spite of this, trading fees and trading tariff rose by $18 million or 11 per cent to $185 million (2002: $167 million). This was due to a 41 per cent increase in the average daily number of derivatives contracts traded on the Futures Exchange, mainly on account of an increase in the trading of Hang Seng Index (HSI) Futures contracts, which has more than offset the reduction in trading fees from cash market activities.

Listing fee income fell by 3 per cent to $160 million (2002: $165 million), primarily because of a drop in the number of new listings of derivative warrants from 385 to 216. New listings of derivative warrants in the first half of 2002 were exceptionally high, as investment banks were competing to issue new derivative warrants to meet pent-up demand since there were virtually no new issues for six months before the Listing Rules for derivative warrants were amended to streamline the listing procedures towards the end of 2001. The reduction in income was partly offset by initial listing fees forfeited for increased numbers of lapsed and withdrawn initial public offering (IPO) applications and approved IPOs not listed within six months of application. New listings on the Main Board and GEM declined by 53 per cent and 57 per cent respectively as IPOs, especially for Mainland enterprises, had been put on hold due to poor market sentiment. As at 30 June 2003, 12 Main Board and 9 GEM (31 December 2002: 13 Main Board and 7 GEM) IPO applications had obtained approval in principle from the Listing Committee for listing, and 31 Main Board and 45 GEM applications were under processing (31 December 2002: 35 Main Board and 72 GEM). As at 30 June 2003, there were 824 companies listed on the Main Board and 175 on GEM (31 December 2002: 812 and 166 respectively).

In line with the decline in cash market activities, clearing and settlement fee income dropped by 4 per cent to $92 million (2002: $96 million).

Income from sale of information decreased by 20 per cent to $126 million (2002: $159 million), due to the consolidation of broking firms and lower demand for stock information.

Depository, custody and nominee services fee income increased by 8 per cent to $95 million (2002: $87 million), mostly due to higher scrip fee income for the period.

Total investment income increased by 32 per cent to $178 million (2002: $135 million), predominantly due to a net realised gain of $29 million (2002: loss of $5 million) and net unrealised mark-to-market gain of $27 million (2002: loss of $7 million) on the investment portfolio.

For the six months ended 30 June 2003, the average amount of funds available for investment achieved a positive return of 3.79 per cent (2002: 2.96 per cent). The portfolio recorded a spread of 266 basis points above the 6-month Hong Kong Exchange Fund Bill benchmark, which was higher than the 110 basis points spread achieved in 2002.

The average amount of funds available for investment increased by 3 per cent to $9.2 billion, primarily attributable to a rise in additional contributions to the Clearing House Funds and margin funds received from Clearing Participants on account of increased trading in futures and options contracts. As at 30 June 2003, 49 per cent of funds were invested in highly liquid investment-grade bonds, 50 per cent in cash or bank deposits and 1 per cent in global equities. As the valuation of our investments in bonds and equities is highly influenced by movements in their market prices, unrealised gains or losses may fluctuate or reverse unless the investments are sold.

Investments are kept sufficiently liquid to meet operating and possible requirements of the Clearing House Funds and margin funds. The maturity profile of the investments as at 30 June 2003 was as follows:

Overnight	> Overnight to 1 month	> 1 month to 1 year	> 1 year to 3 years	> 3 years
38%	8%	12%	32%	10%

Operating Expenses

Total operating expenses increased by 14 per cent to $661 million (2002: $577 million).

Staff costs and related expenses increased by 2 per cent to $267 million (2002: $262 million), largely due to one-off severance costs ($9 million) incurred following the recent reorganisation and streamlining of the Group's operations and such costs are not expected to recur in the near future. The Group will continue to streamline its operations to further raise its efficiency.

Due to HKEx's commitment to constantly enhance the capability and resilience of its trading and settlement systems, information technology and computer maintenance expenses rose by 4 per cent from $132 million to $137 million, mainly attributable to expenditures relating to the maintenance of CCASS/3.

Premises expenses fell by 14 per cent to $43 million (2002: $50 million) as lower rental was negotiated upon the renewal of certain leases.

Legal and professional fees for the period increased by $15 million to $21 million (2002: $6 million), primarily as a result of professional fees incurred for several one-off consulting projects during the period and for projects brought forward from last year.

Depreciation and amortisation costs increased by 19 per cent to $93 million (2002: $78 million), mostly due to the additional depreciation charge arising from the roll-out of CCASS/3 in mid-2002.

Other operating expenses rose by $50 million to $91 million (2002: $41 million), mainly attributable to one-off items not expected to recur in the near future, which included a 100 per cent ($32 million) write-down of the Group's investment in BondsInAsia Limited and the retirement of redundant IT systems ($10 million) following the review of its business strategy and operations in May 2003. As the economy continued to deteriorate, significant provision for doubtful debts ($4 million) was required as listed companies and Participants experienced difficulties in settling their fees. Further, due to the sharp decline in property prices this year, the devaluation of one of the Group's properties has resulted in a charge ($4 million) to the profit and loss account for the first time.

Taxation

The Group's taxation charge rose by $8 million to $35 million (2002: 27 million), principally by reason of a $3 million increase arising from the hike in Hong Kong Profits Tax rate from 16 per cent to 17.5 per cent announced in the March 2003 Hong Kong Budget, and the reversal in 2002 of $5 million of overprovision. The $3 million increase was primarily due to a one-off increase in deferred tax charge ($6 million) as, under the new SSAP 12: Income Taxes, effective from 1 January 2003, outstanding deferred tax liabilities carried forward from 2002 (calculated at the 16 per cent tax rate in 2002) have to be recomputed in 2003 by using the higher rate of 17.5 per cent.

Liquidity, Financial Resources and Capital Commitments

Working capital decreased by 2 per cent to $4,109 million as at 30 June 2003 (31 December 2002: $4,207 million), primarily due to a decrease of listing fees receivable in accounts receivable, prepayments and deposits. Bank balances and time deposits of corporate funds increased by $284 million to $1,269 million (31 December 2002: $985 million). Although the Group has consistently been in a very liquid position, credit facilities have nevertheless been put in place for contingency purposes. As at 30 June 2003, the Group's total available credit facilities amounted to $2,762 million (31 December 2002: $2,763 million), of which $1,500 million were repurchase facilities to augment the liquidity of the margin funds and $1,100 million were for meeting the Group's CNS money obligations of HKSCC in the Central Clearing and Settlement System (CCASS) in circumstances where Broker Participants in CCASS default on their payment obligations. Borrowings of the Group have been very rare and, if required, are mostly event driven, with little seasonality. As at 30 June 2003, the only facility drawn down was a fixed rate bank loan of SGD11 million (equivalent to HK$49 million) with a maturity of less than one year which was used for the purpose of hedging the currency exposure of the Group's investment in Singapore (2002: SGD11 million, equivalent to HK$49 million). The loan will be renewed annually.

As at 30 June 2003, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was less than one per cent (31 December 2002: less than one per cent).

As at 30 June 2003, the Group's capital expenditure commitments, mainly in respect of its ongoing investments in facilities and technology amounted to $91 million (31 December 2002: $94 million). The Group has adequate financial resources to fund its commitments on capital expenditures from its existing cash resources and cash flows generated from its operations.

As at 30 June 2003, 97 per cent of the Group's cash and cash equivalents (comprise cash in hand, bank balances and time deposits within three months of maturity when acquired) were denominated in Hong Kong dollars (HKD) and United States dollars (USD).

Charges on Assets

The Group did not have any charges on assets as at 30 June 2003 and 31 December 2002.

Significant Investments Held and Material Acquisitions and Disposals of Subsidiaries

The Group has been holding 1 per cent (10 million shares) of the issued ordinary share capital of Singapore Exchange Limited since November 2000, 5,854 Class A ordinary shares of BondsInAsia Limited since April 2002, and 24 per cent of Computershare Hong Kong Investor Services Limited and 30 per cent of Wilco International Processing Services Limited (Wilco) since May 2002.

During the period, the Group has written down 100 per cent ($32 million) of the value of its investment in BondsInAsia Limited, and 21 per cent ($0.4 million) of investment in Wilco to the Group's share of the net assets of this associated company due to impairment.

There were no material acquisitions or disposals of investments and subsidiaries during the period.

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 or foreign currency credit facilities may be used to hedge the currency exposure of the Group's non-HKD investments to mitigate risks arising from fluctuations in exchange rates. As at 30 June 2003, aggregate net open foreign currency positions amounted to $1,578 million, of which HK$257 million were non-USD exposures (31 December 2002: HK$1,924 million, of which HK$200 million were non-USD exposures). The Group's foreign currency liabilities, in the form of margin deposits or collateral received, are hedged by investments in the same currencies.

Contingent Liabilities

The Unified Exchange Compensation Fund (Compensation Fund) is a fund set up under the repealed Securities Ordinance (SO) for the purpose of compensating any person dealing with a Stock Exchange Participant (other than another Stock Exchange Participant) for any pecuniary losses suffered as a result of a default of the Stock Exchange Participant. According to section 109(3) of the SO, the maximum compensation amount is $8 million for each Stock Exchange Participant's default. Under section 113(5A) of the SO, the Stock Exchange may, upon satisfying certain conditions, with the approval of the Securities and Futures Commission (SFC), allow an additional payment to the successful claimants before apportionment. Under section 107(1) of the SO, the Stock Exchange has contingent liabilities to the Compensation Fund as it shall replenish the Compensation Fund upon the SFC's request to do so. The amounts to be replenished should be equal to the amount paid in connection with the satisfaction of the claims, including any legal and other expenses paid or incurred in relation to the claims but capped at $8 million per default. Under the Securities and Futures Ordinance (SFO) which came into effect on 1 April 2003, all these provisions shall continue to apply to any default occurring before that date despite the repeal of the SO. As at 30 June 2003, there were outstanding claims received in respect of 13 defaulted Stock Exchange Participants (31 December 2002: 14).

Pursuant to the SFO, the Stock Exchange issued a notice on 3 April 2003 inviting for claims against the Compensation Fund in relation to any default of a Stock Exchange Participant occurring before 1 April 2003. The claims period will expire on 3 October 2003. As at 30 June 2003, no claims have been received in response to that notice.

Under the new compensation arrangements implemented under the SFO, a new Investor Compensation Fund has replaced the existing Compensation Fund, the Commodity Exchange Compensation Fund and the Dealers' Deposit Schemes for non-exchange participant dealers. The new arrangements would not require Exchange Participants to make deposits to the Investor Compensation Fund. Existing deposits would be returned to the Stock Exchange and the Futures Exchange in accordance with the provisions of the SFO. The arrangements would remove the requirement for the Stock Exchange to replenish the Investor Compensation Fund.

The Stock Exchange has undertaken to indemnify the Collector of Stamp Revenue against any loss of revenue resulting from any underpayment or default or delay in payment of stamp duty by its Participants, up to $200,000 in respect of default of any one Participant. In the unlikely event that all of its 447 trading Participants as at 30 June 2003 (31 December 2002: 471) default, the maximum contingent liability of the Stock Exchange under the indemnity will amount to $89 million (31 December 2002: $94 million).

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

The Chairman, Board of Directors, and the Chief Executive

At the annual general meeting (AGM) held on 15 April 2003, five Directors were elected by shareholders to fill six available vacancies. The five elected Directors are Dr Kwok Chi Piu, Bill, Mr Lee Jor Hung, Dannis, Mr Lee Kwan Ho, Vincent Marshall, Mr David Michael Webb, and Mr Wong Sai Hung, Oscar. The Financial Secretary had also on the same day appointed six Public Interest Directors, namely Mr Fong Hup, Mr Tim Freshwater, Mr Lee Yeh Kwong, Charles, Mr Leong Ka Chai, Dr Liu Jinbao, and Dr Lo Ka Shui with effect from 16 April 2003.

As there was a casual vacancy on the Board arising from only five out of the six vacancies having been filled at the AGM, the Directors had, at the board meeting held on 16 April 2003, appointed Mr John Estmond Strickland to fill the casual vacancy in accordance with the Articles of Association. At the same meeting, the Board also re-appointed Mr Lee Yeh Kwong, Charles as the Chairman, and whose appointment was subsequently approved by the Chief Executive of the Hong Kong Special Administrative Region.

Dr Liu Jinbao tendered his resignation as a Director with effect from 28 May 2003.

Mr Chow Man Yiu, Paul joined HKEx on 1 May 2003 as the Chief Executive. Mr Chow is an ex-officio member of the Board.

Employees

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

Share options may be granted to Executive Directors and employees of the Group to subscribe for shares in HKEx in accordance with the terms and conditions of the Post-Listing Share Option Scheme approved by the shareholders of HKEx at an extraordinary general meeting held on 31 May 2000. Pursuant to the Post-Listing Scheme, a share option to subscribe for 3,000,000 shares in HKEx was granted on 2 May 2003 to Mr Chow Man Yiu, Paul, a Director and the Chief Executive of HKEx.

Following the merger of the businesses of the Stock Exchange Group, the Futures Exchange Group and the HKSCC Group in 2000, HKEx has succeeded in streamlining its workforce and the number of employees fell from 1,052 (including 88 full-time and part-time contract staff) prior to the merger to 819 (including 51 full-time contract staff) as at 30 June 2003. For the two semi-annual periods under review, total employees' cost increased by 2 per cent to $267 million (2002: $262 million), mainly due to one-off severance costs incurred following the recent reorganisation and streamlining of the Group's operations.

PROSPECTS

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

The slow economic growth in the US and the sluggish economies in Europe and Japan are still deterring investors from actively participating in the securities and derivatives markets. Although activity in the cash and derivatives markets in Hong Kong has increased recently, investor confidence is still fragile owing to the lingering fiscal deficit, continuing deflation, the depressed property market and record unemployment.

The Expert Group appointed by the Government to review the operation of the securities and futures market regulatory structure recommended on 21 March 2003 various market reform measures, including the transfer of the listing function on a bottom-line neutral basis from the Group to the SFC. A public consultation will be conducted on the recommendations and the Government expects this exercise to be started in the third or fourth quarter of 2003 and concluded in early 2004. HKEx will work closely with the Government and the SFC in this process.

HKEx strongly supports the introduction of appropriate reform measures to improve market quality. Improved market quality will lead to a stronger market to the benefit of HKEx as well as the Hong Kong public. HKEx has urged that more powers be granted to statutory regulators, and that heavier penalties be imposed on rule-breakers. Such measures would improve the quality of corporate information disclosure and offer better protection to investors, including minority shareholders. To reduce market irregularities and the violation of shareholder and investor interests, Hong Kong needs to turn the parts of the Listing Rules dealing with post-listing ongoing disclosure obligations, price-sensitive information disclosure and connected transaction disclosure into law, backed by effective statutory sanctions enforced by a statutory regulator such as the SFC. However, market rules dealing with products, operations and development should continue to be administered by HKEx as the market operator. HKEx will work closely with the Government and the SFC to develop the best model for the Hong Kong stock market.

HKEx will focus its resources on projects that will create value for shareholders and market users. It will continue to raise the quality and efficiency of its markets to increase their competitiveness. The capability and reliability of HKEx's trading and clearing systems will be further enhanced. It will pursue initiatives to attract more investors and capital raising companies to Hong Kong. New financial products and services will be introduced to meet investor needs and diversify the Group's revenue base. It will maintain stringent controls on costs and continue to review and streamline its operations to further enhance efficiency, and it will strive to ensure that the effects of such measures will be reflected in future results.

Following China's accession to the World Trade Organisation, an increasing number of private enterprises from the Mainland are planning to raise capital by listing in Hong Kong. The Closer Economic Partnership Arrangement (CEPA) signed in June 2003 is expected to eliminate substantial trade and investment barriers between Hong Kong and the Mainland. HKEx will focus its efforts on making Hong Kong the premier international capital market for Mainland enterprises and facilitating promotion of such enterprises to international investors. Approval has been granted to HKEx to establish a representative office in Beijing under CEPA. This will enable HKEx to provide quicker and better services to potential issuers on the Mainland in order to attract more new listings to Hong Kong. Large-scale road shows are being planned to promote our services to prospective listing candidates from the Mainland.

The Group has recently reorganised its corporate structure to better position itself to seize future opportunities. With Hong Kong's proximity to and close relationship with China, HKEx is best placed to be the key international capital market for Mainland and Hong Kong enterprises. Given Hong Kong's advantages of location and time zone, the extensive use of the English language, and the practice of the common law, HKEx is an ideal bridge between the Asia-Pacific region and financial markets in Europe and North America. HKEx will continue to develop its markets as the Asian time-zone pillar in the global securities and derivatives markets, as well as the preferred Asian partner for major equities and derivatives exchanges seeking to build global alliances.

CORPORATE GOVERNANCE

The Audit Committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2003 in conjunction with HKEx's external auditors.

None of the Directors of HKEx is aware of information that would reasonably indicate that HKEx is not, or was not at any time during the six months ended 30 June 2003, in compliance with Appendix 14 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF HKEx'S LISTED SECURITIES

During the six months ended 30 June 2003, 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
LEE Yeh Kwong, Charles
Chairman

Hong Kong, 13 August 2003

Please also refer to the published version of this announcement in South China Morning Post dated on 14-08-2003.