



(Expressed in Hong Kong dollars)

Results for the Six Months Ended 30 June 2001

Hong Kong Exchanges and Clearing Limited (HKEx) reported unaudited net profit for the six months ended 30 June 2001 of \$366 million, a decrease of 34 per cent from the same period last year. The Directors have resolved to pay an interim dividend of \$0.08 per share (2000: \$0.08). The share register will be closed from 10 October to 12 October inclusive, and dividend warrants will be despatched to shareholders on or about 15 October 2001.

Market sentiment during the period was significantly affected by global economic uncertainty, especially in the US. In line with other leading equity markets, average daily turnover on The Stock Exchange of Hong Kong Limited (Stock Exchange) dropped significantly, by 36 per cent, compared with that in the same period last year. This has a direct impact on the results of HKEx.

The focus of the company during the first six months of the year was on the integration of market facilities and systems, the development of new products and the control of operating costs.

Cash Market

Main Board

A total of 15 new equity issues listed on the Main Board, raising \$15 billion during the first six months of the year. Market capitalisation at the end of the period amounted to \$4,450 billion.

International institutions issued a further 10 debt securities with total funds represented by the new listings amounting to \$20 billion. A total of 195 warrants, comprising 14 equity and 181 derivative warrants, were listed during the period.

Growth Enterprise Market (GEM)

GEM continued to provide capital formation facilities for younger companies which may not be able to meet the operating and profit record criteria for listing on the Main Board.





REVIEW OF OPERATIONS

During the period under review, 25 companies were listed on GEM, raising \$2 billion in new capital.

Principles of the proposed amendments to the GEM Listing Rules were announced on 27 July, following a public consultation. The amendments will be phased in before the end of the year.

Secondary Market

Trading turnover on the Main Board amounted to \$1,117 billion, compared with \$1,757 billion during the same period last year. Market turnover on GEM was \$25 billion, compared with \$51 billion last year.

Following the introduction last October of the third generation of its trading system, Automatic Order Matching and Execution System (AMS/3), the Stock Exchange has introduced new functions and features to cater for the launch of new products and services. These included the implementation in February of new order types and revised trading parameters to increase brokers' operational efficiency.

In March, the Stock Exchange introduced the Order Routing System (ORS). This enables investors to place orders electronically with Exchange Participants through the Internet or by mobile phone.

The Stock Exchange admitted trading in iShares on South Korea and Taiwan (both are exchange traded funds (ETF) based on the relevant market indices) in May. It extended the morning session to allow trading in these securities during the lunch break.

At the end of June, 213 Exchange Participants were operating AMS/3 using Multi-Work Stations and/or Broker Supplied Systems. The proportion of trading through these new systems has been increasing rapidly and reached 59 per cent of market turnover by June.

Since 1 September, the Stock Exchange has received a Trading Fee of 0.005 per cent per side of the consideration for every transaction concluded on the Stock Exchange. The Trading Fee replaced the Stock Exchange's 0.005 per cent portion of the Transaction Levy.

Derivatives Market

During the period under review, turnover on the derivatives market increased by 46.7 per cent to almost 5.4 million contracts, over the same period last year. This represented a 32.1 per cent increase in futures and 65.6 per cent increase in options. In particular, a total of 324,133 HIBOR futures contracts were traded, represented a 169 per cent increase over the first half of 2000.

MSCI China Free Index futures contracts were introduced in May. This new contract tracks the index performance of publicly listed shares of Mainland China-related businesses in which overseas investors may invest.

On 6 August, stock options trading migrated to Hong Kong Futures Automated Trading System (HKATS). This provides improved functionality and efficiency for Exchange Participants and their customers.

On 27 August, HKEx changed the contract multipliers of the stock futures contracts to one board lot of their underlying shares, and introduced 11 new stock futures and stock options contracts.

Also in August, the Securities and Futures Commission approved the extension of access to the derivatives market to clients outside Hong Kong. In addition, agreement has been reached with GL Trade to allow potential remote access clients to use the GL Trade front-end and network to achieve direct connections to HKATS.

HKEx plans to start trading in 20 international futures and options, and Dow Jones Industrial Average futures and options, and derivatives based on Hong Kong Exchange Fund Notes before the end of the financial year. In addition, HKEx is reviewing its rules and procedures in relation to block trading and is working on a proposal to grant Tick Rule exemptions to index arbitrageurs and stock futures market makers.

Clearing and Settlement Services

Average daily settlement efficiency of continuous net settlement stock positions was 99.56 per cent on settlement day, rising to 99.96 per cent the following day.

The number of investor participant accounts increased by 9 per cent to 9,185, mainly from individual and joint accounts.

Investor participants made good use of the electronic Initial Public Offering (eIPO) service for two issues. In the second, 21 per cent of all applications were received through eIPO instructions.

HKEx provides settlement in US dollars for the two iShares that were listed in May.

Replacement and upgrading of the Central Clearing and Settlement System (CCASS/3) is progressing on schedule. A number of participant briefings have been held, attended by about 800 Participants' representatives.





REVIEW OF OPERATIONS

The key benefits of CCASS/3 include open interface and a high degree of flexibility, increased product variety, greater operational efficiency, and convergence with international standards.

CCASS/3 will provide a multiple market infrastructure and support extended operating hours and flexible settlement periods.

A new Derivatives Clearing and Settlement System (DCASS) is also under development. DCASS will replace the existing stock options and futures clearing systems.

The key advantages of DCASS include a consolidated clearing and settlement system for both stock options and futures, increased system flexibility, improved straight through processing opportunities, improved operational efficiency and extended risk management functionality.

In addition to CCASS/3 and DCASS, new systems are being built to support risk and collateral management across the securities, stock options and futures markets.

Other Developments

In January, HKEx and the Sydney Futures Exchange agreed to develop a range of new derivatives trading and clearing services for Asia-Pacific exchange-traded and over-the-counter marketplaces. Details of the first phase of the strategic initiative are under discussion.

In May, HKEx signed an agreement with the Shanghai and Shenzhen exchanges for the exchange of market and listed company data. The objective is to provide investors with direct and convenient access to data, and to promote cooperation and information sharing between the three exchanges. HKEx plans to add Mainland securities market and listed company data to its website before the end of the year.

HKEx held an H-share conference in Beijing in February, with the objective of increasing awareness of the H-share market and raising corporate governance and accounting standards. Representatives from 150 companies and around 110 investors and market practitioners attended.

A further three conferences were held in March, May and July in Beijing, Shanghai and Chengdu respectively, to promote better understanding of the Hong Kong securities market and the GEM listing requirements in particular.

HKEx continues to explore the possibility of links with other exchanges under the Global Equity Market proposal. It is discussing possible early linkage with the New York Stock Exchange.

Other continuing development projects include the listing of additional ETF, regional ETF, and the introduction of fixed-income ETF.

HKEx is also investigating the possibility of introducing equity linked notes, further development of the bond market, and the trading of regional securities and related products.

Outlook for Rest of the Financial Year

The outlook for the rest of the year depends on the performance of the various markets operated by HKEx. These in turn are dependent on domestic and global economic performance.

With the possible exception of China, for which continued economic growth is expected, global economic forecasts are mixed with little or no growth expected for the major economies until next year at the earliest. Market sentiment is therefore expected to continue to be subdued for the rest of the year. As a result, the Group may not be able to sustain its level of income in the second half of the year.

HKEx will continue to exercise strict control over its costs, and to develop new products and services. Its aim is to remain competitive as an international capital formation, and securities and derivatives trading centre.

KWONG Ki Chi

Chief Executive

Hong Kong, 12 September 2001

