



# Review of Operations

*(Financial figures are expressed in Hong Kong dollars)*



## MARKET ACTIVITY

Average daily turnover value on The Stock Exchange of Hong Kong Limited (the Stock Exchange) during the period under review was \$16.8 billion, compared with \$7.1 billion during the same period in 2003. There were 23 new equity listings on the Main Board, including one by a company formerly listed on the Growth Enterprise Market (GEM), and 15 new equity listings on GEM. In the first half of 2003, there were 16 new equity listings on the Main Board, including three by companies formerly listed on GEM, and 12 on GEM. Equity capital formation through initial public offering (IPO) and post-IPO fund-raising totalled \$210.2 billion on the Main Board and \$3.9 billion on GEM, compared with a total of \$134.9 billion on the Main Board and \$972.0 million on GEM in the first half of 2003. Funds raised by newly listed companies totalled \$55.3 billion, compared with \$7.2 billion in the first half of 2003.

The average daily number of derivatives contracts traded on Hong Kong Futures Exchange Limited (the Futures Exchange) and stock options traded on the Stock Exchange during the first six months of 2004 was 81,042, up from 53,713 in the first six months of 2003. Total open interest at the end of June 2004 was 697,178 contracts, compared with 537,185 contracts at the end of June 2003.

## LISTING

The influx of Mainland China issuers into Hong Kong, boosted by economic reforms, has accelerated the growth of the Hong Kong market.

A major element of Hong Kong Exchanges and Clearing Limited (HKEx)'s mission depends on demonstrating the effective discharge of its regulatory responsibilities. The Listing Division has a keen and continuing interest in demonstrating that it is discharging its responsibilities effectively and making itself more effective. HKEx welcomes the steady improvement of corporate governance in Mainland companies listed in Hong Kong and intends to do all it can to ensure that this improvement continues.

The Division's principal activities over the first six months of the year were to implement developments in regulatory policies and to review its working practices so as to be able to handle regulatory issues promptly and decisively by taking decisions at the right level. This work is ongoing. Below is an account of developments in the first half of the year.

# Review of Operations

## Reorganisation of Listing Division

In January 2004, the Listing Division reorganised its operating structure to separate the review and processing of new listing applications from the ongoing monitoring of listed companies. The new operating structure was adopted so as to focus more attention on the substantive quality of these two related, but different, functions.

The organisational changes are a natural progression from the structure that existed prior to January 2004. In particular, almost all of the underlying procedures that the Listing Division follows in reviewing new listing applications and monitoring listed companies have been retained.

## Enhancement of Corporate Governance and Market Quality

Amendments to the Main Board and GEM Listing Rules designed to enhance corporate governance and market quality came into effect on 31 March 2004. They included new provisions on notifiable transactions and connected transactions, revised classifications of notifiable transactions and connected transactions, revised definitions of the terms “reverse takeover”, “connected person” and “associate” of a connected person, revised requirements for refreshment of general mandate and revised requirements on the disclosure of directors’ remuneration in annual reports. In addition, there have been changes in the initial listing eligibility criteria, listed companies’ continuing obligations and the disclosure requirements at the time of listing.

These rule amendments, along with the Code on Corporate Governance Practices and the disclosure requirements relating to the Report on Corporate Governance Practices that will be published later this year, represent the most comprehensive overhaul of the Listing Rules in over a decade.

## Market Education on Rule Amendments

The Listing Division conducted market education seminars to promote a better understanding of the rule amendments. A total of six seminars (conducted in English, Putonghua and Cantonese) were held at the Hong Kong Convention and Exhibition Centre between 25 February and 5 March 2004 for listed companies and market practitioners and at the New Otani Hotel Beijing on 9 March 2004 for listed companies.

## Review of Operations

Entry to the seminars was free, and they were well attended. To address the range of questions posed, the Division published further guidance on the HKEx website by way of a table setting out frequently asked questions.

Another innovation introduced to promote a better understanding of the rules was a brochure of charts prepared for guidance purposes and published on the HKEx website. While the charts do not form part of the Listing Rules, they should help to steer the user through areas where a graphical depiction may facilitate an understanding of the requirements.

While in Beijing, members of the Listing Division visited the China Securities Regulatory Commission (CSRC) in March 2004 to brief members of the staff there on the Listing Rule amendments and to exchange views and discuss experiences with them.

In addition to its own seminars, the Division has also worked alongside other representative organisations to support the dissemination and comprehension of the new requirements, including providing speakers at seminars organised by other organisations.

### **Consultation Conclusions on Proposals to Enhance the Regulation of Listing**

On 26 March 2004, the Government published its Consultation Conclusions on Proposals to Enhance the Regulation of Listing. The Government's recommendations included giving statutory backing to certain more important listing requirements, such as those covering financial reporting and other periodic disclosure, disclosure of price-sensitive information and shareholders' approval for notifiable transactions, and expanding the dual filing system. As for the regulatory structure, the published conclusions said the Stock Exchange would continue to receive and approve initial public offer applications, the Stock Exchange would remain responsible for administering the listing process, and it would continue to be the primary point of contact for listing applicants and their advisers. As for ongoing compliance of listed companies, the recommendation was that the Stock Exchange should continue to enforce the non-statutory requirements in its Listing Rules.

HKEx will work closely with the Government and the Securities and Futures Commission (the SFC) on implementing the recommendations, which are aimed at raising the quality of Hong Kong's financial markets.

## Review of Operations

### Transparency

HKEx considers that the major practices of the Listing Committees and the Listing Division should be transparent. In the “Consultation Conclusions on Proposals to Enhance the Regulation of Listing”, the Government specifically invited HKEx to implement measures to enhance transparency in listing matters.

While expanding on its existing disclosure practices, the Division remains conscious of the confidentiality obligations owed to the parties concerned. It contemplates the following measures to enhance transparency in the short term: to increase the number of listing decisions to be published, with immediate effect; and to publish, on a regular basis, interpretations made by the Listing Division of provisions of the Listing Rules.

Furthermore, the “Listing Decisions” published on the HKEx website have been revised to include new formats to facilitate searching and to improve HKEx’s ability to include additional Listing Decisions in the future.

The Main Board and GEM Listing Committees have jointly issued an Annual Report for the period to 30 April 2004. This is the first such report that has been issued. It is an account of the work of the Committees in contributing to the success of the Hong Kong listing regime. The report was prepared for the Boards of the Stock Exchange and HKEx. It has been forwarded to the SFC and the Financial Services and Treasury Bureau, and it has been published on the HKEx website.

### Restructuring of Listing Committees

HKEx first considered the idea of restructuring the Listing Committees in 2002. Substantive drafting of the relevant rules and procedures had been undertaken prior to the project being put on hold pending greater clarity over the overall direction of listing regulation in Hong Kong.

The “Consultation Conclusions on Proposals to Enhance the Regulation of Listing” has since clarified the Government’s position in this regard. The document also contains various suggestions from respondents on the composition and operation of the Listing Committees.

## Review of Operations

HKEx is looking into the various suggestions and reviewing the current operational arrangements with a view to considering any further improvements. HKEx will keep the market informed of progress in due course.

### Regulation of Sponsors and Independent Financial Advisers

On 4 May 2004, HKEx invited Hong Kong sponsor and financial advisory firms to comment on draft amendments to the Main Board and GEM Listing Rules on the regulation of sponsors and independent financial advisers (IFAs). The draft amendments reflect the policies developed by HKEx and the SFC after extensive public consultation in conjunction with the release in May 2003 of the joint Consultation Paper on the Regulation of Sponsors and Independent Financial Advisers.

HKEx and the SFC have agreed to proceed with reforms to the regulation of sponsors and IFAs in two stages. The first stage involves amendments to the Main Board and GEM Listing Rules and the introduction of a revised statement on conduct to clarify HKEx's expectations with regard to due diligence. The second stage involves modification of the SFC licensing regime to create specific licensing requirements for sponsors. HKEx expects that the relevant rule amendments will become effective in the fourth quarter of the year.

### Operations

#### IPO Transactions

Fifty-nine (22 Main Board, 37 GEM) new listing applications were carried over from 2003.

In the six months ended 30 June 2004, 67 (44 Main Board, 23 GEM) new listing applications were received and accepted for processing by the Listing Division. Forty-nine (34 Main Board, 15 GEM) new listing applications were approved in principle by the Listing Committees. Four (one Main Board, three GEM) new listing applications were rejected. Six new listing applications (all GEM) were withdrawn by the applicants. Thirty-six (14 Main Board, 22 GEM) new listing applications lapsed. Twenty-two (six Main Board, 16 GEM) lapsed applications were refiled within 90 days. Of the decisions made on new listing applications, two decisions (relating to a Main Board applicant) were subject to review (i.e. appealed).

## Review of Operations

As at 30 June 2004, the Listing Division was processing 49 (23 Main Board, 26 GEM) active applications. Seventeen (12 Main Board, five GEM) new listing applicants had been granted approval in principle by the Listing Committees but had not yet listed.

### **Compliance and Monitoring**

In the six months ended 30 June 2004, Compliance and Monitoring (C&M) vetted 2,547 listed company announcements and 1,017 circulars. The Listing Division reviewed 12,923 press articles relating to listed companies of which 279 led to enquiries being made. C&M undertook 2,060 share price and trading volume monitoring actions, which resulted in 1,471 clarification announcements being published by listed companies. The Division continues to target its monitoring resources in those areas that it perceives to pose the biggest risks to the maintenance of a fair, orderly and well-informed market. In particular it pays close attention to companies' compliance with the rules governing the disclosure of price-sensitive information and the adequacy of financial reporting and compliance systems and procedures.

The Listing Division handled 140 complaints relating to listed companies and/or their directors, and 28 cases were referred to Listing Enforcement for further investigation.

### **Listing Enforcement**

In the six months ended 30 June 2004, Listing Enforcement completed investigations of 77 cases involving possible breaches by listed companies, their directors and/or sponsors of the Listing Rules. Twelve formal disciplinary cases were completed. The Listing (Disciplinary) Committee issued one public censure, nine public statements involving criticism and two private reprimands. The public censure case related to a listed company's failure to inform the Stock Exchange and announce the presentation of a winding-up petition against the listed company's major subsidiary. The public statements cases related mainly to late financial reporting, and included one case involving a misstatement in a prospectus and another case relating to share repurchases. The private reprimand cases involved late financial reporting and non-disclosure of information.

In relation to disciplinary matters arising from late financial reporting, the Stock Exchange has adopted a 'fast-track' approach. Once a listed company is late in publishing its accounts it has breached the Listing Rules and therefore the main issue to consider is the sanction to be imposed on the company and directors having regard to any mitigating circumstances. Under the fast-track process, provided that certain conditions are met, public sanctions will be imposed against a listed company, and not its directors, for the late publication of accounts.

## Review of Operations

Cases deemed to involve less serious breaches of the Listing Rules were dealt with at Listing Division level. This led to issuance of 71 warning letters and 13 caution letters by Listing Enforcement.

In a formal disciplinary matter in which a listed company sought judicial review of procedural directions issued by the Chairman of the Listing (Disciplinary) Committee, the judicial review hearing was held in February 2004 and the judgment was handed down in May 2004. The company has appealed to the Court of Appeal against the ruling made by the Court of First Instance.

### EXCHANGE

#### Restructuring

The Exchange Division was established in May 2004 along with the Business Development and Investor Services Division as part of a corporate restructuring designed to further strengthen HKEx's regulatory and business operations, and raise the overall efficiency of its two exchanges and the associated clearing houses. The two divisions took up the responsibilities of the Exchange Unit, which was dissolved.

The Exchange Division manages trading and market operations, develops new products, conducts market surveillance, recruits new Exchange Participants and services and trains existing Exchange Participants.

The Business Development and Investor Services Division focuses on managing investor relations, attracting new listings and promoting HKEx and its markets to the general public through educational seminars.

#### New Products

H-shares Index Options were introduced on 14 June 2004 to complement the trading of H-shares Index Futures and provide an additional hedging and trading tool for investors in H shares and related derivatives. Four additional stock options and stock futures, all on H shares, were also added to the derivatives market on 14 June 2004. The new contracts are part of HKEx's efforts to meet the growing demand for China-related securities and derivatives instruments. H-shares Index Options' Open Interest rose to over 9,000 contracts in July 2004.

# Review of Operations

## Proposed Narrowing of Trading Spreads for Some Securities

Discussions on the possible narrowing of trading spreads in the securities market were held with a wide range of market participants during the first half of the year. A consultation paper was issued on 6 August 2004 on proposals for narrowing the trading spreads and alternatives for implementing the proposed changes.

## Internal Review of Market Operations

HKEx is conducting an internal review of the formula for calculating closing stock prices and has sought comments from the Cash Market Consultative Panel. The Exchange Division is examining options for calculating closing prices in rare occasions where there is insufficient price data to determine the closing price under the present formula.

## CLEARING

### DCASS Launch

The Derivatives Clearing and Settlement System, DCASS, has been integrated with the clearing systems used by HKFE Clearing Corporation Limited (HKCC) and The SEHK Options Clearing House Limited (SEOCH), and with the derivatives trading system. DCASS has been running smoothly with no major incidents since its launch on 6 April 2004. DCASS has introduced changes in certain business disciplines, including a revised fee structure, an earlier post trade input cut-off time for HKCC Participants and a new margining methodology known as PRiME (Portfolio Risk Margining System of HKEx) for both HKCC and SEOCH, which the clearing houses' Participants have adapted to quickly. Through the use of DCASS, the operational procedures and risk management processes of HKCC and SEOCH have been harmonised, resulting in improved efficiency.

## Scripless Consultation Conclusions and Way Forward

There were 26 submissions in response to the Consultation Paper on a Proposed Operational Model for a Scripless Securities Market issued in October 2003. A consultation conclusions report summarising the views of the respondents and the issues they raised together with HKEx's comments was published on 31 May 2004. The report proposed maintaining CCASS, the Central Clearing and Settlement System, on a nominee basis under the Issuer Register Model. It also proposed a progressive approach on implementation whereby CCASS would start to dematerialise part of its holdings subject to the enactment of the enabling legislation and the readiness of the share registrars to support uncertificated shares. A progressive approach on implementation would allow time for the investing public and other market participants to adjust to the scripless environment, and it would allow market forces to determine the pace of further development.



# Review of Operations

## **New Features to Investor Participant Accounts**

After reviewing the CCASS Investor Participant (IP) account service and identifying areas for improvement, in particular in the communication channels, HKEx has decided to upgrade the existing IP account service through new and enhanced features. The changes include extending the online window to 24 hours a day, seven days a week, allowing Internet access through user ID and password, using SMS (short message service) text messages to communicate with IPs, making electronic voting functions more user-friendly and streamlining the stock transfer process by adding a simpler transfer instruction type. The enhanced services will be launched in the third quarter and there will be a series of promotion programmes before the rollout.

## **SI Matching Enhancements**

After working closely with some major market participants, HKEx is preparing to enhance the existing Settlement Instructions (SI) matching functions to facilitate the pre-matching of SI between Hong Kong Securities Clearing Company Limited (HKSCC) Participants. The enhancements include adding a new “hold matched SI” function, inserting two additional SI matching runs, displaying unmatched SI field content and modifying the client account number field for matching. The enhanced SI matching facilities will be introduced in the fourth quarter and there will be briefing sessions for Participants before the launch.

## **INFORMATION SERVICES**

### **Real-time Information**

At the end of June 2004, there were 62 real-time information vendors for the securities market, a decrease of one from the end of last year, and there were 34 vendors for the derivatives market, the same as at the end of last year.

Four real-time vendors signed up during the period, including two which replaced other vendors. The total real-time data services provided by all vendors rose from 353 to 356, while the total delayed data services rose from 98 to 111.

Sixteen information vendors participated in the extended Mainland China Promotion Programme that allows investors on the Mainland to subscribe for HKEx market data at a reduced, promotional price.

HKEx began disseminating real-time odd lot market information to information vendors in March 2004 to further increase market transparency and improve its services to investors, particularly retail investors. The information includes stock codes, order prices and both order quantities and the number of orders for the best five bid prices and the best five ask prices.

# Review of Operations

## HKEx Website

### Issuer News

In the first half of the year, the average number of Issuer News items released on the HKEx website each month increased 21 per cent from the corresponding period last year to 6,017. About 20 per cent of those items were submitted electronically through HKEx's Internet e-submission system.

The HKEx website's hit rate for Issuer News increased 87 per cent from the same period last year, showing that accessing Issuer News through the Internet is becoming increasingly popular with the investing public.

### Disclosure of Interests and Reports on Share Repurchases

The Stock Exchange publishes information relating to the Disclosure of Interests (DI) according to the Securities and Futures Ordinance (SFO) which prescribes the manner in which the Stock Exchange receives the information and the ways of filing notices with the Stock Exchange.

In the first half of the year, the average number of DI filings released each month through the HKEx website increased by 24 per cent from the corresponding period last year to 2,680. (Note: A new disclosure regime which reduced the reporting threshold from 10 per cent to 5 per cent became effective on 1 April 2003.) HKEx's web-based DI disclosure system was used extensively in the first half of the year, with page views of DI information averaging 1,008,657 per month. During the same period last year, which comprised three months under the old disclosure regime and three months under the new regime, there was an average of about 191,000 page views per month.

To further enhance the electronic information provided through the HKEx website, historical share repurchase reports dating back to 1991 were converted from archived microfilm to electronic images in May 2004.

### Investment Service Centre

There were several enhancements to the Investment Service Centre (ISC) section of the HKEx website in late March 2004. They included increased search capabilities on stock/company information; links between data on related securities; enriched information in the company/securities profiles; an advanced charting mechanism; and an upgraded email alert service.

The ISC also has information now on H-share companies with A shares listed on the Mainland.

## Review of Operations

### Market Data and Statistics

The Data & Statistics section of the HKEx website was also enhanced in late March 2004. Archives of key market statistics going back to 1986 have been added along with a new sub-section of data that highlight the contribution of Mainland enterprises to the Hong Kong market.

### Internal Operations

The Electronic Mail Stock Information Services (EMSIS) were upgraded in June 2004 for the early July 2004 migration of its delivery platform to the in-house Online Data Products System. EMSIS has been in place since 1990 to provide snapshots of market data and related information at different times of the day, mainly to the media.

The historical stock price database was moved in June 2004 from the Stock Statistics & Charting System to the Stock Market Database (SMD) to make the database more accessible. The SMD supports compilations of data products and regular data publications, and it facilitates the data distribution via the HKEx website.

## INFORMATION TECHNOLOGY

### System Development to Support New Products and Market Development Initiatives

The Information Technology (IT) Division managed and supported the April 2004 rollout of DCASS and the derivatives component of the Common Collateral Management System. It also supported the March 2004 introduction of the real-time odd lot market information feed for information vendors. In addition, the Division delivered technical solutions for the HKEx website revamp project in late March 2004. In line with the website revamp project and the rapid growth in demand for external access to the website, the Division upgraded the bandwidth and capacity of the HKEx website early in the year.

Ongoing projects include system upgrades for the enhancements to the IP accounts in CCASS, and CCASS/3 (the next generation of the Central Clearing and Settlement System) upgrades to support the pre-matching of SI prior to actual settlement and provide more detailed and timely information for follow-up on unmatched SI.

# Review of Operations

## IT Infrastructure, Operations and Support

In the first half of the year, all major market systems, including the trading, clearing and settlement, and market data systems for the securities and derivatives markets successfully achieved 100 per cent availability for more than 12 consecutive months.

The Hong Kong Productivity Council was appointed early in the year to assess the Quality Management System of HKEx's IT Computer Operations and it concluded that the IT Computer Operations were effective and compliant with the ISO 9001:2000 requirements.

A review is being conducted on the feasibility of consolidating the existing market systems network from Frame Relay to Optical Ethernet to achieve cost savings without sacrificing the network service quality and serviceability, and a study is being conducted on the feasibility of consolidating the backup data centres.

In managing the various new market development initiatives in the securities and derivatives markets, ongoing comprehensive system capacity monitoring and planning of the existing market system and infrastructure are conducted to deal with any potential growth of system capacity requirements in a timely and effective manner. As part of ongoing system modernisation and upkeep, HKEx plans to upgrade or replace obsolete hardware and software in three of its major market systems and fine-tune another system to further strengthen its stability and functionality.

## FINANCE

The Finance Department supervises the investment of funds, which can be divided into three main categories: Corporate Funds (comprising mainly share capital and retained earnings of the Group), Clearing House Funds and margin funds received (which excludes contributions receivable from Participants and securities deposited by Participants as alternatives to cash deposits of margin funds).

An Investment Advisory Committee, comprised of non-executive directors of HKEx and an external member from the financial community, advises the Board on portfolio management and monitors the risk and performance of HKEx's investments. A Treasury team in the Finance Department is dedicated to the day-to-day management and investment of the funds. Three external fund managers have also been appointed to manage part of the Corporate Funds since July 2001.

## Review of Operations

Investment and fund management is governed by investment policies and risk management parameters approved by the Board. Investment restrictions and guidelines form an integral part of risk control. Fund-specific restrictions and guidelines are set according to the investment objectives of each fund. In addition, specific limits are set for each fund to control risk (e.g. permissible asset type, asset allocation, liquidity, credit, counterparty concentration, maturity, foreign exchange, interest rate and market risks) of the investments.

The investment objective of the Corporate Funds is the provision of liquidity for funding ongoing operations and long-term capital preservation. Accordingly, the funds can be invested in cash, money market instruments, bonds, collective investment schemes and equities. Only the external fund managers are permitted, subject to compliance with guidelines on conflict of interest and to limits forming part of the investment policies, to invest in equities, which include convertible bonds. For Clearing House Funds and margin funds, the investment objective of which is to satisfy liquidity requirements and safeguard the financial assets of the funds, their portfolios only consist of cash, money market instruments and bonds.

In the first half of the year, the average amount of funds available for investment increased by 55 per cent or \$5.10 billion to \$14.30 billion (first half of 2003 average: \$9.20 billion), mainly due to a rise in margin funds received from Participants as a result of increased open interest in futures and options contracts. Following the payment of the 2003 special and final dividends of \$2.22 billion on 14 April 2004, the amount of Corporate Funds available for investment was reduced and, comparing with 31 March 2004, the overall fund size as of 30 June 2004 decreased by 19 per cent or \$2.85 billion to \$12.52 billion (31 March 2004: \$15.37 billion).

As at 30 June 2004 and 31 March 2004, details of the asset allocation were as follows:

	Fund size		Bonds		Cash or		Global equities	
	\$ billion				bank deposits			
	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar
Corporate Funds	3.46	5.61	68%	39%	25%	55%	7%	6%
Margin funds	7.96	8.17	41%	39%	59%	61%	0%	0%
Clearing House Funds	1.10	1.59	11%	8%	89%	92%	0%	0%
Total	12.52	15.37	46%	36%	52%	62%	2%	2%

## Review of Operations

Investments of the three funds are kept sufficiently liquid to meet HKEx's operating needs and possible liquidity requirements of the Clearing House Funds and margin funds. Excluding equities held under the Corporate Funds (\$0.24 billion as at 30 June 2004 and \$0.32 billion as at 31 March 2004), which do not have a maturity date, the maturity profile of the remaining \$12.28 billion and \$15.05 billion of investments as at 30 June 2004 and 31 March 2004 was as follows:

	Fund size		Overnight		>Overnight		>1 month		>1 year			
	\$ billion		Overnight		to 1 month		to 1 year		to 3 years		> 3 years	
	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar
Corporate Funds	3.22	5.29	17%	27%	11%	30%	22%	13%	36%	22%	14%	8%
Margin funds	7.96	8.17	45%	54%	8%	4%	12%	7%	35%	35%	0%	0%
Clearing House Funds	1.10	1.59	76%	72%	0%	11%	10%	7%	14%	10%	0%	0%
Total	12.28	15.05	40%	46%	9%	14%	14%	9%	33%	28%	4%	3%

In the maturity profile above, Corporate Funds with maturity of up to one month decreased by 29 per cent during the second quarter mainly on account of the payment of the 2003 special and final dividends mentioned above.

Credit exposure was well diversified. As at 30 June 2004, all bonds held were of investment grade and had a weighted average credit rating of Aa2 (31 March 2004: Aa2) and a weighted average maturity of 1.6 years (31 March 2004: 1.7 years). Deposits were placed only with the note-issuing banks in Hong Kong and licensed banks and restricted licence banks with a minimum credit rating of A3 by Moody's or equivalent approved by the Board from time to time.

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

## Review of Operations

(one year is used by HKEx). The overall risk, as measured by the VaR methodology, during the first quarter and second quarter was as follows:

	Average VaR		Maximum VaR		Minimum VaR	
	\$ million		\$ million		\$ million	
	Apr-Jun	Jan-Mar	Apr-Jun	Jan-Mar	Apr-Jun	Jan-Mar
Corporate Funds	16.26	16.65	17.56	18.33	14.02	15.47
Margin funds	16.85	14.00	17.44	16.93	15.67	10.27
Clearing House Funds	1.15	1.15	1.24	1.22	1.01	1.03

For details of HKEx's investment income, please refer to the Overall Performance section of Management Discussion and Analysis and note 6 to the accounts of this Interim Report.

### **BUSINESS DEVELOPMENT AND INVESTOR SERVICES**

#### **Beijing Representative Office and Business Development Department**

##### **Beijing Office**

To further support HKEx's efforts in strengthening Hong Kong's position as the premier international capital formation centre for China, the Beijing Representative Office continued to explore opportunities to strengthen communications between HKEx and the Mainland authorities, and promote HKEx's markets to potential listing candidates.

In April 2004, the CSRC approved HKEx's stationing of representatives from the Beijing Representative Office in the Mainland cities of Guangzhou and Shanghai to capture the robust economic growth in the Pearl River Delta and Yangtze River Delta regions.

##### **Listing Promotion for Mainland Companies and Government Authorities**

During the first half of the year, HKEx organised or co-organised listing conferences and seminars in Changchun, Chongqing and Beijing which attracted a total of more than 850 representatives from 335 Mainland enterprises. Marketing efforts helped identify 140 Mainland companies which are interested in listing in Hong Kong. Twenty-three of the 38 new listings during the first half of the year were Mainland enterprises which raised a total of \$46 billion, or 83 per cent of the funds raised through new listings.

## Review of Operations

The Business Development Department hosted meetings with Mainland business delegations visiting Hong Kong to promote HKEx's markets, and the Department assisted Mainland groups in organising listing conferences in Hong Kong. One of the events, the Hong Kong-Zhejiang Week in Hong Kong, had more than 200 participants, including representatives from a number of potential listing candidates.

The Beijing Representative Office and the Business Development Department had a total of 88 meetings in the first half of the year with government authorities from the Mainland as part of their liaison and communications efforts.

Two training programmes were conducted for Hong Kong-listed Mainland companies and potential listing applicants from the Mainland to improve their understanding of corporate governance issues and promote listing in Hong Kong. These programmes were co-organised with the State Council's Office of Hong Kong and Macau Affairs, the National Science and Technology Venture Capital Development Centre, the Hong Kong Institute of Company Secretaries and the Hong Kong Securities Institute.

### Investor Services Department

The Investor Services Department is a new department established to maintain and develop relationships with HKEx's existing and new shareholders, and attract more funds to HKEx's markets. In addition, the Department is responsible for investor education.

A three-week trial run of SIMart, the Simulated Investment Market, was completed in the middle of May 2004. Nearly 700 players participated in the three game sessions. SIMart is an online educational platform operated by HKEx for individuals who want to gain a better understanding of securities trading. Players trade selected securities from the Stock Exchange using delayed market data.

Forty educational seminars were organised in the first half of the year. They comprised 21 Continuous Professional Training courses for Exchange Participants and 19 public seminars for individual investors.



# Review of Operations

## RESEARCH AND PLANNING

During the first half of the year, HKEx released the findings of two market surveys for the reference of market participants and the general public.

### Cash Market Transaction Survey 2002/03 (released on 9 March 2004)

The survey for the 12 months to September 2003 indicated that overseas institutional investors surpassed local retail investors for the third year in a row to be the largest investor group by turnover value in the HKEx securities market. There was also an increase in the contribution from local institutional investors for the third consecutive year.

### Omnibus Retail Investor Survey 2003 (released on 6 April 2004)

The survey revealed that the number of Hong Kong retail investors investing in stocks and/or derivatives traded on the HKEx markets is close to one million and stock investors traded twice as frequently in 2003 as in 2002.

## CORPORATE COMMUNICATIONS

### Enquiries and Complaints

The Corporate Communications Department handled 7,610 enquiries and complaints in the first half of the year, compared with 4,426 in the first six months of 2003. They covered a variety of issues. Most of the initial contacts were by telephone, about 15 per cent were through email and a few were via letter or fax.

### Revamped HKEx Website

Visits to the HKEx website, which was revamped in late March 2004 in a project led by the Department, rose in the first half of the year to 9,182,324 from 5,107,875 in the same period last year. Page views were also up, rising to 116,765,240 from 52,654,263 in the first half of 2003.

## INTERNAL AUDIT

The Internal Audit Department conducted various audit reviews in the first half of the year. The reviews covered areas related to finance, operations and information systems, and the Department was not aware of any significant deficiencies.

## Review of Operations

The Department conducted quality assurance reviews of the annual, quarterly and interim financial reports prior to their review by the Audit Committee.

In June 2004, the Department followed up on the status of the agreed audit recommendations raised this year together with those brought forward from the last status review. It concluded that the measures taken were effective and adequate in improving controls and reducing risks.

**Paul Chow**

Chief Executive

Hong Kong, 11 August 2004