HKEx 香港交易所

**(Stock Code: 388)**

# Condensed Consolidated Financial Statements

# For the six months ended 30 June 2008

# CONDENSED CONSOLIDATED INCOME STATEMENT

(Financial figures are expressed in Hong Kong Dollar)

| | Note | **Unaudited Six months ended 30 Jun 2008 $'000** | Unaudited Six months ended 30 Jun 2007 $'000 | **Unaudited Three months ended 30 Jun 2008 $'000** | Unaudited Three months ended 30 Jun 2007 $'000 |
|---|---|---|---|---|---|
| **INCOME** | 2 | | | | |
| Trading fees and trading tariff | 4 | **1,553,482** | 1,074,819 | **687,372** | 570,406 |
| Stock Exchange listing fees | 5 | **355,960** | 294,000 | **164,848** | 150,599 |
| Clearing and settlement fees | | **774,860** | 571,274 | **354,053** | 309,770 |
| Depository, custody and nominee services fees | | **296,095** | 308,423 | **231,876** | 247,681 |
| Income from sale of information | | **354,419** | 275,686 | **169,358** | 148,074 |
| Net investment income | 6 | **589,951** | 452,740 | **221,881** | 229,597 |
| Gain on disposal of properties | 21 | **68,641** | - | **-** | - |
| Other income | 7 | **217,923** | 179,996 | **97,299** | 101,872 |
| | 3 | **4,211,331** | 3,156,938 | **1,926,687** | 1,757,999 |
| **OPERATING EXPENSES** | | | | | |
| Staff costs and related expenses | 8 | **451,986** | 386,548 | **223,086** | 204,243 |
| Information technology and computer maintenance expenses | 9 | **121,526** | 100,697 | **59,943** | 49,396 |
| Premises expenses | | **69,722** | 65,575 | **35,762** | 33,165 |
| Product marketing and promotion expenses | | **9,637** | 7,108 | **6,077** | 4,629 |
| Legal and professional fees | | **8,850** | 4,390 | **5,260** | 3,016 |
| Depreciation | | **49,938** | 42,456 | **26,275** | 19,294 |
| Other operating expenses | 10 | **57,284** | 58,870 | **29,981** | 29,258 |
| | 3 | **768,943** | 665,644 | **386,384** | 343,001 |
| **OPERATING PROFIT** | 3 | **3,442,388** | 2,491,294 | **1,540,303** | 1,414,998 |
| **GAIN ON DISPOSAL OF AN ASSOCIATE** | 3/11 | **-** | 206,317 | **-** | 206,317 |
| **SHARE OF PROFIT OF AN ASSOCIATE** | 3 | **-** | 5,587 | **-** | - |
| **PROFIT BEFORE TAXATION** | 3 | **3,442,388** | 2,703,198 | **1,540,303** | 1,621,315 |
| **TAXATION** | 12 | **(467,982)** | (372,897) | **(215,638)** | (213,551) |
| **PROFIT ATTRIBUTABLE TO SHAREHOLDERS** | 28 | **2,974,406** | 2,330,301 | **1,324,665** | 1,407,764 |
| **Basic earnings per share** | 14(a) | **$2.78** | $2.19 | **$1.24** | $1.32 |
| **Diluted earnings per share** | 14(b) | **$2.76** | $2.16 | **$1.23** | $1.31 |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Financial figures are expressed in Hong Kong Dollar)

| | **Unaudited Six months ended 30 Jun 2008 $'000** | Unaudited Six months ended 30 Jun 2007 $'000 | **Unaudited Three months ended 30 Jun 2008 $'000** | Unaudited Three months ended 30 Jun 2007 $'000 |
|---|---|---|---|---|
| Profit attributable to shareholders | **2,974,406** | 2,330,301 | **1,324,665** | 1,407,764 |
| Other comprehensive income: | | | | |
| Available-for-sale financial assets: | | | | |
| Change in fair value | **5,553** | (25,954) | **(51,268)** | (13,208) |
| Realisation of change in fair value on maturity | **(41,350)** | (4,235) | **(26,195)** | (3,309) |
| Less: Reclassification adjustment: | | | | |
| Gains included in profit or loss on disposal | **(4,678)** | - | - | - |
| Deferred tax | **6,860** | 2,257 | **12,688** | 196 |
| | **(33,615)** | (27,932) | **(64,775)** | (16,321) |
| Cash flow hedges: | | | | |
| Fair value gains of hedging instruments | - | 132 | - | 216 |
| Less: Reclassification adjustment: | | | | |
| Gains reclassified to profit or loss as information technology and computer maintenance expenses | - | (70) | - | (112) |
| Gains reclassified to profit or loss as net investment income | - | (62) | - | (62) |
| | - | - | - | 42 |
| Leasehold buildings: | | | | |
| Change in valuation | - | (44) | - | (44) |
| Deferred tax arising from change in valuation | - | 7 | - | 7 |
| | - | (37) | - | (37) |
| Less: Reclassification adjustment: | | | | |
| Share of other comprehensive income of an associate reclassified to profit or loss on disposal | - | (58) | - | (58) |
| Other comprehensive income attributable to shareholders, net of tax | **(33,615)** | (28,027) | **(64,775)** | (16,374) |
| Total comprehensive income attributable to shareholders | **2,940,791** | 2,302,274 | **1,259,890** | 1,391,390 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Financial figures are expressed in Hong Kong Dollar)

| | **Unaudited** | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | **Other comprehensive income** | | | | |
| | **Share capital, share premium and shares held for Share Award Scheme (note 24) $'000** | **Employee share-based compensation reserve (note 25) $'000** | **Revaluation reserves (note 26) $'000** | **Hedging reserve $'000** | **Designated reserves (note 27) $'000** | **Retained earnings (note 28) $'000** | **Total equity $'000** |
| At 1 Jan 2008 | **1,288,652** | **49,669** | **56,036** | **-** | **694,853** | **6,288,138** | **8,377,348** |
| Total comprehensive income attributable to shareholders | **-** | **-** | **(33,615)** | **-** | **-** | **2,974,406** | **2,940,791** |
| 2007 final dividend at $3.40 per share | **-** | **-** | **-** | **-** | **-** | **(3,646,159)** | **(3,646,159)** |
| Unclaimed dividend forfeited | **-** | **-** | **-** | **-** | **-** | **1,944** | **1,944** |
| Shares issued under employee share option schemes | **53,718** | **-** | **-** | **-** | **-** | **-** | **53,718** |
| Shares purchased for Share Award Scheme | **(29,434)** | **-** | **-** | **-** | **-** | **-** | **(29,434)** |
| Vesting of shares of Share Award Scheme | **347** | **(280)** | **-** | **-** | **-** | **(67)** | **-** |
| Employee share-based compensation benefits | **-** | **16,511** | **-** | **-** | **-** | **-** | **16,511** |
| Transfer of reserves | **14,899** | **(14,899)** | **(3,155)** | **-** | **12,009** | **(8,854)** | **-** |
| At 30 Jun 2008 | **1,328,182** | **51,001** | **19,266** | **-** | **706,862** | **5,609,408** | **7,714,719** |

| | Unaudited | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Other comprehensive income | | | | |
| | Share capital, share premium and shares held for Share Award Scheme $'000 | Employee share-based compensation reserve $'000 | Revaluation reserves $'000 | Hedging reserve $'000 | Designated reserves $'000 | Retained earnings $'000 | Total equity $'000 |
| At 1 Jan 2007, as previously reported | 1,200,093 | 52,119 | 10,569 | - | 668,262 | 3,326,543 | 5,257,586 |
| Effect of reclassification of Compensation Fund Reserve Account ("CFRA") | - | - | - | - | (40,446) | 40,446 | - |
| At 1 Jan 2007, as restated | 1,200,093 | 52,119 | 10,569 | - | 627,816 | 3,366,989 | 5,257,586 |
| Total comprehensive income attributable to shareholders | - | - | (28,027) | - | - | 2,330,301 | 2,302,274 |
| 2006 final dividend at $1.19 per share | - | - | - | - | - | (1,270,266) | (1,270,266) |
| Unclaimed dividend forfeited | - | - | - | - | - | 1,944 | 1,944 |
| Shares issued under employee share option schemes | 47,948 | - | - | - | - | - | 47,948 |
| Shares purchased for Share Award Scheme | (2,592) | - | - | - | - | - | (2,592) |
| Employee share-based compensation benefits | - | 12,140 | - | - | - | - | 12,140 |
| Share of reserve of an associate: | | | | | | | |
| - during the period | - | 47 | - | - | - | - | 47 |
| - eliminated through disposal of associate | - | (560) | - | - | - | - | (560) |
| Transfer of reserves | 13,397 | (13,397) | - | - | 29,391 | (29,391) | - |
| At 30 Jun 2007, as restated | 1,258,846 | 50,349 | (17,458) | - | 657,207 | 4,399,577 | 6,348,521 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Financial figures are expressed in Hong Kong Dollar)

| | Note | **Unaudited at 30 Jun 2008 $'000** | Audited at 31 Dec 2007 $'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Fixed assets | 15 | **311,011** | 317,065 |
| Lease premium for land | | **60,453** | 60,708 |
| Clearing House Funds | 16 | **1,549,277** | 2,192,204 |
| Available-for-sale financial assets | 17 | **109,480** | 25,270 |
| Deferred tax assets | | **4,708** | 3,610 |
| Other financial assets | | **21,841** | 19,177 |
| Other assets | | **3,212** | 3,212 |
| | | **2,059,982** | 2,621,246 |
| **CURRENT ASSETS** | | | |
| Accounts receivable, prepayments and deposits | 18 | **15,155,742** | 18,364,129 |
| Lease premium for land | | **509** | 509 |
| Tax recoverable | | **-** | 148 |
| Margin Funds on derivatives contracts | 19 | **34,627,385** | 55,428,888 |
| Financial assets at fair value through profit or loss | 20 | **3,005,177** | 2,996,555 |
| Available-for-sale financial assets | 17 | **1,931,425** | 3,041,737 |
| Time deposits with original maturities over three months | | **2,390,809** | 682,174 |
| Cash and cash equivalents | | **2,550,571** | 4,744,711 |
| | | **59,661,618** | 85,258,851 |
| Non-current assets held for sale | 21 | **-** | 64,092 |
| | | **59,661,618** | 85,322,943 |
| **CURRENT LIABILITIES** | | | |
| Margin deposits from Clearing Participants on derivatives contracts | 19 | **34,627,385** | 55,428,888 |
| Accounts payable, accruals and other liabilities | 22 | **17,051,799** | 21,375,909 |
| Financial liabilities at fair value through profit or loss | 20 | **5,001** | 6,149 |
| Participants' admission fees received | | **3,600** | 3,050 |
| Deferred revenue | | **242,744** | 375,174 |
| Taxation payable | | **1,045,487** | 687,726 |
| Provisions | 23 | **33,927** | 29,630 |
| | | **53,009,943** | 77,906,526 |
| **NET CURRENT ASSETS** | | **6,651,675** | 7,416,417 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **8,711,657** | 10,037,663 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

| | Note | **Unaudited at 30 Jun 2008 $'000** | Audited at 31 Dec 2007 $'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Participants' admission fees received | | **81,400** | 82,550 |
| Participants' contributions to Clearing House Funds | 16 | **842,763** | 1,496,855 |
| Deferred tax liabilities | | **28,721** | 36,873 |
| Financial guarantee contract | 31(b) | **19,909** | 19,909 |
| Provisions | 23 | **24,145** | 24,128 |
| | | **996,938** | 1,660,315 |
| **NET ASSETS** | | **7,714,719** | 8,377,348 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 24 | **1,073,647** | 1,070,285 |
| Share premium | 24 | **331,425** | 266,170 |
| Shares held for Share Award Scheme | 24 | **(76,890)** | (47,803) |
| Employee share-based compensation reserve | 25 | **51,001** | 49,669 |
| Revaluation reserves | 26 | **19,266** | 56,036 |
| Designated reserves | 27 | **706,862** | 694,853 |
| Retained earnings | 28 | **5,609,408** | 6,288,138 |
| **SHAREHOLDERS' FUNDS** | | **7,714,719** | 8,377,348 |
| **TOTAL ASSETS** | | **61,721,600** | 87,944,189 |
| **TOTAL LIABILITIES** | | **54,006,881** | 79,566,841 |
| **SHAREHOLDERS' FUNDS PER SHARE** | | **$7.19** | $7.83 |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Financial figures are expressed in Hong Kong Dollar)

| | Note | **Unaudited Six months ended 30 Jun 2008 $'000** | Unaudited Six months ended 30 Jun 2007 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net cash inflow from operating activities | 29(a) | **1,768,279** | 1,960,182 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for purchases of fixed assets | | **(169,177)** | (46,824) |
| Net proceeds from sales of properties | | **132,733** | - |
| Proceeds from sales of fixed assets | | **1** | 260 |
| Net proceeds from disposal/liquidation of an associate | | **-** | 270,050 |
| Dividends received from an associate | | **-** | 9,660 |
| (Increase)/decrease in time deposits with original maturities more than three months | | **(1,708,635)** | 117,956 |
| Net decrease/(increase) in available-for-sale financial assets of the Corporate Funds | | **1,090,454** | (1,693,380) |
| Interest received from available-for-sale financial assets | | **292,364** | 313,425 |
| Net cash outflow from investing activities | | **(362,260)** | (1,028,853) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares under employee share option schemes | | **53,718** | 47,948 |
| Purchase of shares for Share Award Scheme | | **(29,434)** | (2,592) |
| Net admission fees (refunded to)/received from Participants | | **(600)** | 550 |
| Dividends paid | | **(3,623,843)** | (1,262,681) |
| Net cash outflow from financing activities | | **(3,600,159)** | (1,216,775) |
| **Net decrease in cash and cash equivalents** | | **(2,194,140)** | (285,446) |
| Cash and cash equivalents at 1 Jan 2008/1 Jan 2007, as previously reported | | **4,744,711** | 2,215,257 |
| Effect of reclassification of CFRA | | **-** | 8,653 |
| **Cash and cash equivalents at 30 Jun** | | **2,550,571** | 1,938,464 |
| **Analysis of cash and cash equivalents** | | | |
| Time deposits with original maturities within three months | | **958,392** | 1,143,522 |
| Cash at bank and in hand | | **1,592,179** | 794,942 |
| **Cash and cash equivalents at 30 Jun** | | **2,550,571** | 1,938,464 |

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED)

(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.

These unaudited condensed consolidated accounts should be read in conjunction with the 2007 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 2007.

**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, net investment income (including investment income net of interest expenses of Clearing House Funds) and other income, which are included in **Income** in the condensed consolidated income statement.

**3. Operating Segments**

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group has four reportable segments. The segments are managed separately as each business offers different products and services and requires different information technology systems and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

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, callable bull/bear contracts, 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. Results of the Listing Function are included in the Cash Market. Stock Exchange listing fees and 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 stock and equity index futures and options, and interest rate and Exchange Fund Note futures. Its income mainly comprises trading fees, trading tariff and net investment income on the Margin Funds invested.

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 of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from net investment income earned on the Clearing House Funds and fees from providing clearing, settlement, depository, custody and nominee services.

## 3. Operating Segments (continued)

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

An analysis of the Group's reportable segment profit before taxation for the period by operating segment is as follows:

| | **Six months ended 30 Jun 2008** | | | | |
|---|---|---|---|---|---|
| | **Cash Market $'000** | **Derivatives Market $'000** | **Clearing Business $'000** | **Information Services $'000** | **Group $'000** |
| Income from external customers | **1,722,951** | **339,116** | **1,134,932** | **355,740** | **3,552,739** |
| Net investment income | **53,980** | **506,428** | **29,373** | **170** | **589,951** |
| Gain on disposal of properties | **33,442** | **11,580** | **19,116** | **4,503** | **68,641** |
| Total income | **1,810,373** | **857,124** | **1,183,421** | **360,413** | **4,211,331** |
| Operating expenses | | | | | |
| Direct costs | **295,588** | **71,913** | **180,369** | **26,728** | **574,598** |
| Indirect costs | **92,968** | **30,627** | **58,340** | **12,410** | **194,345** |
| | **388,556** | **102,540** | **238,709** | **39,138** | **768,943** |
| Reportable segment profit before taxation | **1,421,817** | **754,584** | **944,712** | **321,275** | **3,442,388** |

| | Six months ended 30 Jun 2007 | | | | |
|---|---|---|---|---|---|
| | Cash Market $'000 | Derivatives Market $'000 | Clearing Business $'000 | Information Services $'000 | Group $'000 |
| Income from external customers | 1,262,942 | 241,591 | 921,467 | 277,098 | 2,703,098 |
| Net investment income | 75,137 | 281,673 | 95,538 | 392 | 452,740 |
| Fair value gain of an investment property | 1,100 | - | - | - | 1,100 |
| Total income | 1,339,179 | 523,264 | 1,017,005 | 277,490 | 3,156,938 |
| Operating expenses | | | | | |
| Direct costs | 235,264 | 66,418 | 174,216 | 24,270 | 500,168 |
| Indirect costs | 75,100 | 24,497 | 54,782 | 11,097 | 165,476 |
| | 310,364 | 90,915 | 228,998 | 35,367 | 665,644 |
| Operating profit | 1,028,815 | 432,349 | 788,007 | 242,123 | 2,491,294 |
| Gain on disposal of an associate | - | - | 206,317 | - | 206,317 |
| Share of profit of an associate | - | - | 5,587 | - | 5,587 |
| Reportable segment profit before taxation | 1,028,815 | 432,349 | 999,911 | 242,123 | 2,703,198 |

## 3. Operating Segments (continued)

(a) The accounting policies of the reportable segments are the same as the Group's accounting policies. Central income (mainly net investment income of the Corporate Funds) and central costs (mainly costs of support functions that centrally provide services to all of the operating segments) are allocated to the operating segments as they are included in the measure of the segments' profit that is used by the chief operating decision-makers for the purposes of resource allocation and assessment of segment performance. Performance is measured based on segment profit before taxation. Taxation charge/(credit) is not allocated to reportable segments.

There were no inter-segment sales during the period (2007: $Nil).

(b) Reportable segment assets

The assets of the Group are allocated based on the operations of the segments. Central assets are generally allocated to the segments, but deferred tax assets and tax recoverable are not allocated to the segments. An analysis of the Group's reportable segment assets by operating segment is as follows:

| | **At 30 Jun 2008** | | | | |
|---|---|---|---|---|---|
| | **Cash Market $'000** | **Derivatives Market $'000** | **Clearing Business $'000** | **Information Services $'000** | **Group $'000** |
| Reportable segment assets | **6,436,321** | **35,626,555** | **19,539,634** | **114,382** | **61,716,892** |

| | At 31 Dec 2007 | | | | |
|---|---|---|---|---|---|
| | Cash Market $'000 | Derivatives Market $'000 | Clearing Business $'000 | Information Services $'000 | Group $'000 |
| Reportable segment assets (excluding non-current assets held for sale) | 4,664,621 | 56,877,568 | 26,219,215 | 114,935 | 87,876,339 |
| Non-current assets held for sale | 29,880 | 9,588 | 20,567 | 4,057 | 64,092 |
| Reportable segment assets | 4,694,501 | 56,887,156 | 26,239,782 | 118,992 | 87,940,431 |

Reportable segment assets are reconciled to total assets of the Group as follows:

| | **At 30 Jun 2008 $'000** | At 31 Dec 2007 $'000 |
|---|---|---|
| Reportable segment assets | **61,716,892** | 87,940,431 |
| Unallocated assets: | | |
| Tax recoverable | **-** | 148 |
| Deferred tax assets | **4,708** | 3,610 |
| Total assets per condensed consolidated statement of financial position | **61,721,600** | 87,944,189 |

## 4. Trading Fees and Trading Tariff

| | **Six months ended 30 Jun 2008 $'000** | Six months ended 30 Jun 2007 $'000 | **Three months ended 30 Jun 2008 $'000** | Three months ended 30 Jun 2007 $'000 |
|---|---|---|---|---|
| Trading fees and trading tariff were derived from: | | | | |
| Securities traded on the Cash Market | **1,192,668** | 815,240 | **521,636** | 444,274 |
| Derivatives contracts traded on the Derivatives Market | **360,814** | 259,579 | **165,736** | 126,132 |
| | **1,553,482** | 1,074,819 | **687,372** | 570,406 |

## 5. Stock Exchange Listing Fees

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

| | **Six months ended 30 Jun 2008** | | | | Six months ended 30 Jun 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Equity** | | | | Equity | | | |
| | **Main Board** | **GEM** | **Debt & Derivatives** | **Total** | Main Board | GEM | Debt & Derivatives | Total |
| | **$'000** | **$'000** | **$'000** | **$'000** | $'000 | $'000 | $'000 | $'000 |
| **Stock Exchange Listing Fees** | | | | | | | | |
| Annual listing fees | **155,744** | **12,755** | **1,305** | **169,804** | 133,817 | 12,246 | 978 | 147,041 |
| Initial and subsequent issue listing fees | **36,149** | **2,400** | **144,877** | **183,426** | 28,298 | 2,255 | 113,417 | 143,970 |
| Prospectus vetting fees | **1,410** | **210** | **10** | **1,630** | 1,740 | 45 | 50 | 1,835 |
| Other listing fees | **824** | **276** | **-** | **1,100** | 924 | 230 | - | 1,154 |
| Total | **194,127** | **15,641** | **146,192** | **355,960** | 164,779 | 14,776 | 114,445 | 294,000 |
| **Costs of Listing Function** | | | | | | | | |
| Direct costs | | | | | | | | |
| Staff costs and related expenses | **92,648** | **20,744** | **7,036** | **120,428** | 76,614 | 14,544 | 5,667 | 96,825 |
| Information technology and computer maintenance expenses | **2,211** | **444** | **136** | **2,791** | 1,001 | 239 | - | 1,240 |
| Premises expenses | **9,040** | **1,954** | **424** | **11,418** | 8,829 | 1,621 | 436 | 10,886 |
| Legal and professional fees | **4,406** | **18** | **-** | **4,424** | 2,131 | 53 | - | 2,184 |
| Depreciation | **2,066** | **576** | **655** | **3,297** | 945 | 190 | 57 | 1,192 |
| Other operating expenses | **3,625** | **1,158** | **309** | **5,092** | 2,706 | 1,132 | 223 | 4,061 |
| Total direct costs | **113,996** | **24,894** | **8,560** | **147,450** | 92,226 | 17,779 | 6,383 | 116,388 |
| Total indirect costs | **19,461** | **3,644** | **5,256** | **28,361** | 15,668 | 2,724 | 3,842 | 22,234 |
| Total costs | **133,457** | **28,538** | **13,816** | **175,811** | 107,894 | 20,503 | 10,225 | 138,622 |
| **Contribution to Cash Market Segment Profit before Taxation** | **60,670** | **(12,897)** | **132,376** | **180,149** | 56,885 | (5,727) | 104,220 | 155,378 |

## 5. Stock Exchange Listing Fees (continued)

| | Three months ended 30 Jun 2008 | | | | Three months ended 30 Jun 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Equity | | Debt | | Equity | | Debt | |
| | Main Board | GEM | & Derivatives | Total | Main Board | GEM | & Derivatives | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Stock Exchange Listing Fees** | | | | | | | | |
| Annual listing fees | **78,714** | **6,362** | **682** | **85,758** | 67,902 | 6,179 | 544 | 74,625 |
| Initial and subsequent issue listing fees | **20,280** | **1,230** | **56,137** | **77,647** | 15,911 | 1,665 | 56,808 | 74,384 |
| Prospectus vetting fees | **840** | **135** | **-** | **975** | 1,155 | 15 | 10 | 1,180 |
| Other listing fees | **418** | **50** | **-** | **468** | 266 | 144 | - | 410 |
| Total | **100,252** | **7,777** | **56,819** | **164,848** | 85,234 | 8,003 | 57,362 | 150,599 |
| **Costs of Listing Function** | | | | | | | | |
| Direct costs | | | | | | | | |
| Staff costs and related expenses | **45,008** | **11,466** | **3,419** | **59,893** | 40,984 | 8,034 | 2,962 | 51,980 |
| Information technology and computer maintenance expenses | **1,104** | **219** | **62** | **1,385** | 563 | 134 | - | 697 |
| Premises expenses | **4,522** | **1,091** | **216** | **5,829** | 4,507 | 855 | 208 | 5,570 |
| Legal and professional fees | **2,923** | **-** | **-** | **2,923** | 1,945 | - | - | 1,945 |
| Depreciation | **1,075** | **309** | **415** | **1,799** | 472 | 96 | 48 | 616 |
| Other operating expenses | **2,078** | **756** | **100** | **2,934** | 1,666 | 765 | 188 | 2,619 |
| Total direct costs | **56,710** | **13,841** | **4,212** | **74,763** | 50,137 | 9,884 | 3,406 | 63,427 |
| Total indirect costs | **10,405** | **2,048** | **2,476** | **14,929** | 8,223 | 1,435 | 1,937 | 11,595 |
| Total costs | **67,115** | **15,889** | **6,688** | **89,692** | 58,360 | 11,319 | 5,343 | 75,022 |
| **Contribution to Cash Market Segment Profit before taxation** | **33,137** | **(8,112)** | **50,131** | **75,156** | 26,874 | (3,316) | 52,019 | 75,577 |

Listing fee income was primarily 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 direct costs listed above were regulatory in nature, which comprised 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 ("Main Board Listing Rules") and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and disseminating information relating to listed companies.  Indirect costs comprised costs of support services and other central overheads attributable to the Listing Function.

## 6. Net Investment Income

| | **Six months ended 30 Jun 2008 $'000** | Six months ended 30 Jun 2007 $'000 | **Three months ended 30 Jun 2008 $'000** | Three months ended 30 Jun 2007 $'000 |
|---|---|---|---|---|
| Interest income | | | | |
| - bank deposits | **347,424** | 299,176 | **99,970** | 145,852 |
| - listed available-for-sale financial assets | **4,711** | 15,071 | **2,185** | 6,687 |
| - unlisted available-for-sale financial assets | **312,550** | 309,694 | **123,549** | 160,902 |
| | **664,685** | 623,941 | **225,704** | 313,441 |
| Interest expenses | **(72,783)** | (282,882) | **(2,742)** | (135,726) |
| Net interest income | **591,902** | 341,059 | **222,962** | 177,715 |
| Net realised and unrealised (losses)/gains and interest income on financial assets and financial liabilities at fair value through profit or loss, held for trading | | | | |
| - listed securities | **(28,830)** | 76,771 | **(3,401)** | 44,360 |
| - unlisted securities | **20,154** | 17,432 | **1,960** | 3,527 |
| - exchange differences | **1,463** | 13,292 | **(443)** | 1,687 |
| | **(7,213)** | 107,495 | **(1,884)** | 49,574 |
| Realised gains on disposal of unlisted available-for-sale financial assets | **1,460** | - | **23** | - |
| Dividend income from listed financial assets at fair value through profit or loss | **2,424** | 4,012 | **974** | 2,300 |
| Other exchange differences on loans and receivables | **1,378** | 174 | **(194)** | 8 |
| Net investment income | **589,951** | 452,740 | **221,881** | 229,597 |
| Net investment income was derived from: | | | | |
| Corporate Funds | **80,400** | 172,415 | **32,166** | 86,763 |
| Margin Funds | **497,420** | 250,876 | **184,806** | 127,485 |
| Clearing House Funds | **12,131** | 29,449 | **4,909** | 15,349 |
| | **589,951** | 452,740 | **221,881** | 229,597 |

## 7. Other Income

| | **Six months ended 30 Jun 2008 $'000** | Six months ended 30 Jun 2007 $'000 | **Three months ended 30 Jun 2008 $'000** | Three months ended 30 Jun 2007 $'000 |
|---|---|---|---|---|
| Network, terminal user, dataline and software sub-license fees | **159,820** | 107,861 | **69,969** | 54,800 |
| Participants' subscription and application fees | **17,129** | 17,051 | **8,601** | 8,571 |
| Brokerage on direct IPO allotments | **4,577** | 36,069 | **843** | 27,722 |
| Trading booth user fees | **4,777** | 4,788 | **2,380** | 2,394 |
| Fair value gain of an investment property | - | 1,100 | - | 600 |
| Accommodation income on securities deposited by Participants as alternatives to cash deposits of the Margin Funds | **15,216** | 5,340 | **6,300** | 3,499 |
| Sale of Trading Rights | **6,835** | - | **3,835** | - |
| Miscellaneous income | **9,569** | 7,787 | **5,371** | 4,286 |
| | **217,923** | 179,996 | **97,299** | 101,872 |

## 8. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

| | **Six months ended 30 Jun 2008 $'000** | Six months ended 30 Jun 2007 $'000 | **Three months ended 30 Jun 2008 $'000** | Three months ended 30 Jun 2007 $'000 |
|---|---|---|---|---|
| Salaries and other short-term employee benefits | **404,784** | 347,592 | **197,183** | 184,959 |
| Employee share-based compensation benefits (note 25) | **16,511** | 12,140 | **10,233** | 6,008 |
| Termination benefits | **428** | 173 | **394** | - |
| Retirement benefit costs (note a): | | | | |
| - ORSO Plan | **30,004** | 26,416 | **15,149** | 13,159 |
| - MPF Scheme | **259** | 227 | **127** | 117 |
| | **451,986** | 386,548 | **223,086** | 204,243 |

(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 income statement represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees. No contribution payable to the MPF Scheme and the ORSO Plan was outstanding as at 30 June 2008 (31 December 2007: $104,000 and $Nil respectively).

## 9. Information Technology and Computer Maintenance Expenses

| | **Six months ended 30 Jun 2008 $'000** | Six months ended 30 Jun 2007 $'000 | **Three months ended 30 Jun 2008 $'000** | Three months ended 30 Jun 2007 $'000 |
|---|---|---|---|---|
| Costs of services and goods: | | | | |
| - consumed by the Group | **73,819** | 67,001 | **36,153** | 33,293 |
| - directly consumed by Participants | **47,707** | 33,696 | **23,790** | 16,103 |
| | **121,526** | 100,697 | **59,943** | 49,396 |

## 10. Other Operating Expenses

| | **Six months ended 30 Jun 2008 $'000** | Six months ended 30 Jun 2007 $'000 | **Three months ended 30 Jun 2008 $'000** | Three months ended 30 Jun 2007 $'000 |
|---|---|---|---|---|
| Provision for impairment losses of trade receivables | **317** | 373 | **413** | 436 |
| Insurance | **2,347** | 2,413 | **1,175** | 1,217 |
| Financial data subscription fees | **2,157** | 1,986 | **1,038** | 980 |
| Custodian and fund management fees | **6,060** | 4,460 | **2,944** | 2,267 |
| Bank charges | **5,487** | 9,626 | **2,454** | 6,136 |
| Repairs and maintenance expenses | **4,078** | 4,339 | **1,906** | 2,583 |
| License fees | **7,897** | 6,653 | **3,062** | 2,808 |
| Communication expenses | **2,765** | 2,698 | **1,669** | 1,448 |
| Other miscellaneous expenses | **26,176** | 26,322 | **15,320** | 11,383 |
| | **57,284** | 58,870 | **29,981** | 29,258 |

## 11. Gain on Disposal of an Associate

In April 2007, the Group sold all of its 7,317 fully paid Class A ordinary shares (equivalent to 30 per cent of the issued share capital) of Computershare Hong Kong Investor Services Limited ("CHIS") for a consideration of $270,320,000. The accounting profit on disposal of the investment, after deducting stamp duty of $270,000, amounted to $206,317,000 and was recognised in the condensed consolidated income statement during the six months ended 30 June 2007.

## 12. Taxation

Taxation charge/(credit) in the condensed consolidated income statement represented:

| | **Six months ended 30 Jun 2008 $'000** | Six months ended 30 Jun 2007 $'000 | **Three months ended 30 Jun 2008 $'000** | Three months ended 30 Jun 2007 $'000 |
|---|---|---|---|---|
| Provision for Hong Kong Profits Tax for the period (note a) | **470,372** | 373,277 | **207,259** | 213,750 |
| Deferred taxation | **(2,390)** | (380) | **8,379** | (199) |
| | **467,982** | 372,897 | **215,638** | 213,551 |

(a) Hong Kong Profits Tax has been provided for at 16.5 per cent (2007: 17.5 per cent) on the estimated assessable profit for the period.

## 13. Dividends

| | **Six months ended 30 Jun 2008 $'000** | Six months ended 30 Jun 2007 $'000 | **Three months ended 30 Jun 2008 $'000** | Three months ended 30 Jun 2007 $'000 |
|---|---|---|---|---|
| Interim dividend declared of $2.49 (2007: $1.79) per share based on issued share capital as at 30 Jun | **2,673,381** | 1,913,437 | **2,673,381** | 1,913,437 |
| Less: Dividend for shares held by HKEx Employees' Share Award Scheme as at 30 Jun | **(3,061)** | (2,306) | **(3,061)** | (2,306) |
| | **2,670,320** | 1,911,131 | **2,670,320** | 1,911,131 |

(a) Actual 2007 interim dividend was $1,912,193,000, of which $1,062,000 was paid on shares issued for employee share options exercised after 30 June 2007.

## 14. Earnings Per Share

The calculation of the basic and diluted earnings per share is as follows:

(a) Basic earnings per share

| | **Six months ended 30 Jun 2008** | Six months ended 30 Jun 2007 | **Three months ended 30 Jun 2008** | Three months ended 30 Jun 2007 |
|---|---|---|---|---|
| Profit attributable to shareholders ($'000) | **2,974,406** | 2,330,301 | **1,324,665** | 1,407,764 |
| Weighted average number of shares in issue less shares held for Share Award Scheme | **1,070,922,358** | 1,066,212,556 | **1,072,060,063** | 1,067,212,215 |
| Basic earnings per share | **$2.78** | $2.19 | **$1.24** | $1.32 |

(b) Diluted earnings per share

| | **Six months ended 30 Jun 2008** | Six months ended 30 Jun 2007 | **Three months ended 30 Jun 2008** | Three months ended 30 Jun 2007 |
|---|---|---|---|---|
| Profit attributable to shareholders ($'000) | **2,974,406** | 2,330,301 | **1,324,665** | 1,407,764 |
| Weighted average number of shares in issue less shares held for Share Award Scheme | **1,070,922,358** | 1,066,212,556 | **1,072,060,063** | 1,067,212,215 |
| Effect of employee share options | **6,750,785** | 10,237,627 | **5,630,315** | 9,133,278 |
| Effect of Awarded Shares | **1,140,122** | 1,210,428 | **1,161,422** | 1,234,601 |
| Weighted average number of shares for the purpose of calculating diluted earnings per share | **1,078,813,265** | 1,077,660,611 | **1,078,851,800** | 1,077,580,094 |
| Diluted earnings per share | **$2.76** | $2.16 | **$1.23** | $1.31 |

## 15. Fixed Assets

The Group is heavily reliant on the capability and reliability of its computer systems for its business operations, including those required for its electronic trading platforms and for post-trading clearing and settlement services. The total cost of additions to fixed assets of the Group during the six months to 30 June 2008 was $43,886,000 (2007: $43,627,000) of which $35,809,000 (2007: $39,725,000) or 82 per cent (2007: 91 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 2008 were $6,447,000 and $2,000 respectively (2007: $2,741,000 and $Nil respectively).

The Group's leasehold buildings included in fixed assets were revalued as at 30 June 2007 on the basis of their depreciated replacement costs calculated by Jones Lang LaSalle, an independent firm of qualified property valuers. During the six months ended 30 June 2007, a revaluation deficit net of applicable deferred tax of $37,000 of one building was charged to the leasehold buildings revaluation reserve, and a revaluation gain of $64,000 of another building was credited to the condensed consolidated income statement to offset previous impairment losses charged to profit or loss.

No revaluation was performed on the Group's remaining leasehold building as at 30 June 2008 as its carrying amount is not expected to differ materially from that as at 31 December 2007.

## 16. Clearing House Funds

| | At 30 Jun 2008 $'000 | At 31 Dec 2007 $'000 |
|---|---|---|
| Net assets of the Clearing House Funds were as follows: | | |
| HKSCC Guarantee Fund | **366,511** | 362,015 |
| SEOCH Reserve Fund | **600,848** | 1,263,056 |
| HKCC Reserve Fund | **581,918** | 567,133 |
| | **1,549,277** | 2,192,204 |
| Net assets of the Clearing House Funds were composed of: | | |
| Available-for-sale financial assets: | | |
| Unlisted debt securities, at market value | **399,626** | 361,506 |
| Time deposits with original maturities over three months | **21,523** | - |
| Cash and cash equivalents | **1,145,078** | 1,841,508 |
| | **1,566,227** | 2,203,014 |
| Less: Other liabilities | **(16,950)** | (10,810) |
| | **1,549,277** | 2,192,204 |
| The Clearing House Funds were funded by: | | |
| Clearing Participants' cash contributions (note a) | **842,763** | 1,496,855 |
| Designated reserves (note 27): | | |
| - Clearing houses' contributions | **320,200** | 320,200 |
| - Forfeiture of a defaulted Clearing Participant's contributions | **1,928** | 1,928 |
| - Accumulated net investment income net of expenses attributable to: | | |
| - Clearing Participants' contributions | **289,515** | 282,213 |
| - Clearing houses' contributions | **95,219** | 90,512 |
| | **706,862** | 694,853 |
| Revaluation reserve (note 26(d)) | **(348)** | 496 |
| | **1,549,277** | 2,192,204 |
| The maturity profile of the net assets of the Clearing House Funds was as follows: | | |
| Amounts maturing within twelve months | **1,549,277** | 2,192,204 |

(a) Amount included Participants' additional deposits of $451,013,000 (31 December 2007: $1,116,555,000).

(b) The Clearing House Funds were established to support the respective clearing houses (ie, HKSCC, HKCC and SEOCH) to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Clearing Participants arising from depositing defective securities into the Central Clearing and Settlement System ("CCASS").

## 17. Available-for-sale Financial Assets

| | At 30 Jun 2008 $'000 | At 31 Dec 2007 $'000 |
|---|---|---|
| Debt securities, at market value | | |
| - listed outside Hong Kong | **109,480** | - |
| - unlisted | **1,931,425** | 3,067,007 |
| | **2,040,905** | 3,067,007 |
| Analysis of available-for-sale financial assets: | | |
| Non-current portion maturing after twelve months | **109,480** | 25,270 |
| Current portion maturing within twelve months | **1,931,425** | 3,041,737 |
| | **2,040,905** | 3,067,007 |

## 18. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits amounted to $15,155,742,000 (31 December 2007: $18,364,129,000). These mainly represented the Group's Continuous Net Settlement ("CNS") money obligations receivable under the T+2 settlement cycle, which accounted for 96 per cent (31 December 2007: 94 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 30 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits would mature within three months.

## 19. Margin Funds on Derivatives Contracts

| | At 30 Jun 2008 $'000 | At 31 Dec 2007 $'000 |
|---|---|---|
| The Margin Funds comprised: | | |
| SEOCH Clearing Participants' Margin Funds | **4,192,397** | 9,741,149 |
| HKCC Clearing Participants' Margin Funds | **30,434,988** | 45,687,739 |
| | **34,627,385** | 55,428,888 |
| The net assets of the Margin Funds comprised: | | |
| Available-for-sale financial assets: | | |
| Debt securities, at market value: | | |
| - listed outside Hong Kong | **321,044** | 243,047 |
| - unlisted | **14,668,393** | 16,491,959 |
| Time deposits with original maturities over three months | **502,225** | 2,508,559 |
| Cash and cash equivalents | **20,298,546** | 36,182,526 |
| Margin receivable from Clearing Participants | **2,651** | 3,068 |
| | **35,792,859** | 55,429,159 |
| Less: Other liabilities | **(1,165,474)** | (271) |
| | **34,627,385** | 55,428,888 |
| The Group's liabilities in respect of the Margin Funds were as follows: | | |
| Margin deposits from SEOCH and HKCC Participants on derivatives contracts | **34,627,385** | 55,428,888 |
| The maturity profile of the net assets of Margin Funds was as follows: | | |
| Amounts maturing after more than twelve months | **800,126** | 456,396 |
| Amounts maturing within twelve months | **33,827,259** | 54,972,492 |
| | **34,627,385** | 55,428,888 |

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

| | At 30 Jun 2008 $'000 | At 31 Dec 2007 $'000 |
|---|---|---|
| **Analysis of financial assets at fair value through profit or loss:** | | |
| Held for trading | | |
| Equity securities, at market value | | |
| - listed in Hong Kong | **27,259** | 49,559 |
| - listed outside Hong Kong | **106,242** | 177,591 |
| | **133,501** | 227,150 |
| Held for trading | | |
| Debt securities, at market value | | |
| - listed in Hong Kong | **46,948** | 47,569 |
| - listed outside Hong Kong | **1,404,871** | 1,363,356 |
| - unlisted | **1,330,532** | 1,258,030 |
| | **2,782,351** | 2,668,955 |
| Held for trading | | |
| Mutual funds, at market value | | |
| - listed outside Hong Kong | **87,598** | 96,778 |
| Held for trading | | |
| Derivative financial instruments, at market value | | |
| - equity index futures contracts, listed outside Hong Kong (note a) | **894** | 159 |
| - forward foreign exchange contracts | **833** | 3,513 |
| | **1,727** | 3,672 |
| | **3,005,177** | 2,996,555 |
| **Analysis of financial liabilities at fair value through profit or loss:** | | |
| Held for trading | | |
| Derivative financial instruments, at market value | | |
| - equity index futures contracts (note a) | | |
| - listed in Hong Kong | **262** | - |
| - listed outside Hong Kong | **441** | - |
| - forward foreign exchange contracts | **4,298** | 6,149 |
| | **5,001** | 6,149 |

(a) The total notional value of the futures contracts outstanding was $47,972,000 (31 December 2007: $6,964,000).

## 21. Non-current Assets Held for Sale

| | **At 30 Jun 2008 $'000** | At 31 Dec 2007 $'000 |
|---|---|---|
| Leasehold building | **-** | 7,524 |
| Investment property | **-** | 24,200 |
| Lease premium for land of leasehold property | **-** | 32,368 |
| | **-** | 64,092 |
| Reserves associated with assets held for sale recognised in other comprehensive income (leasehold buildings revaluation reserve (note 26)) | **-** | 3,155 |

On 19 September 2007, the Board approved the disposal of one of the leasehold properties and the investment property held by the Group as the Board resolved to restructure the Group's property portfolio. No impairment losses were recognised on the reclassification of the properties as held for sale.

In January 2008, the Group entered into agreements with two third parties to sell the leasehold property and the investment property for a consideration of $103,380,000 and $30,400,000 respectively. The sale transactions were completed on 18 February 2008. The accounting profit on the disposal of the properties, after deducting related selling expenses of $1,047,000, amounted to $68,641,000 ($62,709,000 for the leasehold property and $5,932,000 for the investment property) and was recognised in the condensed consolidated income statement during the first quarter of 2008.

## 22. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities amounted to $17,051,799,000 (31 December 2007: $21,375,909,000). These mainly represented the Group's CNS money obligations payable under the T+2 settlement cycle, which accounted for 85 per cent (31 December 2007: 81 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

## 23. Provisions

| | **Reinstatement costs $'000** | **Employee benefit costs $'000** | **Total $'000** |
|---|---|---|---|
| At 1 Jan 2008 | **24,128** | **29,630** | **53,758** |
| Provision for the period | **57** | **23,135** | **23,192** |
| Amount used during the period | **-** | **(18,211)** | **(18,211)** |
| Unused amount reversed during the period | **(18)** | **-** | **(18)** |
| Amount paid during the period | **(2)** | **(647)** | **(649)** |
| At 30 Jun 2008 | **24,165** | **33,907** | **58,072** |

| | **At 30 Jun 2008 $'000** | At 31 Dec 2007 $'000 |
|---|---|---|
| Analysis of provisions: | | |
| Current | **33,927** | 29,630 |
| Non-current | **24,145** | 24,128 |
| | **58,072** | 53,758 |

## 24. Share Capital, Share Premium and Shares Held for Share Award Scheme

| | **At 30 Jun 2008 $'000** | At 31 Dec 2007 $'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 | **Shares held for Share Award Scheme** $'000 | **Total** $'000 |
|---|---|---|---|---|---|
| At 1 Jan 2007 | 1,064,190,346 | 1,065,448 | 185,942 | (51,297) | 1,200,093 |
| Shares issued under employee share option schemes (note a) | 4,837,000 | 4,837 | 61,215 | - | 66,052 |
| Transfer from employee share-based compensation reserve (note 25) | - | - | 19,013 | - | 19,013 |
| Shares purchased for Share Award Scheme (note b) | (42,500) | - | - | (4,879) | (4,879) |
| Vesting of shares of Share Award Scheme (note c) | 243,868 | - | - | 8,373 | 8,373 |
| At 31 Dec 2007 | 1,069,228,714 | 1,070,285 | 266,170 | (47,803) | 1,288,652 |
| At 1 Jan 2008 | **1,069,228,714** | **1,070,285** | **266,170** | **(47,803)** | **1,288,652** |
| Shares issued under employee share option schemes (note a) | **3,361,500** | **3,362** | **50,356** | **-** | **53,718** |
| Transfer from employee share-based compensation reserve (note 25) | **-** | **-** | **14,899** | **-** | **14,899** |
| Shares purchased for Share Award Scheme (note b) | **(182,200)** | **-** | **-** | **(29,434)** | **(29,434)** |
| Vesting of shares of Share Award Scheme (note c) | **9,590** | **-** | **-** | **347** | **347** |
| At 30 Jun 2008 | **1,072,417,604** | **1,073,647** | **331,425** | **(76,890)** | **1,328,182** |

(a) During the period, employee share options granted under the Pre-Listing Share Option Scheme ("Pre-Listing Scheme") and the Post-Listing Share Option Scheme ("Post-Listing Scheme") were exercised to subscribe for 3,361,500 shares (year ended 31 December 2007: 4,837,000 shares) in HKEx at an average consideration of $15.98 per share (year ended 31 December 2007: $13.66 per share), of which $1.00 per share was credited to share capital and the balance was credited to the share premium account.

**24. Share Capital, Share Premium and Shares Held for Share Award Scheme (continued)**

(b) During the period, the HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust") acquired 182,200 HKEx shares (year ended 31 December 2007: 42,500 shares) through purchases on the open market for the Share Award Scheme (note 25(c)). The total amount paid to acquire the shares during the period was $29,434,000 (year ended 31 December 2007: $4,879,000) and had been deducted from shareholders' equity.

(c) During the period, the HKEx Employee Share Trust transferred 9,590 HKEx shares (year ended 31 December 2007: 243,868 shares) to the awardees upon vesting of certain HKEx shares awarded ("Awarded Shares"). The total cost of the related vested shares was $347,000 (year ended 31 December 2007: $8,373,000).

**25. Employee Share–based Compensation Reserve**

| | **2008 $'000** | 2007 $'000 |
|---|---|---|
| At 1 Jan | **49,669** | 52,119 |
| Employee share-based compensation benefits (note a) | **16,511** | 24,362 |
| Transfer to share premium upon exercise of employee share options (note 24) | **(14,899)** | (19,013) |
| Vesting of shares of Share Award Scheme | **(280)** | (7,286) |
| Share of reserve of an associate | | |
| - during the period/year | - | 47 |
| - eliminated through disposal of associate | - | (560) |
| At 30 Jun 2008/31 Dec 2007 | **51,001** | 49,669 |

(a) Employee share-based compensation benefits represent the fair value of employee services estimated to be received in exchange for the grant of the relevant options and share awards over the relevant vesting periods, the total of which is based on the fair value of the options and share awards granted. The amount for each period is determined by spreading the fair value of the options and share awards over the relevant vesting periods and is recognised as staff costs and related expenses (note 8) with a corresponding increase in the employee share-based compensation reserve.

(b) Share options

(i) HKEx operates two share option schemes, the Pre-Listing Scheme and the Post-Listing Scheme, under which the Board may, at its discretion, offer any employee (including any Executive Director) of HKEx or its subsidiaries, options to subscribe for shares in HKEx subject to the terms and conditions stipulated in the two schemes. Both schemes were approved by the shareholders of HKEx on 31 May 2000 and have a life of 10 years until 30 May 2010. Amendments to the Post-Listing Scheme, including, inter alia, the abolition of granting options at a discounted price, were approved by the shareholders of HKEx on 17 April 2002 so as to comply with the new requirements of Chapter 17 of the Main Board Listing Rules which came into effect on 1 September 2001.

**25. Employee Share–based Compensation Reserve (continued)**

(b) Share options (continued)

(i) (continued)

The options granted under the Pre-Listing Scheme are exercisable, subject to a vesting scale which commenced on 6 March 2002 in tranches of 25 per cent each per annum and reaching 100 per cent on 6 March 2005, not later than 30 May 2010, providing the grantees remain under the employ of the Group. Share options granted under the Post-Listing Scheme are exercisable, subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and reaching 100 per cent on the fifth anniversary of the date of grant, not later than 10 years from the date of grant, providing that the grantees remain under the employ of the Group.

No share options were granted after 26 January 2005 and no further share options will be granted following the adoption of the Share Award Scheme in September 2005 (note c).

Shares are issued and allotted upon options are exercised. The Group has no legal or constructive obligations to repurchase or settle the options in cash.

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

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **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** | **379,000** | 6.88 | 788,000 |
| Exercised | **6.88** | **(249,000)** | 6.88 | (409,000) |
| Outstanding at 30 Jun 2008/ 31 Dec 2007 | **6.88** | **130,000** | 6.88 | 379,000 |
| **Post-Listing Scheme** | | | | |
| Outstanding at 1 Jan | **16.67** | **9,089,500** | 15.68 | 14,593,500 |
| Exercised | **16.71** | **(3,112,500)** | 14.28 | (4,428,000) |
| Forfeited | **18.47** | **(155,000)** | 13.01 | (1,076,000) |
| Outstanding at 30 Jun 2008/ 31 Dec 2007 | **16.61** | **5,822,000** | 16.67 | 9,089,500 |
| Total | **16.39** | **5,952,000** | 16.28 | 9,468,500 |

**25. Employee Share–based Compensation Reserve (continued)**

(c) Awarded Shares

(i) On 14 September 2005 ("Adoption Date"), the Board approved the Share Award Scheme under which Awarded Shares may be awarded to an Executive Director and employees of the Group in accordance with the terms and conditions of the Share Award Scheme. Pursuant to the rules of the Share Award Scheme, the Group has set up a trust, HKEx Employee Share Trust, for the purpose of administering the Share Award Scheme and holding the Awarded Shares before they vest. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of 15 years commencing on the Adoption Date provided that no contribution will be made by HKEx to the HKEx Employee Share Trust on or after the tenth anniversary of the Adoption Date. Awarded Shares awarded and the dividends derived therefrom are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and reaching 100 per cent on the fifth anniversary of the date of approval of the award by the Board or the date as determined by the Board at its discretion, providing that the awardees remain under the employ of the Group, save that in the case when an awardee dies, or retires at his/her normal retirement date or earlier by agreement prior to the final vesting date, all the Awarded Shares and the related income shall become fully vested on the day immediately prior to his/her death or retirement. Vested shares will be transferred at no cost to the relevant awardees.

Prior to 16 August 2006, a fixed number of HKEx shares were awarded to eligible employees which would then be acquired from the market at the cost of HKEx by the trustee of the HKEx Employee Share Trust ("Trustee"). With effect from 16 August 2006, the rules of the Share Award Scheme have been amended and the Board will thereafter approve a monetary amount for each award ("Awarded Sum") plus transaction costs to be incurred, with which the Trustee will then purchase the maximum number of board lots of HKEx shares from the market within 20 business days after receiving the Awarded Sum and transaction costs from HKEx. The Awarded Shares purchased will then be allocated to each awardee based on the monetary amount awarded to him/her, rounded down to the nearest share.

For Awarded Shares granted prior to 16 August 2006, the fair value of the Awarded Shares awarded was based on the market value of HKEx shares at award date. For Awarded Shares granted after 16 August 2006, the fair value of the Awarded Shares awarded was based on the average purchase cost per Awarded Share acquired by the Trustee from the market. The expected dividends during the vesting periods have been incorporated into the fair value.

Dividends on the Awarded Shares are used to acquire further HKEx shares and allocated to the awardees on a pro rata basis. The vesting periods of such shares are the same as those of the Awarded Shares to which the dividends relate.

## 25. Employee Share–based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

Details of the Awarded Shares awarded since the adoption of the Share Award Scheme are set out below:

| Date of approval by Board | Date of award | Awarded Sum $'000 | Number of shares purchased | Number of Awarded Shares awarded | Average fair value per share $ | Vesting period |
|---|---|---|---|---|---|---|
| 19 Dec 2005 | 19 Dec 2005 | N/A | 960,000 | 960,000 | 31.20 | 19 Dec 2007 – 19 Dec 2010 |
| 13 Dec 2006 | 15 Jan 2007 | 19,673 | 272,500 | 272,465 * | 72.28 | 13 Dec 2008 – 13 Dec 2011 |
| 14 Feb 2007 | 7 Jun 2007 | 600 | 7,000 | 7,000 | 81.33 | 16 Apr 2009 – 16 Apr 2012 |
| 15 May 2007 | 17 Jul 2007 | 600 | 5,500 | 5,500 | 102.29 | 18 Jun 2009 – 18 Jun 2012 |
| 12 Dec 2007 | 4 Feb 2008 | 26,300 | 151,000 | 150,965 | 163.72 | 12 Dec 2009 – 12 Dec 2012 |
| 18 Feb 2008 | 7 Apr 2008 | 612 | 4,200 | 4,200 Ω | 144.18 | 18 Feb 2010 – 18 Feb 2013 |

* 11,528 shares were awarded to the Chief Executive of HKEx.

Ω Awarded to the Chief Executive of HKEx.

Details of the Awarded Shares vested since the adoption of the Share Award Scheme are as follows:

| Date of award | Vesting date | Number of Awarded Shares vested | Average fair value per share $ | Cost of related Awarded Shares (including acquisition transaction costs) $'000 |
|---|---|---|---|---|
| 19 Dec 2005 | 19 Dec 2007 | 232,375 | 31.20 | 7,286 |
| 19 Dec 2005 | 30 Apr 2008 | 8,925 | 31.20 | 280 |

During the period ended 30 June 2008, 27,000 HKEx shares were acquired by the Trustee through reinvesting dividends received at a total cost (including related transaction costs) of $4,107,000, of which 25,799 shares were subsequently allocated to awardees (year ended 31 December 2007: 30,000 HKEx shares at a total cost of $3,747,000, of which 29,132 shares were subsequently allocated to awardees).

During the period ended 30 June 2008, 665 HKEx shares at a cost of $67,000 acquired from reinvesting dividends received were vested and transferred to the employees at nil consideration (year ended 31 December 2007: 11,493 HKEx shares at a cost of $1,087,000 were vested).

## 25. Employee Share–based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(ii) Movements in the number of Awarded Shares awarded and shares acquired through reinvesting dividends received were as follows:

| | **2008** Number of shares awarded/allocated | 2007 Number of shares awarded/allocated |
|---|---|---|
| Outstanding at 1 Jan | **1,024,262** | 955,906 |
| Awarded * | **155,165** # | 284,965 |
| Forfeited | **(21,145)** | (1,800) |
| Vested | **(8,925)** | (232,375) |
| Dividends reinvested: | | |
| - allocated to awardees | **25,799** | 29,132 |
| - allocated to awardees but subsequently forfeited | **(1,062)** | (73) |
| - vested | **(665)** | (11,493) |
| Outstanding at 30 Jun 2008/ 31 Dec 2007 | **1,173,429** | 1,024,262 |

* Average fair value per share of $163.19 (year ended 31 December 2007: $73.08)

\# Included 150,965 Awarded Shares purchased for the Awarded Sum of $26,300,000 approved by the Board on 12 December 2007, which were allocated to the awardees upon the completion of share purchase by the Trustee on 4 February 2008.

(iii) As at 30 June 2008, 55,813 (31 December 2007: 32,370) forfeited or unallocated shares were held by the HKEx Employee Share Trust and they would be allocated to awardees in future.

## 26. Revaluation Reserves

| | **At 30 Jun 2008 $'000** | At 31 Dec 2007 $'000 |
|---|---|---|
| Leasehold buildings revaluation reserve (notes b and c) | **-** | 3,155 |
| Investment revaluation reserve (note d) | **19,266** | 52,881 |
| | **19,266** | 56,036 |

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

(b) Following the disposal of the leasehold property held for sale (note 21), the leasehold buildings revaluation reserve relating to this property was transferred to retained earnings during the period (note 28).

(c) The remaining leasehold building held by the Group is revalued on a yearly basis at the end of December each year.

(d) Included gross investment revaluation deficit of $348,000 (31 December 2007: surplus of $496,000) which was attributable to investments of the Clearing House Funds (note 16).

## 27. Designated Reserves

Designated reserves are segregated for their respective purposes and comprised the following:

| | At 30 Jun 2008 $'000 | At 31 Dec 2007 $'000 |
|---|---|---|
| Clearing House Funds reserves | | |
| - HKSCC Guarantee Fund reserve | **273,356** | 269,635 |
| - SEOCH Reserve Fund reserve | **104,940** | 102,828 |
| - HKCC Reserve Fund reserve | **328,566** | 322,390 |
| | **706,862** | 694,853 |

## 28. Retained Earnings (Including Proposed/Declared Dividends)

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| At 1 Jan | **6,288,138** | 3,366,989 |
| Profit for the period/year (note a) | **2,974,406** | 6,169,278 |
| Surplus of net investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves | **(12,009)** | (67,037) |
| Transfer from leasehold buildings revaluation reserve on disposal of a leasehold property (note 26(b)) | **3,155** | - |
| | **(8,854)** | (67,037) |
| Dividends: | | |
| 2007/2006 final dividend | **(3,634,850)** | (1,266,387) |
| Dividend on shares issued for employee share options exercised after 31 Dec 2007/31 Dec 2006 | **(11,309)** | (3,879) |
| | **(3,646,159)** | (1,270,266) |
| 2007 interim dividend | **-** | (1,911,131) |
| Dividend on shares issued for employee share options exercised after 30 Jun 2007 | **-** | (1,062) |
| | **-** | (1,912,193) |
| Unclaimed dividend forfeited | **1,944** | 2,454 |
| Vesting of shares of Share Award Scheme | **(67)** | (1,087) |
| At 30 Jun 2008/31 Dec 2007 | **5,609,408** | 6,288,138 |
| Representing: | | |
| Retained earnings | **2,939,088** | 2,652,760 |
| Proposed/declared dividends | **2,670,320** | 3,635,378 |
| At 30 Jun 2008/31 Dec 2007 | **5,609,408** | 6,288,138 |

(a) The Group's profit for the period/year included the net investment income net of expenses of the Clearing House Funds of $12,009,000 (year ended 31 December 2007: $67,037,000).

## 29. Notes to the Condensed Consolidated Statement of Cash Flows

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

| | **Six months ended 30 Jun 2008 $'000** | Six months ended 30 Jun 2007 $'000 |
|---|---|---|
| Profit before taxation | **3,442,388** | 2,703,198 |
| Adjustments for: | | |
| Net interest income | **(591,902)** | (341,059) |
| Net realised and unrealised losses/(gains) and interest income on financial assets and financial liabilities at fair value through profit or loss | **7,213** | (107,495) |
| Realised gains on available-for-sale financial assets of Corporate Funds | **(23)** | - |
| Dividend income from financial assets at fair value through profit or loss | **(2,424)** | (4,012) |
| Amortisation of lease premiums for land | **255** | 274 |
| Fair value gain of an investment property | **-** | (1,100) |
| Depreciation | **49,938** | 42,456 |
| Employee share-based compensation benefits | **16,511** | 12,140 |
| Reversal of impairment loss of a leasehold building | **-** | (64) |
| Provision for impairment losses of trade receivables | **317** | 373 |
| Changes in provisions | **4,277** | 2,278 |
| Share of profit of an associate | **-** | (5,587) |
| Gain on disposal of an associate | **-** | (206,317) |
| Gain on disposal of properties | **(68,641)** | - |
| Loss/(gain) on disposal of fixed assets | **1** | (260) |
| Net increase in financial assets and financial liabilities at fair value through profit or loss | **(84,240)** | (15,654) |
| Settlement of amounts transferred from retained earnings to Clearing House Funds | **(12,009)** | (29,391) |
| Decrease/(increase) in accounts receivable, prepayments and deposits | **3,204,781** | (1,547,539) |
| (Decrease)/increase in other current liabilities | **(4,431,923)** | 1,438,482 |
| Net cash inflow from operations | **1,534,519** | 1,940,723 |
| Interest received from bank deposits | **347,424** | 299,176 |
| Dividends received from financial assets at fair value through profit or loss | **2,338** | 3,402 |
| Interest received from financial assets at fair value through profit or loss | **69,672** | 59,758 |
| Interest paid | **(73,211)** | (282,715) |
| Hong Kong Profits Tax paid | **(112,463)** | (60,162) |
| Net cash inflow from operating activities | **1,768,279** | 1,960,182 |

(b) The net assets of the Clearing House Funds 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 did not constitute any cash or cash equivalent transactions to the Group.

## 30. Commitments

Commitments in respect of capital expenditures:

| | **At 30 Jun 2008 $'000** | At 31 Dec 2007 $'000 |
|---|---|---|
| Contracted but not provided for | **15,279** | 33,555 |
| Authorised but not contracted for | **159,276** | 131,349 |
| | **174,555** | 164,904 |

The commitments in respect of capital expenditures were mainly for the upgrade and enhancement of trading and clearing systems, development and purchases of various other computer systems and, for 2008, office and data centre relocation.

## 31. Contingent Liabilities

As at 30 June 2008, the Group's material contingent liabilities were as follows:

(a) The Group has a contingent liability in respect of potential calls to be made by the Securities and Futures Commission ("SFC") to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding $72 million. Up to 30 June 2008, no calls had been made by the SFC in this connection.

(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 448 trading Participants as at 30 June 2008 (31 December 2007: 439) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to $89,600,000 (31 December 2007: $87,800,000).

The carrying amount of the financial guarantee contract recognised in the condensed consolidated statement of financial position was $19,909,000 (31 December 2007: $19,909,000).

(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.

## 32. Non-cash Collateral for Clearing House Fund Contributions and Margin Fund Obligations for Derivatives Contracts

Under existing rules of the clearing houses, Participants may lodge cash or approved non-cash collateral to satisfy their Clearing House Fund contributions and Margin Fund obligations for derivatives contracts. In accordance with HKAS 39, only cash collateral is recognised as assets and liabilities on the condensed consolidated statement of financial position.

As at 30 June 2008, the amount of non-cash collateral received from Participants and the amount utilised for covering part of their Clearing House Fund contributions and Margin Fund obligations for derivatives contracts were as follows:

| | **At 30 Jun 2008** | | At 31 Dec 2007 | |
|---|---|---|---|---|
| | **Amount received $'000** | **Amount utilised $'000** | Amount received $'000 | Amount utilised $'000 |
| **Clearing House Funds** | | | | |
| Bank guarantees | **1,300,430** | **155,555** | 1,759,650 | 519,137 |
| **Margin Funds** | | | | |
| Equity securities, listed in Hong Kong, at market value | **3,914,135** | **932,040** * | 1,847,054 | - * |
| US Treasury Bills, at market value | **6,200,030** | **4,541,291** | 8,672,944 | 5,935,238 |
| Bank guarantees | **770,000** | **458,244** | 854,000 | 607,930 |
| | **10,884,165** | **5,931,575** | 11,373,998 | 6,543,168 |
| | **12,184,595** | **6,087,130** | 13,133,648 | 7,062,305 |

* Certain equity securities received were used to cover call options issued by SEOCH Participants whose underlying stocks were the same as the collateral received. Under the Operational Clearing Procedures for Options Trading Exchange Participants of SEOCH, such call options issued are not marginable positions (ie, no margin requirements). Hence, the amount is not treated as having been utilised for covering Margin Fund obligations. As at 30 June 2008, $875,989,000 (31 December 2007: $1,307,776,000) of equity securities were received for such purpose (including those amounts decovered but not yet released of $54,675,000 (31 December 2007: $23,066,000)).

## 33. Material Related Party Transactions

Certain Directors of HKEx may be 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/or (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, 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) Transactions with an associate

| | **Six months ended 30 Jun 2008 $'000** | Six months ended 30 Jun 2007 $'000 | **Three months ended 30 Jun 2008 $'000** | Three months ended 30 Jun 2007 $'000 |
|---|---|---|---|---|
| Income received and receivable from/(expenses paid and payable to) an associate, CHIS | | | | |
| - Dividend income | **-** | 9,660 | **-** | 2,160 |
| - Share registration service fees | **-** | (396) | **-** | (1) |

On 3 April 2007, the Group disposed of all of its interest in CHIS. The dividend income and share registration service fees for the six months and three months ended 30 June 2007 disclosed above represented transactions up to that date.

(b) Key management personnel compensation

| | **Six months ended 30 Jun 2008 $'000** | Six months ended 30 Jun 2007 $'000 | **Three months ended 30 Jun 2008 $'000** | Three months ended 30 Jun 2007 $'000 |
|---|---|---|---|---|
| Salaries and other short-term employee benefits | **41,143** | 34,533 | **20,371** | 18,347 |
| Employee share-based compensation benefits | **6,355** | 4,273 | **3,856** | 2,108 |
| Retirement benefit costs | **3,184** | 2,792 | **1,638** | 1,448 |
| | **50,682** | 41,598 | **25,865** | 21,903 |

(c) Post-retirement benefit plans

Details of transactions with the Group's post-retirement benefit plans are included in note 8.

(d) Save as aforesaid, the Group has entered into other transactions in the ordinary course of business with companies that are related parties but the amounts were immaterial.

## 34. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, equity price risk and interest rate risk), liquidity risk and credit 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.

(a) Market risk

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity and commodity prices and interest rates. The Group is exposed to market risk primarily through its investments held.

Funds available for investment comprise 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).

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 and manage risks while optimising return on investments.

Investment and fund management is governed by investment policy and risk management guidelines 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 risks (eg, permissible asset type, asset allocation, liquidity, credit, counterparty concentration, maturity, foreign exchange and interest rate risks) of the investments.

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 and Administration Division is dedicated to the day-to-day management and investment of the funds. External fund managers have also been appointed to manage part of the Corporate Funds since July 2001. The external fund managers are stable and financially strong financial institutions and each has a worldwide aggregate fund size of a minimum of US$10 billion under management.

(i) Foreign exchange risk

Foreign exchange risk is the risk that the value of an asset, liability or highly probable forecast transaction denominated in foreign currency will fluctuate because of changes in foreign exchange rates. 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 cash and bank deposits have been used to hedge the currency exposure of the Group's non-HKD investments, highly probable forecast transactions and liabilities to mitigate risks arising from fluctuations in exchange rates.

**34. Financial Risk Management (continued)**

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The investment in non-HKD securities is governed by the Group's investment policy and subject to the following restrictions:

- up to 20 per cent of the Corporate Funds may be invested in non-HKD or non-USD investments after hedging;
- only USD investments are permitted for the Clearing House Funds; and
- foreign currency investments or deposits of the Margin Funds are permitted to the extent that they fully match the liabilities of the respective currencies, except up to 25 per cent of the HKD liabilities may be invested in USD deposits for a maximum maturity of two weeks.

As at 30 June 2008, the aggregate net open foreign currency positions amounted to HK$2,159 million, of which HK$147 million were non-USD exposures (31 December 2007: HK$4,727 million, of which HK$210 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK$3,132 million (31 December 2007: HK$2,926 million). All forward foreign exchange contracts would mature within two months (31 December 2007: two months).

(ii) Equity and commodity price risk

The Group is exposed to equity price risk as equities and index futures and options contracts 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.

(iii) Interest rate risks

There are two types of interest rate risk:

- Fair value interest rate risk - the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and
- Cash flow interest rate risk - the risk that the 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 as the Group has significant assets and liabilities which are interest-bearing.

## 34. Financial Risk Management (continued)

(a) Market risk (continued)

(iv) Risk management

Risk management techniques, such as Value-at-Risk ("VaR") based on historical simulation and portfolio stress testing, are used to identify, measure and control foreign exchange risk, equity price risk and interest rate risks of the Group's investments. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (one year is used by the Group). The Board sets a limit on total VaR of the Group and VaR is monitored on a weekly basis.

VaR is a statistical measure of risks and has limitations associated with the assumptions employed. Historical simulation assumes that actual observed historical changes in market indices, such as interest rates, foreign exchange rates and equity prices, reflect possible future changes. This implies that the approach is vulnerable to sudden changes in market behaviour. The use of a 10-day holding period assumes that the positions can be unwound in 10 trading days and the holding period may be insufficient at times of severe illiquidity. Also, VaR does not necessarily reflect all aspects of risks that affect the price of financial instruments and may underestimate real market risk exposure. In addition, VaR does not factor in the possibility of catastrophic risk but the use of stress testing for abnormal market conditions can mitigate this limitation.

The VaR for each risk factor and the total VaR of the investments of the Group during the period were as follows:

| | **Six months ended 30 Jun 2008** | | | Six months ended 30 Jun 2007 | | |
|---|---|---|---|---|---|---|
| | **Average $'000** | **Highest $'000** | **Lowest $'000** | Average $'000 | Highest $'000 | Lowest $'000 |
| Foreign exchange risk | **6,178** | **7,480** | **5,175** | 4,758 | 6,094 | 3,566 |
| Equity price risk | **13,632** | **16,499** | **12,166** | 13,691 | 15,636 | 11,486 |
| Interest rate risk | **33,457** | **40,093** | **27,290** | 16,658 | 18,724 | 13,703 |
| Total VaR | **31,016** | **37,025** | **25,135** | 24,825 | 27,446 | 21,423 |

VaR for each risk factor is the independently derived largest potential loss due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors. Moreover, in respect of the highest and lowest VaRs during the period, the highest and lowest VaRs in each market did not necessarily occur on the same day.

**34. Financial Risk Management (continued)**

(b) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. Investments of the Group are kept sufficiently liquid to meet the operating needs and possible liquidity requirements of the Clearing House Funds and Margin Funds. The Group also sets a limit on the minimum level of cash or bank deposits held for the Corporate Funds, and the minimum level of investments to be held that would mature the same day and the next day for the Clearing House Funds and Margin Funds.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. In addition, banking facilities have been put in place for contingency purposes. As at 30 June 2008, the Group's total available banking facilities amounted to \$3,058 million (31 December 2007: \$3,058 million), of which \$3,000 million (31 December 2007: \$3,000 million) were repurchase facilities to augment the liquidity of the Margin Funds.

(c) 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. It arises primarily from the Group's investments and trade receivables. Impairment provisions are made for losses that have been incurred at the end of the reporting period. The Group limits its exposure to credit risk by rigorously selecting the counterparties (ie, deposit-takers, bond issuers and debtors) and by diversification. As at 30 June 2008, the bonds held were of investment grade and had a weighted average credit rating of Aa1 (31 December 2007: Aa1), and there were no financial assets whose terms were renegotiated (31 December 2007: \$Nil). Deposits are placed only with the note-issuing banks in Hong Kong, 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 approved by the Board and there was no significant concentration risk to a single counterparty. The Group mitigates its exposure to risks relating to accounts receivable 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 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.

## 34. Financial Risk Management (continued)

(c) Credit risk (continued)

(ii) Clearing and settlement-related risk (continued)

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.

Position limits are imposed by HKCC and SEOCH 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 2008, bank guarantees of $5,097,200,000 (31 December 2007: $5,509,200,000) were accepted for such purpose.

In addition to the above, the Group has set aside $3,100 million (31 December 2007: $3,100 million) of shareholders' funds for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

(iii) Financial assets that were past due but not impaired

As at 30 June 2008, the age analysis of the trade receivables of the Group that were past due but not determined to be impaired according to the period past due was as follows:

| | **At 30 Jun 2008 $'000** | At 31 Dec 2007 $'000 |
|---|---|---|
| Up to 6 months | **80,612** | 271,196 |
| Over 6 months to 1 year | **195** | 1 |
| Over 1 year to 3 years | **2** | 2 |
| Over 3 years* | **8,651** | 8,651 |
| Total | **89,460** | 279,850 |

* No provision for impairment losses has been made against trade receivables amounting to $8,510,000 (31 December 2007: $8,510,000) as the balances can be recovered from the Clearing House Funds.

The fair value of cash deposits placed by the related trade debtors with the Group was $11,350,000 (31 December 2007: $12,643,000).

## 34. Financial Risk Management (continued)

(c) Credit risk (continued)

(iv) Financial assets that were impaired at the end of the reporting period

As at 30 June 2008, trade receivables of the Group amounting to $2,805,000 (31 December 2007: $4,608,000) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days as at the end of the reporting period or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired were disclosed in the 2007 annual accounts. No cash deposits had been placed by the related trade debtors with the Group (31 December 2007: $Nil).

(v) Outstanding balances from debtors which were not recognised as income

As soon as a loan or receivable becomes impaired, the Group may continue to provide services or facilities to the debtors concerned but no further accounts receivable will be recognised on the condensed consolidated statement of financial position as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when cash is received. As at 30 June 2008, the amount of doubtful deferred revenue amounted to $35,091,000 (31 December 2007: $48,955,000).

## 35. Comparative Figures

Certain comparative figures have been adjusted to conform with changes in presentation in the current period.