**(Stock Code: 388)**

# Consolidated Financial Statements

# For the year ended 31 December 2007

# CONSOLIDATED INCOME STATEMENT
# FOR THE YEAR ENDED 31 DECEMBER 2007

(Financial figures are expressed in Hong Kong Dollar)

| | Note | **2007 $'000** | 2006 $'000 |
|---|---|---|---|
| **INCOME** | | | |
| Trading fees and trading tariff | 4 | **3,086,250** | 1,340,355 |
| Stock Exchange listing fees | 5 | **688,538** | 465,445 |
| Clearing and settlement fees | | **1,577,433** | 674,373 |
| Depository, custody and nominee services fees | | **627,103** | 376,118 |
| Income from sale of information | | **678,909** | 391,213 |
| Net investment income | 6 | **1,238,228** | 601,080 |
| Other income | 7 | **494,009** | 298,332 |
| | 3 | **8,390,470** | 4,146,916 |
| **OPERATING EXPENSES** | | | |
| Staff costs and related expenses | 8 | **827,116** | 654,806 |
| Information technology and computer maintenance expenses | 9 | **207,422** | 218,608 |
| Premises expenses | | **132,244** | 119,167 |
| Product marketing and promotion expenses | | **14,054** | 11,270 |
| Legal and professional fees | | **27,185** | 7,996 |
| Depreciation | | **79,144** | 99,888 |
| Other operating expenses | 10 | **124,400** | 98,838 |
| | 3 | **1,411,565** | 1,210,573 |
| **OPERATING PROFIT** | 3 | **6,978,905** | 2,936,343 |
| **GAIN ON DISPOSAL OF AN ASSOCIATE** | 3/20(c) | **206,317** | - |
| **SHARE OF PROFITS OF ASSOCIATES** | 3/20(a) | **5,587** | 27,124 |
| **PROFIT BEFORE TAXATION** | 3/11 | **7,190,809** | 2,963,467 |
| **TAXATION** | 14(a) | **(1,021,531)** | (444,898) |
| **PROFIT ATTRIBUTABLE TO SHAREHOLDERS** | 39 | **6,169,278** | 2,518,569 |
| Earnings per share | | | |
| Basic | 16(a) | **$5.78** | $2.37 |
| Diluted | 16(b) | **$5.72** | $2.34 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2007

(Financial figures are expressed in Hong Kong Dollar)

| | **2007** **$'000** | 2006 $'000 |
|---|---|---|
| Profit attributable to shareholders | **6,169,278** | 2,518,569 |
| Other comprehensive income: | | |
| Available-for-sale financial assets: | | |
| Change in fair value | **63,421** | 31,356 |
| Realisation of change in fair value on maturity and disposal | **(9,951)** | 17,941 |
| Deferred tax arising from change in fair value | **(8,460)** | (2,094) |
| | **45,010** | 47,203 |
| Cash flow hedges: | | |
| Fair value gains of hedging instruments | **132** | 475 |
| Less: Reclassification adjustments: | | |
| Gains reclassified to profit or loss as information technology and computer maintenance expenses | **(70)** | (475) |
| Gains reclassified to profit or loss as net investment income | **(62)** | - |
| | **-** | - |
| Leasehold buildings: | | |
| Change in valuation | **(44)** | 502 |
| Deferred tax arising from change in valuation | **7** | (87) |
| Deferred tax arising from reclassification of a leasehold building to "Non-current assets held for sale" | **552** | - |
| | **515** | 415 |
| Share of other comprehensive income of an associate | **-** | 37 |
| Less: reclassified to profit or loss on disposal of associate | **(58)** | - |
| | **(58)** | 37 |
| Other comprehensive income attributable to shareholders, net of tax | **45,467** | 47,655 |
| Total comprehensive income attributable to shareholders | **6,214,745** | 2,566,224 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
# FOR THE YEAR ENDED 31 DECEMBER 2007

(Financial figures are expressed in Hong Kong Dollar)

| | Share capital, share premium and shares held for Share Award Scheme (note 33) $'000 | Employee share-based compensation reserve (note 34) $'000 | Other comprehensive income: Revaluation reserves (note 35) $'000 | Other comprehensive income: Hedging reserve (note 36) $'000 | Designated reserves (note 37) $'000 | Retained earnings (note 39) $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| At 1 Jan 2006, as previously reported | 1,183,132 | 34,980 | (37,086) | - | 700,641 | 2,455,804 | 4,337,471 |
| Effect of reclassification of Compensation Fund Reserve Account ("CFRA") | - | - | - | - | (38,420) | 38,420 | - |
| At 1 Jan 2006, as restated | 1,183,132 | 34,980 | (37,086) | - | 662,221 | 2,494,224 | 4,337,471 |
| Total comprehensive income attributable to shareholders | - | - | 47,655 | - | - | 2,518,569 | 2,566,224 |
| 2005 final dividend at $0.64 per share | - | - | - | - | - | (680,588) | (680,588) |
| 2006 interim dividend at $0.94 per share | - | - | - | - | - | (1,000,307) | (1,000,307) |
| Unclaimed dividend forfeited | - | - | - | - | - | 686 | 686 |
| Shares issued under employee share option schemes | 30,895 | - | - | - | - | - | 30,895 |
| Shares purchased for Share Award Scheme | (21,269) | - | - | - | - | - | (21,269) |
| Employee share-based compensation benefits | - | 24,033 | - | - | - | - | 24,033 |
| Share of reserve of an associate | - | 441 | - | - | - | - | 441 |
| Transfer of reserves | 7,335 | (7,335) | - | - | (34,405) | 34,405 | - |
| At 31 Dec 2006, as restated | 1,200,093 | 52,119 | 10,569 | - | 627,816 | 3,366,989 | 5,257,586 |
| 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 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 | - | - | **45,467** | - | - | **6,169,278** | **6,214,745** |
| 2006 final dividend at $1.19 per share | - | - | - | - | - | **(1,270,266)** | **(1,270,266)** |
| 2007 interim dividend at $1.79 per share | - | - | - | - | - | **(1,912,193)** | **(1,912,193)** |
| Unclaimed dividend forfeited | - | - | - | - | - | **2,454** | **2,454** |
| Shares issued under employee share option schemes | **66,052** | - | - | - | - | - | **66,052** |
| Shares purchased for Share Award Scheme | **(4,879)** | - | - | - | - | - | **(4,879)** |
| Vesting of shares of Share Award Scheme | **8,373** | **(7,286)** | - | - | - | **(1,087)** | - |
| Employee share-based compensation benefits | - | **24,362** | - | - | - | - | **24,362** |
| Share of reserve of an associate: | | | | | | | |
| - during the year | - | **47** | - | - | - | - | **47** |
| - eliminated through disposal of associate | - | **(560)** | - | - | - | - | **(560)** |
| Transfer of reserves | **19,013** | **(19,013)** | - | - | **67,037** | **(67,037)** | - |
| At 31 Dec 2007 | **1,288,652** | **49,669** | **56,036** | **-** | **694,853** | **6,288,138** | **8,377,348** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Financial figures are expressed in Hong Kong Dollar)

| | Note | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Fixed assets | 17(a) | **317,065** | 210,161 |
| Investment property | 18 | **-** | 19,300 |
| Lease premiums for land | 19 | **60,708** | 93,575 |
| Investment in an associate | 20 | **-** | 68,377 |
| Clearing House Funds | 21 | **2,192,204** | 2,270,531 |
| Available-for-sale financial assets | 22 | **25,270** | - |
| Time deposit with maturity over one year | | **-** | 38,886 |
| Deferred tax assets | 31(e) | **3,610** | 3,330 |
| Other financial assets | | **19,177** | 18,583 |
| Other assets | | **3,212** | 3,212 |
| | | **2,621,246** | 2,725,955 |
| **CURRENT ASSETS** | | | |
| Accounts receivable, prepayments and deposits | 23 | **18,364,129** | 10,201,562 |
| Lease premiums for land | 19 | **509** | 548 |
| Tax recoverable | | **148** | - |
| Margin Funds on derivatives contracts | 24 | **55,428,888** | 21,666,474 |
| Financial assets at fair value through profit or loss | 25 | **2,996,555** | 2,878,224 |
| Available-for-sale financial assets | 22 | **3,041,737** | 582,122 |
| Time deposits with original maturities over three months | | **682,174** | 185,611 |
| Cash and cash equivalents | | **4,744,711** | 2,223,910 |
| | | **85,258,851** | 37,738,451 |
| Non-current assets held for sale | 27 | **64,092** | - |
| | | **85,322,943** | 37,738,451 |
| **CURRENT LIABILITIES** | | | |
| Margin deposits from Clearing Participants on derivatives contracts | 24 | **55,428,888** | 21,666,474 |
| Accounts payable, accruals and other liabilities | 28 | **21,375,909** | 11,118,308 |
| Financial liabilities at fair value through profit or loss | 26 | **6,149** | 7,505 |
| Participants' admission fees received | 29 | **3,050** | 1,700 |
| Deferred revenue | | **375,174** | 318,468 |
| Taxation payable | | **687,726** | 287,368 |
| Provisions | 30(a) | **29,630** | 26,712 |
| | | **77,906,526** | 33,426,535 |
| **NET CURRENT ASSETS** | | **7,416,417** | 4,311,916 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **10,037,663** | 7,037,871 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)**

| | Note | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Participants' admission fees received | 29 | **82,550** | 79,750 |
| Participants' contributions to Clearing House Funds | 21 | **1,496,855** | 1,642,495 |
| Deferred tax liabilities | 31(e) | **36,873** | 14,003 |
| Financial guarantee contract | 42(a)(ii) | **19,909** | 19,909 |
| Provisions | 30(a) | **24,128** | 24,128 |
| | | **1,660,315** | 1,780,285 |
| **NET ASSETS** | | **8,377,348** | 5,257,586 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 33 | **1,070,285** | 1,065,448 |
| Share premium | 33 | **266,170** | 185,942 |
| Shares held for Share Award Scheme | 33 | **(47,803)** | (51,297) |
| Employee share-based compensation reserve | 34 | **49,669** | 52,119 |
| Revaluation reserves | 35 | **56,036** | 10,569 |
| Designated reserves | 37 | **694,853** | 627,816 |
| Retained earnings | 39 | **6,288,138** | 3,366,989 |
| **SHAREHOLDERS' FUNDS** | | **8,377,348** | 5,257,586 |
| **SHAREHOLDERS' FUNDS PER SHARE** | | **$7.83** | $4.94 |

Approved by the Board of Directors on 5 March 2008

**Ronald Joseph ARCULLI**
Director

**CHOW Man Yiu, Paul**
Director

# HONG KONG EXCHANGES AND CLEARING LIMITED
# STATEMENT OF FINANCIAL POSITION
(Financial figures are expressed in Hong Kong Dollar)

| | Note | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Fixed assets | 17(b) | **19,206** | 17,482 |
| Investments in subsidiaries | 32(a) | **4,156,588** | 4,156,588 |
| Contributions to HKEx Employee Share Trust | 32(d) | **43,635** | 49,825 |
| Deferred tax assets | 31(e) | **3,610** | 3,330 |
| Other financial assets | | **481** | 483 |
| Other assets | | **3,089** | 3,089 |
| | | **4,226,609** | 4,230,797 |
| **CURRENT ASSETS** | | | |
| Accounts receivable, prepayments and deposits | 23 | **17,136** | 9,758 |
| Amounts due from subsidiaries | 32(b) | **1,171,921** | 1,020,858 |
| Time deposits with original maturities over three months | | **46,880** | 29,089 |
| Cash and cash equivalents | | **20,184** | 41,656 |
| | | **1,256,121** | 1,101,361 |
| **CURRENT LIABILITIES** | | | |
| Accounts payable, accruals and other liabilities | 28 | **167,044** | 104,491 |
| Amounts due to subsidiaries | 32(b) | **522,218** | 498,224 |
| Taxation payable | | **12,982** | 13,054 |
| Provisions | 30(b) | **29,630** | 26,712 |
| | | **731,874** | 642,481 |
| **NET CURRENT ASSETS** | | **524,247** | 458,880 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **4,750,856** | 4,689,677 |
| **NON-CURRENT LIABILITIES** | | | |
| Provisions | 30(b) | **575** | 575 |
| Financial guarantee contract | 42(b)(i) | **11,390** | 11,390 |
| | | **11,965** | 11,965 |
| **NET ASSETS** | | **4,738,891** | 4,677,712 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 33 | **1,070,285** | 1,065,448 |
| Share premium | 33 | **266,170** | 185,942 |
| Employee share-based compensation reserve | 34 | **49,669** | 51,606 |
| Merger reserve | 38 | **2,997,115** | 2,997,115 |
| Retained earnings | 39 | **355,652** | 377,601 |
| **SHAREHOLDERS' FUNDS** | | **4,738,891** | 4,677,712 |
| **SHAREHOLDERS' FUNDS PER SHARE** | | **$4.43** | $4.39 |

Approved by the Board of Directors on 5 March 2008

**Ronald Joseph ARCULLI**
Director

**CHOW Man Yiu, Paul**
Director

# CONSOLIDATED STATEMENT OF CASH FLOWS
# FOR THE YEAR ENDED 31 DECEMBER 2007

(Financial figures are expressed in Hong Kong Dollar)

| | Note | **2007 $'000** | 2006 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net cash inflow from operating activities | 40(a) | **7,644,184** | 2,868,284 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for purchases of fixed assets | | **(68,727)** | (60,269) |
| Proceeds from sales of fixed assets | | **262** | 385 |
| Net proceeds from disposal/liquidation of associates | | **270,050** | 1,312 |
| Dividends received from an associate | | **9,660** | 27,784 |
| Increase in time deposits with original maturities more than three months | | **(457,677)** | (69,107) |
| Net increase in available-for-sale financial assets of the Corporate Funds | | **(2,432,136)** | (560,279) |
| Interest received from available-for-sale financial assets | | **653,307** | 289,202 |
| Net cash outflow from investing activities | | **(2,025,261)** | (370,972) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares under employee share option schemes | | **66,052** | 30,895 |
| Purchases of shares for Share Award Scheme | | **(4,879)** | (21,269) |
| Net admission fees received from/(refunded to) Participants | | **4,150** | (1,250) |
| Dividends paid | | **(3,163,445)** | (1,671,151) |
| Net cash outflow from financing activities | | **(3,098,122)** | (1,662,775) |
| **Net increase in cash and cash equivalents** | | **2,520,801** | 834,537 |
| Cash and cash equivalents at 1 Jan, as previously reported | | **2,215,257** | 1,359,133 |
| Effect of reclassification of CFRA | | **8,653** | 30,240 |
| **Cash and cash equivalents at 31 Dec** | | **4,744,711** | 2,223,910 |
| **Analysis of cash and cash equivalents** | | | |
| Time deposits with original maturities within three months | | **1,774,729** | 1,388,342 |
| Cash at bank and in hand | | **2,969,982** | 835,568 |
| **Cash and cash equivalents at 31 Dec** | | **4,744,711** | 2,223,910 |

# NOTES TO THE CONSOLIDATED ACCOUNTS

(Financial figures are expressed in Hong Kong Dollar)

## 1. General Information

Hong Kong Exchanges and Clearing Limited ("HKEx") and its subsidiaries (collectively, "the Group") own and operate the only stock exchange and futures exchange in Hong Kong and their related clearing houses.

HKEx is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is 12th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

These consolidated accounts were approved for issue by the Board of Directors ("Board") on 5 March 2008.

## 2. Principal Accounting Policies

### (a) Statement of compliance

These consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have been aligned with the requirements of International Financial Reporting Standards in all material respects as at 31 December 2007, accounting principles generally accepted in Hong Kong, requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Main Board Listing Rules").

### (b) Basis of preparation

These consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of leasehold buildings, investment properties, available-for-sale financial assets and financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

<u>Early adoption of new/revised HKFRSs</u>

In the fourth quarter of 2007, the Group early adopted all new/ revised HKFRSs issued up to 31 December 2007 which were pertinent to its operations where early adoption was permitted. The applicable HKFRSs are set out below:

| | |
|---|---|
| HKAS 1 Revised | Presentation of Financial Statements |
| HKAS 23 Revised | Borrowing Costs |
| HKFRS 8 | Operating Segments |
| HK(IFRIC)-Int 11 | HKFRS 2- Group and Treasury Share Transactions |

The early adoption of these HKFRSs does not have any financial impact to the Group's accounting policies.

**2. Principal Accounting Policies (continued)**

**(b) Basis of preparation (continued)**

Early adoption of new/revised HKFRSs (continued)

HKAS 1 Revised affects certain disclosures of the financial statements. Under the revised standard, the Profit and Loss Account is renamed as the "Income Statement", the Balance Sheet is renamed as the "Statement of Financial Position" and the Cash Flow Statement is renamed as the "Statement of Cash Flows". All income and expenses arising from transactions with non-owners (ie, the non-owner movements of equity) are presented under the "Income Statement" and "Statement of Comprehensive Income", and the total carried to the "Statement of Changes in Equity", while the owner changes in equity are presented in the "Statement of Changes in Equity".

HKAS 23 Revised removes the option to expense borrowing costs and requires the reporting entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (ie, an asset that necessarily takes a substantial period of time to get ready for its intended use or sale). The revisions to HKAS 23 did not have any financial impact to the Group in 2007 or prior years because the Group did not incur any borrowing costs on qualifying assets.

HKFRS 8 supersedes HKAS 14: Segment Reporting, and requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision-makers in order to allocate resources to the segment and to assess its performance. As the business segments reported by the Group in accordance with the requirements of HKAS 14 are the same as the operating segments provided to chief operating decision-makers as required by HKFRS 8, there are no changes to the operating segments and the results of operating segments on the adoption of HKFRS 8.

HK(IFRIC)-Int 11 (the "interpretation") requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. The adoption of HK(IFRIC)-Int 11 does not have any financial impact to the Group as the Group's accounting policies already comply with the interpretation.

All relevant changes in accounting policies and disclosures have been made in accordance with the provisions of the respective standards, which require retrospective application to prior year comparatives.

Reclassification of Compensation Fund Reserve Account ("CFRA")

In previous years, certain assets of the Group had been earmarked for meeting potential calls for replenishment of the Unified Exchange Compensation Fund ("Compensation Fund") by the Securities and Futures Commission ("SFC") and shown separately under the caption "Compensation Fund Reserve Account" in the consolidated statement of financial position. As the amounts involved are not material, these assets have now been classified to their relevant categories on the consolidated statement of financial position.

Effects of HKFRSs that were issued after 31 December 2007 and up to the date of approval of the consolidated accounts

Subsequent to 31 December 2007 and up to the date of approval of these consolidated accounts, the HKICPA has issued consequential amendments to HKFRSs arising from issuance of new standards, new interpretations or amendments to existing standards. There is no financial impact to the Group's consolidated accounts on the adoption of such consequential amendments.

## 2. Principal Accounting Policies (continued)

### (c) Consolidation

The Group has adopted merger accounting in the preparation of the consolidated accounts at the time of the merger of the Group in 2000. The consolidated accounts include the accounts of HKEx and all of its subsidiaries made up to 31 December.

(i) Subsidiaries and controlled special purpose entities

Subsidiaries and controlled special purpose entities are entities over which HKEx, directly or indirectly, has the power to govern the financial and operating policies generally accompanying a holding of more than one half of the voting rights or issued share capital.

The accounts of subsidiaries and controlled special purpose entities are included in the consolidated accounts from the date on which control commences until the date that control ceases. All material intra-group transactions and balances have been eliminated on consolidation.

In HKEx's statement of financial position, investments in subsidiaries and contributions to The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust"), a controlled special purpose entity, are stated at cost less provision for any impairment, if necessary. The results of subsidiaries are accounted for by HKEx on the basis of dividends received and receivable.

(ii) Associates

Associates are all entities, not being subsidiaries nor interests in joint ventures, in which the Group has significant influence generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights.

Investments in associates are accounted for in the consolidated accounts under the equity method, except when the investment is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 - Non-current Assets Held for Sale and Discontinued Operations (note 2(t)). Under the equity method, the Group's share of its associates' post acquisition profits or losses is recognised in the consolidated income statement, and its share of the associates' post-acquisition other comprehensive income is recognised in other comprehensive income. The consolidated statement of financial position includes the Group's share of the net assets of associates and goodwill (net of accumulated impairment losses).

Gains arising from disposal of investment in associates are recognised in the consolidated income statement.

### (d) 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 disclosed as **Income** in the consolidated income statement.

## 2. Principal Accounting Policies (continued)

### (e) Revenue recognition

Income is recognised in the consolidated income statement on the following basis:

(i) Trading fees and trading tariff on securities and options traded on the Stock Exchange and trading fees on derivatives contracts traded on the Futures Exchange are recognised on a trade date basis.

(ii) Initial listing fees for initial public offering ("IPO") are recognised upon the listing of an applicant, cancellation of the application or six months after submission of the application, whichever is earlier. Initial listing fees for warrants, callable bull/bear contracts and other securities are recognised upon the listing of the securities. Income from annual listing fees is recognised on a straight-line basis over the period covered by the respective fees received in advance.

(iii) Settlement fees on derivatives contracts traded on the Futures Exchange are recognised on the official final settlement day.

(iv) Fees for clearing and settlement of trades between Participants in eligible securities transacted on the Stock Exchange are recognised in full on T+1, ie, on the day following the trade day, upon acceptance of the trades. Fees for other settlement transactions are recognised upon completion of the settlement.

(v) Custody fees for securities held in the Central Clearing and Settlement System ("CCASS") depository are calculated and accrued on a monthly basis. Income on registration and transfer fees on nominee services are calculated and accrued on the book close dates of the relevant stocks during the financial year.

(vi) Income from sale of information and other fees are recognised when the related services are rendered.

(vii) Interest income on investments represents gross interest income from bank deposits and securities and is recognised on a time apportionment basis using the effective interest method.

(viii) When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rates of the instrument, and continues unwinding the discount as interest income included under Other Income. Interest income on impaired loans is recognised using the original effective interest rate.

(ix) Dividend income is recognised when the right to receive payment is established.

(x) Rental income is recognised on an accrual basis.

### (f) Interest expenses

Interest expenses are recognised on a time apportionment basis, taking into account the principal outstanding and the applicable interest rates using the effective interest method. Interest expenses on the acquisition of qualifying assets are capitalised. All other interest expenses are charged to profit or loss in the year in which they are incurred.

**2. Principal Accounting Policies (continued)**

**(g) Employee benefit costs**

(i) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

(ii) Equity compensation benefits

For share options granted under the Post-Listing Share Option Scheme ("Post-Listing Scheme") and HKEx's shares ("Awarded Shares") granted under the Employees' Share Award Scheme ("Share Award Scheme"), the fair value of the employee services received in exchange for the grant of the options and the Awarded Shares is recognised as an expense and credited to an employee share-based compensation reserve under equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, and Awarded Shares awarded and purchased with contributions paid to the HKEx Employee Share Trust.

At the end of each reporting period, the Group revises its estimates of the number of options and Awarded Shares that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the employee share-based compensation reserve.

Share options granted under the Pre-Listing Share Option Scheme ("Pre-Listing Scheme") are not expensed as the options were granted before 7 November 2002 and not subject to requirements of HKFRS 2: Share-based Payment.

When the options are exercised, the proceeds received are credited to share capital (nominal value) and share premium, and the associated amount in the employee share-based compensation reserve, if any, is transferred to share premium.

When the Awarded Shares purchased with contributions paid to the HKEx Employee Share Trust are vested, the related cost of the vested shares is released from the employee shared-based compensation reserve to eliminate the related amount of "Shares held for Share Award Scheme" (note 2 (ac)).

(iii) Retirement benefit costs

Contributions to the defined contribution provident fund regulated under the Occupational Retirement Schemes Ordinance ("ORSO") and operated by the Group and the AIA-JF Premium MPF Scheme are expensed as incurred. Forfeited contributions of the provident fund in respect of employees who leave before the contributions are fully vested are not used to offset existing contributions but are credited to a reserve account of that provident fund. Reserves of the provident fund representing forfeited employer's contributions are available for distribution to the provident fund members at the discretion of the trustees. Assets of the provident fund and the AIA-JF Premium MPF Scheme are held separately from those of the Group and are independently administered.

**(h) Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases net of any incentives received from the leasing company are charged to profit or loss on a straight-line basis over the lease term.

**2. Principal Accounting Policies (continued)**

**(i) Fixed assets**

The building component of owner-occupied leasehold properties is stated at valuation less accumulated depreciation, except when the property is reclassified as held for sale, in which case no further revaluation and depreciation are required and it is accounted for in accordance with HKFRS 5 (note 2(t)). Fair value is determined by the Directors based on independent valuations which are performed periodically. The valuations are on the basis of depreciated replacement cost and are performed with sufficient regularity that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period. Depreciated replacement cost is used since open market value cannot be reliably allocated to the building component. The Directors review the carrying value of the leasehold buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are recognised in other comprehensive income and credited to the leasehold buildings revaluation reserve. Decreases in valuation are recognised in other comprehensive income and debited to the leasehold buildings revaluation reserve to the extent of any credit balance existing in the leasehold buildings revaluation reserve in respect of the same property and are thereafter charged to profit or loss. Any subsequent increases are credited to profit or loss up to the amount previously charged and thereafter to leasehold buildings revaluation reserve.

Other tangible fixed assets are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Tangible fixed assets are depreciated at rates sufficient to write off their costs net of expected residual values over their estimated useful lives on a straight-line basis. The residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The useful lives of major categories of fixed assets are as follows:

| | |
|---|---|
| Leasehold buildings | 25 years |
| Leasehold improvements | Over the remaining life of the leases but not exceeding 5 years |
| Computer trading and clearing systems - hardware and software | 5 years |
| Other computer hardware and software | 3 years |
| Furniture and equipment | Up to 5 years |
| Motor vehicles | 3 years |

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 2(m)).

Qualifying software system development expenditures are capitalised and recognised as a fixed asset as the software forms an integral part of the hardware on which it operates. The expenditures comprise all qualifying direct and allocated expenses attributable to the development of distinct major computer systems.

Qualifying development expenditures incurred after the completion of a system are added to the carrying amount of the related asset when it is probable that future economic benefits that are attributable to the asset will flow to the Group. All other subsequent expenditures are recognised as non-qualifying expenditures.

**2. Principal Accounting Policies (continued)**

**(i) Fixed assets (continued)**

All non-qualifying expenditures and expenses incurred on other non-qualifying development activities are charged as expenses to profit or loss in the period in which such expenses are incurred.

Amortisation of the cost of capitalised software system development expenditures is provided from the dates when the systems are available for use.

Upon the disposal of leasehold buildings, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the leasehold buildings revaluation reserve to retained earnings.

The gain or loss on disposal of fixed assets is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

**(j) Investment properties**

Investment properties are properties held for long-term rental yields and not occupied by the Group. Investment properties comprise land held under operating leases and buildings held under finance leases. Investment properties are carried at fair value, representing open-market value determined by independent qualified valuers in accordance with the "HKIS Valuation Standards on Properties" issued by the Hong Kong Institute of Surveyors ("HKIS Valuation Standards"), "The RICS Appraisal and Valuation Standards" published by the Royal Institution of Chartered Surveyors ("RICS") and the "International Valuation Standards" published by the International Valuation Standards Committee where the HKIS Valuation Standards are silent on subjects requiring guidance. Changes in fair value are recognised in profit or loss.

**(k) Lease premiums for land**

Leasehold land premiums are up-front payments to acquire long-term interests in lessee-occupied properties. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to profit or loss, except when the leasehold land is reclassified as held for sale, in which case no further amortisation is required and the premiums are accounted for in accordance with HKFRS 5 (note 2(t)).

**(l) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired company at the date of acquisition. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

## 2. Principal Accounting Policies (continued)

### (m) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (ie, the higher of an asset's fair value less costs to sell and value in use). Such impairment losses are recognised in profit or loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is recognised in other comprehensive income and treated as a decline in revaluation.

In respect of assets other than goodwill, impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the circumstances and events leading to the impairment cease to exist. Impairment loss in respect of goodwill is not reversed. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is credited to profit or loss except when the asset is carried at valuation, in which case the reversal of impairment loss is credited to profit or loss up to the amount previously charged to profit or loss and thereafter recognised in other comprehensive income and treated as a revaluation movement.

The Group publishes its interim financial reports on a quarterly basis. At the end of each interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year. Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

### (n) Clearing House Funds

Income arising from bank deposits and investments comprising the Clearing House Funds and expenses incurred for these funds are recorded in profit or loss. Net investment income net of expenses of the Clearing House Funds is appropriated from retained earnings to the respective designated reserves of the Clearing House Funds and allocated to amounts attributable to Clearing Participants' contributions and to clearing houses' contributions based on the ratio of their respective average initial contributions and accumulated allocated net investment income net of expenses. Changes in valuation of the available-for-sale financial assets comprising the Clearing House Funds are recognised in other comprehensive income and recorded in the investment revaluation reserve.

**2. Principal Accounting Policies (continued)**

**(n) Clearing House Funds (continued)**

Net assets of the Clearing House Funds, which are derived from contributions from CCASS Clearing Participants, HKFE Clearing Corporation Limited ("HKCC") Participants and The SEHK Options Clearing House Limited ("SEOCH") Participants (collectively "Clearing Participants") and the respective clearing houses, and the accumulated net investment income net of expenses of the Clearing House Funds appropriated from retained earnings, are included in the consolidated statement of financial position as non-current assets. Clearing Participants' contributions are treated as non-current liabilities in the consolidated statement of financial position. Non-cash collateral of the Clearing House Funds (ie, contributions receivable from Clearing Participants fully secured by bank guarantees) and the corresponding liabilities are not reflected as assets and liabilities in the consolidated statement of financial position in accordance with HKAS 39 but is disclosed in note 44 to the consolidated accounts. Contributions from the respective clearing houses, the accumulated net investment income net of expenses of the Clearing House Funds appropriated from retained earnings and forfeiture of defaulted Clearing Participants' contributions are included in the consolidated statement of financial position as designated reserves.

**(o) Margin Funds on derivatives contracts/margin deposits and non-cash collateral received from Clearing Participants on derivatives contracts**

Margin Funds are established by cash received or receivable from SEOCH and HKCC Clearing Participants for covering their open positions in derivatives contracts. The funds are refundable to the Clearing Participants of SEOCH and HKCC when they close their positions in derivatives contracts. These funds are held in segregated accounts of the respective clearing houses. Cash margin deposits received are disclosed as Margin Funds on derivatives contracts under current assets and the obligation to refund such deposits as Margin deposits from Clearing Participants on derivatives contracts under current liabilities. Non-cash collateral (ie, securities and bank guarantees) received from Clearing Participants for satisfying margin requirements and the corresponding liabilities are not recorded as assets and liabilities of the Margin Funds in accordance with HKAS 39 but are disclosed in note 44 to the consolidated accounts.

Income arising from bank deposits and investments comprising these Margin Funds and expenses incurred for these funds are recorded in profit or loss. Changes in fair value of available-for-sale financial assets comprising these Margin Funds are recognised in other comprehensive income and recorded in the investment revaluation reserve. Changes in fair value of investments designated as financial assets at fair value through profit or loss, if any, are included in profit or loss. The Clearing Participants of SEOCH and HKCC are entitled to interest at a rate determined by SEOCH and HKCC on the margin deposits they place with SEOCH and HKCC respectively.

**(p) Cash marks received from Participants**

Cash marks received from Hong Kong Securities Clearing Company Limited ("HKSCC") Participants for their open positions are recorded as assets in the consolidated statement of financial position. As these funds are refundable to the Participants when they settle their positions, the marks received are reflected as liabilities to the Participants in the consolidated statement of financial position.

Income arising from bank deposits comprising these funds is recorded in profit or loss. HKSCC Participants are entitled to interest at a rate determined by HKSCC on the marks they place with HKSCC.

**2. Principal Accounting Policies (continued)**

**(q) Derivative financial instruments**

Derivatives, which include forward foreign exchange contracts and futures contracts, are initially recognised at fair value on the date on which the derivative contracts are entered into and subsequently remeasured at their fair values. Fair values are based on quoted market prices in active markets, recent market transactions or valuation techniques such as discounted cash flow models and options pricing models, as appropriate. Changes in fair value of the derivatives are recognised in profit or loss except where the derivatives are designated as a qualifying cash flow hedge in which case recognition of any resultant fair value gain or loss depends on the nature of the item being hedged (note 2(r)). All derivatives except those designated as qualifying cash flow hedges are classified as financial assets at fair value through profit or loss when their fair values are positive and as financial liabilities at fair value through profit or loss when their fair values are negative.

**(r) Hedge accounting**

The Group documents at the inception of the transactions the relationship between the hedging instruments and the hedged items, as well as the risk management objectives and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at the inception of the hedges and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of the hedged items caused by the risk being hedged.

The fair value of a hedging derivative instrument is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

(i) Fair value hedges

Changes in the fair value of hedging instruments that are designated and qualify as fair value hedges are recognised in profit or loss together with the changes in the fair value of the hedged assets, liabilities or firm commitments that are subject to the hedged risk.

(ii) Cash flow hedges

For hedging instruments that are designated and qualify as cash flow hedges, the changes in the fair value relating to the effective portion of the hedges are recognised in other comprehensive income and transferred to hedging reserve. The gains or losses relating to the ineffective portion of the hedges are recognised immediately in profit or loss.

Amounts accumulated in hedging reserve are reclassified from hedging reserve to profit or loss as a reclassification adjustment in the periods when the hedged items affect profit or loss. However, when the forecast transactions that are hedged result in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and deferred in hedging reserve are transferred from hedging reserve and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

**2. Principal Accounting Policies (continued)**

**(r) Hedge accounting (continued)**

(ii) Cash flow hedges (continued)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income and retained in hedging reserve at that time remains in hedging reserve and is recognised in accordance with the above policy when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that has been recognised in other comprehensive income and retained in hedging reserve is immediately reclassified from hedging reserve to profit or loss as a reclassification adjustment.

**(s) Investments**

(i) Classification

Investments of the Group are classified under the following categories:

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading (ie, those acquired for the purpose of selling in short-term or derivatives which are not designated as hedging instruments), shares receivable by HKSCC under stock borrowing for the purpose of settlement under the Continuous Net Settlement ("CNS") basis and financial assets designated as fair value through profit or loss at inception if the designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or financial liabilities or recognising the gains and losses on them on different bases; or
- applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or
- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

Financial assets at fair value through profit or loss held by the Corporate Funds are classified as current assets as they are held for trading.

Available-for-sale financial assets

This category comprises financial assets which are non-derivatives and are designated as available-for-sale financial assets or not classified under other investment categories.

Available-for-sale financial assets held by the Corporate Funds are included in non-current assets unless management intends to dispose of the investment or the investment is expected to mature within twelve months of the end of the reporting period.

**2. Principal Accounting Policies (continued)**

**(s) Investments (continued)**

(i) Classification (continued)

Loans and receivables

Loans and receivables, which comprise bank deposits, trade and accounts receivable, deposits and other assets, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the loans or receivables. Bank deposits are disclosed as time deposits and cash equivalents.

Loans and receivables of the Corporate Funds are included in current assets, except for items which are expected to mature after twelve months as at the end of the reporting period, in which case, they are included in non-current assets.

(ii) Recognition and initial measurement

Loans and receivables arise when the Group provides money, goods or services directly to a debtor.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the assets. Investments classified as financial assets at fair value through profit or loss are initially recognised at fair value with transaction costs recognised as expenses in profit or loss. Investments not classified as financial assets at fair value through profit or loss are initially recognised at fair value plus transaction costs.

(iii) Derecognition

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership of the investments.

(iv) Gains or losses on subsequent measurement and interest income and dividend income

Financial assets at fair value through profit or loss

- Investments under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in profit or loss in the period in which they arise. Upon disposal, the difference between the net sale proceeds and the carrying value is included in profit or loss.
- Interest income is recognised using the effective interest method and included as net realised and unrealised gains/(losses) and interest income from these investments.
- Dividend income is recognised when the right to receive dividend is established and disclosed separately as dividend income.

**2. Principal Accounting Policies (continued)**

**(s) Investments (continued)**

(iv) Gains or losses on subsequent measurement and interest income and dividend income (continued)

Available-for-sale financial assets

- Available-for-sale financial assets are carried at fair value. Unrealised gains and losses (including transaction costs on acquisition) arising from changes in the fair value are recognised in other comprehensive income and transferred to investment revaluation reserve in accordance with HKAS 39, except for impairment losses and exchange differences of monetary securities resulting from changes in amortised costs are recognised in profit or loss. For the purpose of recognising foreign exchange gains and losses under HKAS 21, monetary available-for-sale financial assets are treated as if they were carried at amortised cost in the foreign currency and, accordingly, exchange differences resulting from changes in amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in other comprehensive income and transferred to investment revaluation reserve in accordance with HKAS 39. When the securities are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments recognised in other comprehensive income and retained in the investment revaluation reserve are reclassified from investment revaluation reserve to profit or loss as a reclassification adjustment.
- Interest income is recognised using the effective interest method and disclosed as interest income.
- Dividend income is recognised when the right to receive dividend is established and disclosed as dividend income.

Loans and receivables

- Loans and receivables are carried at amortised cost using the effective interest method less provision for impairment.
- Interest income is recognised using the effective interest method and disclosed as interest income.

(v) Fair value measurement principles

Fair values of quoted investments are based on bid prices. For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

## 2. Principal Accounting Policies (continued)

### (s) Investments (continued)

(vi) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more loss events that have occurred after the initial recognition of the assets and have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the debtor or obligor;
- fees receivable that have been outstanding for over 180 days;
- the Group granting to the debtor or obligor, for economic or legal reasons relating to the debtor's or obligor's financial difficulty, a concession that the Group would not otherwise consider;
- it is becoming probable that the debtor or obligor will enter into bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
    - adverse changes in the payment status of debtors or obligors in the Group;
    - economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics relevant to the estimation of future cash flows. These financial assets are collectively assessed based on historical loss experience on each type of assets and management judgement of the current economic and credit environment.

**2. Principal Accounting Policies (continued)**

**(s) Investments (continued)**

(vi) Impairment (continued)

Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amounts and the present values of estimated future cash flows discounted at the financial assets' original effective interest rates. The carrying amounts of the assets are reduced through the use of a doubtful debt allowance account and the amount of the loss is recognised in profit or loss.

When there is no realistic prospect of recovery of a loan or receivable, it is written off against the related provision for impairment loss. Subsequent recovery of the amount previously written off is reversed against the provision for impairment loss in profit or loss.

As soon as a loan or receivable becomes impaired, the Group may continue to provide services or facilities to the debtor or obligor but no further accounts receivable is recognised on 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.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the doubtful debt allowance account. The amount of reversal is recognised in profit or loss.

Available-for-sale financial assets

If there is objective evidence that an impairment loss on available-for-sale financial assets has been incurred, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in profit or loss) is reclassified from investment revaluation reserve to profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss up to the amount previously charged to profit or loss and any further increase in fair value thereafter is recognised in other comprehensive income and credited to investment revaluation reserve.

In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the securities below their cost is considered in determining whether the securities are impaired. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. Any subsequent increase in fair value on such assets is recognised in other comprehensive income and credited to investment revaluation reserve directly.

The Group publishes its interim financial reports on a quarterly basis. At the end of each interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year. Impairment losses recognised in an interim period in respect of available-for-sale equity securities are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

**2. Principal Accounting Policies (continued)**

**(t) Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than continuing use. This condition will only be satisfied when the sale is highly probable and the assets are available for immediate sale in their present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (except for investment properties) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Investment properties classified as held for sale are stated at fair value.

**(u) Financial liabilities**

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading (ie, principally held for the short-term and derivatives which are not designated as hedging instruments), shares borrowed by HKSCC for the purpose of settlement under the CNS basis and financial liabilities designated as fair value through profit or loss at inception if the designation satisfies the same criteria as set out in note 2(s)(i) under the caption of "Financial assets at fair value through profit or loss".

Liabilities under this category are initially recognised at fair value on the date on which a contract is entered into and subsequently remeasured at their fair values. Changes in fair value of the liabilities are recognised in profit or loss.

(ii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified entity or person fails to make payment when due in accordance with the original or modified terms of an undertaking.

Financial guarantee contracts are accounted for as financial instruments under HKAS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 – Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

(iii) Other financial liabilities

Financial liabilities, other than financial liabilities at fair value through profit or loss and financial guarantee contracts, are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

**(v) Repurchase transactions**

When securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the consolidated statement of financial position and the consideration received is recorded as a liability.

**2. Principal Accounting Policies (continued)**

**(w) Recognition of receivables and payables from/to HKSCC Clearing Participants on Stock Exchange trades settled on the CNS basis**

Upon acceptance of Stock Exchange trades for settlement in CCASS under the CNS basis, HKSCC interposes itself between the HKSCC Clearing Participants as the settlement counterparty to the trades through novation. Final acceptance of Stock Exchange trades is confirmed on T+1 by details contained in the final clearing statement transmitted to every HKSCC Clearing Participant.

The CNS money obligations due by/to HKSCC Clearing Participants on the Stock Exchange trades are recognised as receivables and payables when they are confirmed and accepted on T+1.

For all other trades and transactions, HKSCC merely provides a facility for settlement within CCASS and does not interpose itself between the HKSCC Clearing Participants as the settlement counterparty to the trades. The settlement of these trades does not constitute money obligations and is excluded from the consolidated accounts of the Group.

**(x) Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the income tax losses can be utilised. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine deferred tax assets and liabilities. Movements in deferred tax provision are recognised in profit or loss with the exception of deferred tax related to transactions or other events recognised outside profit or loss (either in other comprehensive income (such as fair value re-measurement of leasehold buildings, available-for-sale financial assets and cash flow hedges) or directly in equity (such as an adjustment to the opening balance of retained earnings resulting either from a change in accounting policy or correction of an error)), which are recognised in other comprehensive income or directly in equity.

**(y) Deferred revenue**

Deferred revenue comprises annual listing fees received in advance, payments received in advance for services in relation to the sales of stock market information and telecommunication line rentals for trading facilities located at brokers' offices.

**(z) Provisions, contingent liabilities and contingent assets**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

**2. Principal Accounting Policies (continued)**

**(z) Provisions, contingent liabilities and contingent assets (continued)**

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**(aa) Foreign currency translation**

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated accounts are presented in Hong Kong Dollars ("HKD"), which is HKEx's and the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets (accounting treatment for available-for-sale financial assets is included in note 2(s)(iv)) and liabilities denominated in foreign currencies are recognised in profit or loss, except when the foreign exchange gains/losses are related to a qualifying cash flow hedge in which case the amount will be recognised in other comprehensive income and deferred in the hedging reserve.

Translation differences on non-monetary financial assets and liabilities that are classified as financial assets and financial liabilities at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets that are classified as available-for-sale financial assets are recognised in other comprehensive income and included in the investment revaluation reserve in equity.

**(ab) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, bank balances and other short-term highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value (mainly time deposits), with original maturities of three months or less.

**(ac) Shares held for Share Award Scheme**

Where the HKEx Employee Share Trust purchases HKEx shares from the market, the consideration paid, including any directly attributable incremental costs, is presented as "Shares held for Share Award Scheme" and deducted from total equity.

When the HKEx Employee Share Trust transfers the HKEx shares to the awardees upon vesting, the related costs of the Awarded Shares vested are credited to "Shares held for Share Award Scheme", with a corresponding decrease in employee shared-based compensation reserve for shares purchased with contributions paid to the HKEx Employee Share Trust, and decrease in retained earnings for shares purchased through reinvesting dividends received on the vested Awarded Shares.

**2. Principal Accounting Policies (continued)**

**(ad) Operating Segments**

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-makers. Segment assets consist primarily of fixed assets, assets of the Clearing House Funds, Margin Funds, financial assets and other assets. Segment liabilities comprise primarily liabilities to Participants, financial and other liabilities. Taxation recoverable and payable, deferred tax assets and liabilities and dividends declared by HKEx but not yet claimed by its shareholders are not allocated to segment assets and segment liabilities.

**(ae) Dividends**

Dividends disclosed in note 15 to the consolidated accounts represent interim dividend paid and final and special dividends proposed/declared (based on the issued share capital less the number of shares held for the Share Award Scheme as at the end of the reporting period) for the year.

Dividends declared are recognised as liabilities in the Group's accounts in the year the dividends are approved by the shareholders.

Dividends declared by HKEx which have not been claimed by its shareholders for a period of over six years from the dividend payment date are forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association.

**(af) Related parties**

Parties are considered to be related to the Group if the Group has the ability to control, directly or indirectly, the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are controlled or under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

## 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 HKSCC, SEOCH and 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.

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.

## 3. Operating Segments (continued)

An analysis of the Group's reportable segment profit before tax, assets, liabilities, and other selected financial information for the year by operating segment is as follows:

| | 2007 | | | | |
|---|---|---|---|---|---|
| | Cash Market $'000 | Derivatives Market $'000 | Clearing Business $'000 | Information Services $'000 | Group $'000 |
| Income from external customers | 3,569,780 | 582,606 | 2,314,184 | 680,772 | 7,147,342 |
| Net investment income | 152,340 | 858,412 | 226,712 | 764 | 1,238,228 |
| Fair value gain of an investment property | 4,900 | - | - | - | 4,900 |
| Total income | 3,727,020 | 1,441,018 | 2,540,896 | 681,536 | 8,390,470 |
| Operating expenses | | | | | |
| Direct costs | 507,739 | 143,123 | 357,646 | 50,625 | 1,059,133 |
| Indirect costs | 164,080 | 52,904 | 112,937 | 22,511 | 352,432 |
| | 671,819 | 196,027 | 470,583 | 73,136 | 1,411,565 |
| Operating profit | 3,055,201 | 1,244,991 | 2,070,313 | 608,400 | 6,978,905 |
| Gain on disposal of an associate | - | - | 206,317 | - | 206,317 |
| Share of profit of an associate | - | - | 5,587 | - | 5,587 |
| Reportable segment profit before tax | 3,055,201 | 1,244,991 | 2,282,217 | 608,400 | 7,190,809 |
| Interest income | 69,363 | 1,490,554 | 164,450 | 348 | 1,724,715 |
| Interest expenses: | | | | | |
| - included under net investment income | (4,760) | (677,345) | (29,598) | (24) | (711,727) |
| - others | (224) | (72) | (164) | (31) | (491) |
| Depreciation and amortisation | (25,961) | (8,376) | (43,231) | (2,114) | (79,682) |
| Other material non-cash items: | | | | | |
| Employee share-based compensation expenses | (12,838) | (2,924) | (7,172) | (1,428) | (24,362) |
| Reversal of provision for/(provision for) impairment losses | 52 | (19) | (31) | (5) | (3) |

| | 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 liabilities | 1,249,741 | 55,470,549 | 22,012,451 | 51,595 | 78,784,336 |
| Additions to fixed assets (ie, non-current assets excluding financial instruments and deferred tax assets) | 98,874 | 2,587 | 88,650 | 3,579 | 193,690 |

## 3. Operating Segments (continued)

| | 2006 | | | | |
|---|---|---|---|---|---|
| | Cash Market $'000 | Derivatives Market $'000 | Clearing Business $'000 | Information Services $'000 | Group $'000 |
| Income from external customers | 1,694,040 | 350,561 | 1,106,709 | 392,926 | 3,544,236 |
| Net investment income | 126,371 | 310,744 | 163,131 | 834 | 601,080 |
| Fair value gain of an investment property | 1,600 | - | - | - | 1,600 |
| Total income | 1,822,011 | 661,305 | 1,269,840 | 393,760 | 4,146,916 |
| Operating expenses | | | | | |
| Direct costs | 441,233 | 118,456 | 328,529 | 41,860 | 930,078 |
| Indirect costs | 129,091 | 39,745 | 92,250 | 19,409 | 280,495 |
| | 570,324 | 158,201 | 420,779 | 61,269 | 1,210,573 |
| Operating profit | 1,251,687 | 503,104 | 849,061 | 332,491 | 2,936,343 |
| Share of profits of associates | 1 | - | 27,123 | - | 27,124 |
| Reportable segment profit before tax | 1,251,688 | 503,104 | 876,184 | 332,491 | 2,963,467 |
| Interest income | 30,956 | 670,993 | 106,297 | 204 | 808,450 |
| Interest expenses: | | | | | |
| - included under net investment income | (1,855) | (409,496) | (31,307) | (12) | (442,670) |
| - others | (2) | (1) | (3) | - | (6) |
| Depreciation and amortisation | (25,538) | (9,633) | (61,112) | (4,152) | (100,435) |
| Other material non-cash items: | | | | | |
| Employee share-based compensation expenses | (12,640) | (3,077) | (7,276) | (1,040) | (24,033) |
| (Provision for)/reversal of provision for impairment losses | (146) | 51 | 138 | 29 | 72 |

| | At 31 Dec 2006 | | | | |
|---|---|---|---|---|---|
| | Cash Market $'000 | Derivatives Market $'000 | Clearing Business $'000 | Information Services $'000 | Group $'000 |
| Reportable segment assets (excluding investment in an associate) | 2,814,334 | 22,782,430 | 14,715,139 | 80,796 | 40,392,699 |
| Investment in an associate | - | - | 68,377 | - | 68,377 |
| Reportable segment assets | 2,814,334 | 22,782,430 | 14,783,516 | 80,796 | 40,461,076 |
| Reportable segment liabilities | 842,675 | 21,698,925 | 12,286,695 | 35,808 | 34,864,103 |
| Additions to fixed assets (ie, non-current assets excluding financial instruments and deferred tax assets) | 31,719 | 3,050 | 15,717 | 1,775 | 52,261 |

## 3. Operating Segments (continued)

(a) The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. 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 tax. Taxation charge/(credit) is not allocated to reportable segments.

There were no inter-segment sales in the year (2006: $Nil).

(b) Reconciliation of reportable segment assets and segment liabilities

The assets and liabilities of the Group are allocated based on the operations of the segments. Central assets and liabilities are generally allocated to the segments. However, deferred tax assets, tax recoverable, taxation payable, deferred tax liabilities and unclaimed dividends declared by HKEx are not allocated to the segments.

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

| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
|---|---|---|
| Reportable segment assets | **87,940,431** | 40,461,076 |
| Unallocated assets: | | |
| Tax recoverable | **148** | - |
| Deferred tax assets | **3,610** | 3,330 |
| Total assets per consolidated statement of financial position | **87,944,189** | 40,464,406 |

| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
|---|---|---|
| Reportable segment liabilities | **78,784,336** | 34,864,103 |
| Unallocated liabilities: | | |
| Taxation payable | **687,726** | 287,368 |
| Deferred tax liabilities | **36,873** | 14,003 |
| Unclaimed dividends declared by HKEx | **57,906** | 41,346 |
| Total liabilities per consolidated statement of financial position | **79,566,841** | 35,206,820 |

## 3. Operating Segments (continued)

(c) Geographical information

The Group's revenue from external customers are derived solely from its operations in Hong Kong. Its non-current assets (excluding financial instruments, investment in associates and deferred tax assets) by geographical location are detailed below:

| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
|---|---|---|
| Hong Kong | **380,956** | 326,118 |
| China | **29** | 130 |
| | **380,985** | 326,248 |

(d) Information about major customers

In 2007 and 2006, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's total revenue.

## 4. Trading Fees and Trading Tariff

| | **2007 $'000** | 2006 $'000 |
|---|---|---|
| Trading fees and trading tariff were derived from: | | |
| Securities traded on the Cash Market | **2,452,037** | 969,421 |
| Derivatives contracts traded on the Derivatives Market | **634,213** | 370,934 |
| | **3,086,250** | 1,340,355 |

## 5. Stock Exchange Listing Fees

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

| | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | **280,879** | **25,297** | **1,987** | **308,163** | 247,797 | 24,977 | 1,812 | 274,586 |
| Initial and subsequent issue listing fees | **66,425** | **5,710** | **302,104** | **374,239** | 45,910 | 3,175 | 135,516 | 184,601 |
| Prospectus vetting fees | **3,745** | **345** | **140** | **4,230** | 2,730 | 360 | 60 | 3,150 |
| Other listing fees | **1,514** | **392** | **-** | **1,906** | 2,174 | 934 | - | 3,108 |
| Total | **352,563** | **31,744** | **304,231** | **688,538** | 298,611 | 29,446 | 137,388 | 465,445 |
| **Costs of Listing Function** | | | | | | | | |
| Direct costs | | | | | | | | |
| Staff costs and related expenses | **169,979** | **33,393** | **13,045** | **216,417** | 120,623 | 30,664 | 6,886 | 158,173 |
| Information technology and computer maintenance expenses | **2,052** | **496** | **1,086** | **3,634** | 1,943 | 517 | - | 2,460 |
| Premises expenses | **17,888** | **3,393** | **855** | **22,136** | 14,930 | 3,722 | 870 | 19,522 |
| Legal and professional fees | **4,558** | **211** | **-** | **4,769** | 1,785 | 1,247 | - | 3,032 |
| Depreciation | **2,956** | **595** | **143** | **3,694** | 3,420 | 1,008 | 57 | 4,485 |
| Other operating expenses | **5,724** | **1,884** | **371** | **7,979** | 8,489 | 2,992 | 204 | 11,685 |
| Total direct costs | **203,157** | **39,972** | **15,500** | **258,629** | 151,190 | 40,150 | 8,017 | 199,357 |
| Total indirect costs | **33,807** | **6,060** | **9,669** | **49,536** | 25,175 | 5,361 | 4,578 | 35,114 |
| Total costs | **236,964** | **46,032** | **25,169** | **308,165** | 176,365 | 45,511 | 12,595 | 234,471 |
| **Contribution to Cash Market Segment Profit before Tax** | **115,599** | **(14,288)** | **279,062** | **380,373** | 122,246 | (16,065) | 124,793 | 230,974 |

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 IPOs and enforcing the 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 comprise costs of support services and other central overheads attributable to the Listing Function.

## 6. Net Investment Income

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Interest income | | |
| - bank deposits | **1,030,736** | 516,468 |
| - listed available-for-sale financial assets | **23,092** | 24,755 |
| - unlisted available-for-sale financial assets | **670,887** | 267,227 |
| | **1,724,715** | 808,450 |
| Interest expenses | **(711,727)** | (442,670) |
| Net interest income | **1,012,988** | 365,780 |
| Net realised and unrealised gains and interest income on financial assets and financial liabilities at fair value through profit or loss, held for trading | | |
| - listed securities | **138,744** | 163,640 |
| - unlisted securities | **57,670** | 49,521 |
| - exchange differences | **12,314** | 15,824 |
| | **208,728** | 228,985 |
| Dividend income | | |
| - listed financial assets at fair value through profit or loss | **6,091** | 6,115 |
| Other exchange differences on loans and receivables | **10,421** | 200 |
| Net investment income | **1,238,228** | 601,080 |
| Net investment income was derived from: | | |
| Corporate Funds | **373,304** | 305,729 |
| Margin Funds | **797,714** | 246,732 |
| Clearing House Funds | **67,210** | 48,619 |
| | **1,238,228** | 601,080 |

## 7. Other Income

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Network, terminal user, dataline and software sub-license fees | **311,187** | 180,372 |
| Participants' subscription and application fees | **34,043** | 33,927 |
| Brokerage on direct IPO allotments | **97,730** | 57,066 |
| Trading booth user fees | **9,624** | 9,162 |
| Fair value gain of an investment property (note 18(b) and note 27(c)) | **4,900** | 1,600 |
| Accommodation income on securities deposited by Participants as alternatives to cash deposits of Margin Funds | **15,555** | 3,164 |
| Sale of Trading Rights | **3,000** | - |
| Miscellaneous income | **17,970** | 13,041 |
| | **494,009** | 298,332 |

## 8. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

| | **2007 $'000** | 2006 $'000 |
|---|---|---|
| Salaries and other short-term employee benefits | **748,165** | 577,713 |
| Employee share-based compensation benefits (note 34) | **24,362** | 24,033 |
| Termination benefits | **259** | 1,194 |
| Retirement benefit costs (note a): | | |
| - ORSO Plan | **53,858** | 51,507 |
| - MPF Scheme | **472** | 359 |
| | **827,116** | 654,806 |

(a) Retirement Benefit Costs

The Group has sponsored a defined contribution provident fund scheme, namely the Hong Kong Exchanges and Clearing Provident Fund Scheme ("ORSO Plan"), which is registered under ORSO and has obtained Mandatory Provident Fund ("MPF") exemption. The ORSO Plan is for all full-time permanent employees. The Group contributes 12.5 per cent of the employee's basic salary to the ORSO Plan if an employee contributes 5 per cent. If the employee chooses not to contribute, the Group will contribute 10 per cent of the employee's salary to the ORSO Plan.

In compliance with the MPF Ordinance, HKEx has participated in a master trust MPF scheme, the AIA-JF Premium MPF Scheme ("MPF Scheme"), to provide retirement benefits to full-time permanent employees who elect to join the MPF Scheme and all temporary or part-time employees who are not eligible for joining the ORSO Plan. Contributions to the MPF Scheme are in accordance with the statutory limits prescribed by the MPF Ordinance (ie, 5 per cent of the employee's relevant income subject to a maximum of $1,000 per month).

The retirement benefit costs charged to the consolidated income statement represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees. The contribution payable to the MPF Scheme as at 31 December 2007 was $104,000 (2006: $Nil) and no contribution to the ORSO Plan was outstanding as at 31 December 2006 and 2007.

For the ORSO Plan, contributions during the year are not offset by contributions forfeited in respect of employees who left the ORSO Plan before the contributions were fully vested. Instead, forfeited contributions are credited to a reserve account of the ORSO Plan for the benefit of its members.

| | **2007 $'000** | 2006 $'000 |
|---|---|---|
| Contributions forfeited during the year and retained in the ORSO Plan | **5,830** | 5,047 |

## 9. Information Technology and Computer Maintenance Expenses

| | **2007 $'000** | 2006 $'000 |
|---|---|---|
| Costs of services and goods: | | |
| - consumed by the Group | **135,045** | 133,237 |
| - directly consumed by Participants | **72,377** | 85,371 |
| | **207,422** | 218,608 |

## 10. Other Operating Expenses

| | **2007 $'000** | 2006 $'000 |
|---|---|---|
| (Reversal of provision for)/provision for impairment losses of trade receivables (note 23(b)) | **(71)** | 350 |
| Provision for/(reversal of provision for) impairment losses of leasehold buildings – revaluation deficit/(gain) (note 17(a)(iv)) | **74** | (422) |
| Insurance | **4,482** | 15,338 |
| Financial data subscription fees | **4,095** | 4,274 |
| Custodian and fund management fees | **10,042** | 8,420 |
| Bank charges | **22,919** | 11,476 |
| Repair and maintenance expenses | **8,615** | 7,821 |
| License fees | **13,445** | 8,857 |
| Communication expenses | **5,266** | 4,878 |
| Overseas travel expenses | **4,812** | 3,588 |
| Contribution to Financial Reporting Council | **7,153** | 347 |
| Other miscellaneous expenses | **43,568** | 33,911 |
| | **124,400** | 98,838 |

## 11. Profit before Taxation

| | **2007 $'000** | 2006 $'000 |
|---|---|---|
| Profit before taxation is stated after crediting/(charging): | | |
| Amortisation of lease premiums for land | **(538)** | (547) |
| Auditor's remuneration | | |
| - audit fees | | |
| - charge for the year | **(2,585)** | (2,324) |
| - reversal of provision in respect of prior years | **75** | - |
| - non-audit fees: | | |
| - charge for the year | **(410)** | (449) |
| - reversal of provision in respect of prior years | **5** | 440 |
| Interest on bank loans and overdrafts repayable within five years | **(491)** | (6) |
| Operating lease rentals | | |
| - land and buildings | **(91,288)** | (80,946) |
| - computer systems and equipment | **(5,605)** | (5,784) |
| Rental income from investment property | **612** | 515 |
| Direct operating expenses of the investment property that generates rental income | **(167)** | (168) |
| Depreciation | **(79,144)** | (99,888) |
| (Provision for)/reversal of provision for impairment losses of leasehold buildings under other operating expenses | **(74)** | 422 |
| Gain/(loss) on disposal or write-off of fixed assets | **262** | (627) |
| Gain on disposal/liquidation of associates | **206,317** | 6 |
| Exchange gains/(losses) on: | | |
| - financial assets (excluding financial assets at fair value through profit or loss) | **10,421** | 200 |
| - Others | **(99)** | (671) |

## 12. Directors' Emoluments

All Directors, including one Executive Director, received emoluments during the years ended 31 December 2007 and 31 December 2006. The aggregate emoluments paid and payable to the Directors during the two years were as follows:

| | **2007 $'000** | 2006 $'000 |
|---|---|---|
| Executive Director: | | |
| Salaries and other short-term employee benefits | **7,402** | 7,403 |
| Performance bonus | **5,814** | 2,754 |
| Retirement benefit costs | **918** | 918 |
| | **14,134** | 11,075 |
| Employee share-based compensation benefits (note a) | **1,048** | 1,210 |
| | **15,182** | 12,285 |
| Non-executive Directors: | | |
| Fees | **4,208** | 2,880 |
| | **19,390** | 15,165 |

(a) Employee share-based compensation benefits represent fair value of share options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme amortised to profit or loss during the year disregarding whether the options and the Awarded Shares have been vested/exercised or not.

(b) The emoluments, including employee share-based compensation benefits for options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme, of the Directors were within the following bands:

| | **2007 Number of Directors** | 2006 Number of Directors |
|---|---|---|
| $1 – $500,000 | **12** | 16 |
| $12,000,001 – $12,500,000 | **-** | 1 |
| $15,000,001 – $15,500,000 | **1** | - |
| | **13** | 17 |

## 12. Directors' Emoluments (continued)

The emoluments of all Directors, including the Chief Executive who is an ex-officio member, for the years ended 31 December 2007 and 2006 are set out below:

| | 2007 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Name of Director** | **Fees $'000** | **Salary $'000** | **Other benefits (note a) $'000** | **Performance bonus $'000** | **Retirement benefit costs (note b) $'000** | **Sub-total $'000** | **Employee share-based compensation benefits $'000** | **Total $'000** |
| Ronald J Arculli (note c) | **472** | **-** | **-** | **-** | **-** | **472** | **-** | **472** |
| Paul M Y Chow | **-** | **7,344** | **58** | **5,814** | **918** | **14,134** | **1,048** | **15,182** |
| Laura M Cha (note c) | **360** | **-** | **-** | **-** | **-** | **360** | **-** | **360** |
| Moses M C Cheng (note c) | **360** | **-** | **-** | **-** | **-** | **360** | **-** | **360** |
| Marvin K T Cheung | **323** | **-** | **-** | **-** | **-** | **323** | **-** | **323** |
| Henry H L Fan | **285** | **-** | **-** | **-** | **-** | **285** | **-** | **285** |
| Fong Hup | **360** | **-** | **-** | **-** | **-** | **360** | **-** | **360** |
| Bill C P Kwok | **323** | **-** | **-** | **-** | **-** | **323** | **-** | **323** |
| Vincent K H Lee | **397** | **-** | **-** | **-** | **-** | **397** | **-** | **397** |
| Christine K W Loh (note c) | **323** | **-** | **-** | **-** | **-** | **323** | **-** | **323** |
| John E Strickland | **323** | **-** | **-** | **-** | **-** | **323** | **-** | **323** |
| David M Webb | **360** | **-** | **-** | **-** | **-** | **360** | **-** | **360** |
| Oscar S H Wong | **322** | **-** | **-** | **-** | **-** | **322** | **-** | **322** |
| Total | **4,208** | **7,344** | **58** | **5,814** | **918** | **18,342** | **1,048** | **19,390** |

| | 2006 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of Director | Fees $'000 | Salary $'000 | Other benefits (note a) $'000 | Performance bonus $'000 | Retirement benefit costs (note b) $'000 | Sub-total $'000 | Employee share-based compensation benefits $'000 | Total $'000 |
| Ronald J Arculli (note c) | 180 | - | - | - | - | 180 | - | 180 |
| Charles Y K Lee (note d) | 60 | - | - | - | - | 60 | - | 60 |
| Paul M Y Chow | - | 7,344 | 59 | 2,754 | 918 | 11,075 | 1,210 | 12,285 |
| Laura M Cha (note c) | 180 | - | - | - | - | 180 | - | 180 |
| Moses M C Cheng (note c) | 180 | - | - | - | - | 180 | - | 180 |
| Marvin K T Cheung | 240 | - | - | - | - | 240 | - | 240 |
| Henry H L Fan | 240 | - | - | - | - | 240 | - | 240 |
| Fong Hup | 240 | - | - | - | - | 240 | - | 240 |
| Tim G Freshwater (note d) | 60 | - | - | - | - | 60 | - | 60 |
| Bill C P Kwok | 240 | - | - | - | - | 240 | - | 240 |
| Dannis J H Lee (note d) | 60 | - | - | - | - | 60 | - | 60 |
| Vincent K H Lee | 240 | - | - | - | - | 240 | - | 240 |
| Lo Ka Shui (note d) | 60 | - | - | - | - | 60 | - | 60 |
| Christine K W Loh (note c) | 180 | - | - | - | - | 180 | - | 180 |
| John E Strickland | 240 | - | - | - | - | 240 | - | 240 |
| David M Webb | 240 | - | - | - | - | 240 | - | 240 |
| Oscar S H Wong | 240 | - | - | - | - | 240 | - | 240 |
| Total | 2,880 | 7,344 | 59 | 2,754 | 918 | 13,955 | 1,210 | 15,165 |

Notes:

(a) Other benefits included insurance premium and club membership.

(b) Employees who retire before normal retirement age are eligible for 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of seven years of service.

(c) Appointment effective 26 April 2006

(d) Retired on 26 April 2006.

## 13. Five Top-paid Employees

One (2006: one) of the five top-paid employees was a Director whose emoluments are disclosed in note 12. Details of the emoluments of the other four (2006: four) top-paid employees were as follows:

| | **2007<br>$'000** | 2006<br>$'000 |
|---|---|---|
| Salaries and other short-term employee benefits | **16,999** | 17,456 |
| Performance bonus | **12,237** | 6,493 |
| Retirement benefit costs | **2,082** | 2,135 |
| | **31,318** | 26,084 |
| Employee share-based compensation benefits (note a) | **3,274** | 1,820 |
| | **34,592** | 27,904 |

(a) Employee share-based compensation benefits represent fair value of share options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme amortised to profit or loss during the year disregarding whether the options and the Awarded Shares have been vested/exercised or not.

(b) The emoluments of these four (2006: four) employees, including employee share-based compensation benefits for options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme, were within the following bands:

| | **2007<br>Number of<br>employees** | 2006<br>Number of<br>employees |
|---|---|---|
| $6,500,001 – $7,000,000 | **1** | 3 |
| $7,500,001 – $8,000,000 | **1** | 1 |
| $8,500,001 – $9,000,000 | **1** | - |
| $10,500,001 – $11,000,000 | **1** | - |
| | **4** | 4 |

The employees, whose emoluments are disclosed above, included senior executives who were also Directors of the subsidiaries during the years. No Directors of the subsidiaries waived any emoluments.

## 14. Taxation

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

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Provision for Hong Kong Profits Tax for the year (note i) | **1,009,076** | 454,121 |
| Over provision in respect of prior years | **(2,234)** | (5) |
| | **1,006,842** | 454,116 |
| Deferred taxation (note 31(a)) | **14,689** | (9,218) |
| | **1,021,531** | 444,898 |

(i) Hong Kong Profits Tax has been provided for at 17.5 per cent (2006: 17.5 per cent) on the estimated assessable profit for the year.

(b) The taxation on the Group's profit before taxation (excluding share of profits of associates and gain on disposal of an associate) differs from the theoretical amount that would arise using the taxation rate of 17.5 per cent (2006: 17.5 per cent) as follows:

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Profit before taxation (excluding share of profits of associates and gain on disposal of an associate) | **6,978,905** | 2,936,343 |
| Calculated at a taxation rate of 17.5 per cent (2006: 17.5 per cent) | **1,221,308** | 513,860 |
| Income not subject to taxation | **(202,363)** | (77,190) |
| Expenses not deductible for taxation purposes | **12,378** | 7,726 |
| Change in deferred tax arising from unrecognised tax losses and other deferred tax adjustments | **(5,497)** | 507 |
| Change in deferred tax arising from reclassification of properties to "Non-current assets held for sale" | **(2,061)** | - |
| Over provision of Hong Kong Profits Tax in respect of prior years | **(2,234)** | (5) |
| Taxation charge | **1,021,531** | 444,898 |

## 15. Dividends

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Interim dividend paid: | | |
| $1.79 (2006: $0.94) per share | **1,914,499** | 1,001,219 |
| Less: Dividend for shares held by HKEx Employee Share Trust | **(2,306)** | (912) |
| | **1,912,193** | 1,000,307 |
| Final dividend proposed/declared (notes a and b): | | |
| $3.40 (2006: $1.19) per share based on issued share capital as at the year end | **3,638,970** | 1,267,884 |
| Less: Dividend for shares held by HKEx Employee Share Trust as at the year end | **(3,592)** | (1,497) |
| | **3,635,378** | 1,266,387 |
| | **5,547,571** | 2,266,694 |

(a) Actual 2006 final dividend paid was $1,270,266,000 of which $3,879,000 was paid for shares issued for employee share options exercised after 31 December 2006.

(b) The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

## 16. Earnings Per Share

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

(a) Basic earnings per share

| | 2007 | 2006 |
|---|---|---|
| Profit attributable to shareholders ($'000) | **6,169,278** | 2,518,569 |
| Weighted average number of shares in issue less shares held for Share Award Scheme | **1,067,236,673** | 1,063,493,204 |
| Basic earnings per share | **$5.78** | $2.37 |

(b) Diluted earnings per share

| | 2007 | 2006 |
|---|---|---|
| Profit attributable to shareholders ($'000) | **6,169,278** | 2,518,569 |
| Weighted average number of shares in issue less shares held for Share Award Scheme | **1,067,236,673** | 1,063,493,204 |
| Effect of employee share options | **10,126,864** | 11,592,735 |
| Effect of Awarded Shares | **1,227,308** | 956,325 |
| Weighted average number of shares for the purpose of calculating diluted earnings per share | **1,078,590,845** | 1,076,042,264 |
| Diluted earnings per share | **$5.72** | $2.34 |

## 17. Fixed Assets

(a) Group

| | Leasehold buildings $'000 | Computer trading and clearing systems $'000 | Other computer hardware and software $'000 | Leasehold improvements, furniture, equipment and motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|
| Net book value at 1 Jan 2006 (note i) | 15,700 | 185,104 | 27,089 | 29,983 | 257,876 |
| Additions | - | 13,566 | 13,207 | 25,488 | 52,261 |
| Disposals (note ii) | - | - | - | (1,012) | (1,012) |
| Depreciation | (624) | (71,767) | (17,430) | (10,067) | (99,888) |
| Revaluation (note iv) | 924 | - | - | - | 924 |
| Net book value at 31 Dec 2006 | 16,000 | 126,903 | 22,866 | 44,392 | 210,161 |
| At 31 Dec 2006 | | | | | |
| At cost | - | 1,275,800 | 352,662 | 268,171 | 1,896,633 |
| At valuation | 16,000 | - | - | - | 16,000 |
| Accumulated depreciation | - | (1,148,897) | (329,796) | (223,779) | (1,702,472) |
| Net book value | 16,000 | 126,903 | 22,866 | 44,392 | 210,161 |
| Net book value at 1 Jan 2007 | **16,000** | **126,903** | **22,866** | **44,392** | **210,161** |
| Additions | **-** | **167,169** | **18,186** | **8,335** | **193,690** |
| Transfer to non-current assets held for sale (note iii) | **(7,524)** | **-** | **-** | **-** | **(7,524)** |
| Revaluation (note iv) | **(118)** | **-** | **-** | **-** | **(118)** |
| Depreciation | **(558)** | **(55,424)** | **(11,087)** | **(12,075)** | **(79,144)** |
| Net book value at 31 Dec 2007 | **7,800** | **238,648** | **29,965** | **40,652** | **317,065** |
| At 31 Dec 2007 | | | | | |
| At cost | **-** | **1,389,856** | **366,805** | **274,095** | **2,030,756** |
| At valuation | **7,800** | **-** | **-** | **-** | **7,800** |
| Accumulated depreciation | **-** | **(1,151,208)** | **(336,840)** | **(233,443)** | **(1,721,491)** |
| Net book value | **7,800** | **238,648** | **29,965** | **40,652** | **317,065** |

(i) The analysis of net book value as at 1 January 2006 is as follows:

| | | | | | |
|---|---|---|---|---|---|
| At cost | - | 1,271,146 | 350,659 | 253,746 | 1,875,551 |
| At valuation | 15,700 | - | - | - | 15,700 |
| Accumulated depreciation | - | (1,086,042) | (323,570) | (223,763) | (1,633,375) |
| Net book value | 15,700 | 185,104 | 27,089 | 29,983 | 257,876 |

(ii) The total cost of fixed assets disposed of or written off and their total net book value during 2007 were $59,567,000 and $Nil respectively (2006: $31,179,000 and $1,012,000 respectively).

## 17. Fixed Assets (continued)

(a) Group (continued)

(iii) On 19 September 2007, the Board approved the disposal of one of the leasehold buildings used by the Group ("leasehold building held for sale") and the carrying value of the leasehold building of $7,524,000 was reclassified as a non-current asset held for sale (note 27(b)).

(iv) The leasehold building held for sale was revalued as at 30 June 2007 and the other leasehold building was revalued as at 31 December 2007 on the basis of the depreciated replacement costs calculated by Jones Lang LaSalle, an independent firm of qualified property valuers. During the year ended 31 December 2007, the total revaluation deficit of the two leasehold buildings amounted to $118,000, of which $44,000 was charged to other comprehensive income and leasehold buildings revaluation reserve (note 35) to set off against previous valuation surpluses and $74,000 was charged to other operating expenses in the consolidated income statement (note 10). For the year ended 31 December 2006, the total revaluation gain of the two leasehold buildings amounted to $924,000, of which $502,000 was credited to other comprehensive income and leasehold buildings revaluation reserve (note 35) and $422,000 was credited to other operating expenses in the consolidated income statement to offset previous impairment losses charged to the consolidated income statement (note 10).

(v) The cost of the leasehold building not reclassified as held for sale was $15,900,000 (2006: cost of the two leasehold buildings was $26,900,000). The carrying value of the said leasehold building as at 31 December 2007 would have been $6,327,000 (2006: carrying value of the two leasehold buildings was $11,001,000) had it been carried at cost less accumulated depreciation.

(b) HKEx

| | **Other computer hardware and software** $'000 | **Leasehold improvements, furniture, equipment and motor vehicles** $'000 | **Total** $'000 |
|---|---|---|---|
| Net book value at 1 Jan 2006 (note i) | 15,357 | 2,366 | 17,723 |
| Additions | 7,447 | 3,678 | 11,125 |
| Depreciation | (10,289) | (1,077) | (11,366) |
| Net book value at 31 Dec 2006 | 12,515 | 4,967 | 17,482 |
| At 31 Dec 2006 | | | |
| At cost | 60,080 | 22,806 | 82,886 |
| Accumulated depreciation | (47,565) | (17,839) | (65,404) |
| Net book value | 12,515 | 4,967 | 17,482 |
| Net book value at 1 Jan 2007 | **12,515** | **4,967** | **17,482** |
| Additions | **4,091** | **5,754** | **9,845** |
| Depreciation | **(5,850)** | **(2,271)** | **(8,121)** |
| Net book value at 31 Dec 2007 | **10,756** | **8,450** | **19,206** |
| At 31 Dec 2007 | | | |
| At cost | **64,111** | **26,679** | **90,790** |
| Accumulated depreciation | **(53,355)** | **(18,229)** | **(71,584)** |
| Net book value | **10,756** | **8,450** | **19,206** |

(i) The analysis of net book value as at 1 January 2006 is as follows:

| | | | |
|---|---|---|---|
| At cost | 52,673 | 19,128 | 71,801 |
| Accumulated depreciation | (37,316) | (16,762) | (54,078) |
| Net book value | 15,357 | 2,366 | 17,723 |

(ii) The total cost of fixed assets disposed of or written off and their total net book value during 2007 were $1,941,000 and $Nil respectively (2006: $41,000 and $Nil respectively).

## 18. Investment Property

| | Group | |
|---|---|---|
| | **2007** **$'000** | 2006 $'000 |
| At 1 Jan | **19,300** | 17,700 |
| Fair value gain | **1,100** | 1,600 |
| Transfer to non-current assets held for sale (note a) | **(20,400)** | - |
| At 31 Dec | **-** | 19,300 |

(a) On 19 September 2007, the Board approved the disposal of the investment property and the amount was reclassified as a non-current asset held for sale (note 27(c)).

(b) The cost of the investment property as at 31 December 2006 was $8,229,000 and was held under long-term lease and situated in Hong Kong. Prior to its reclassification as a non-current asset held for sale, the investment property was revalued as at 30 June 2007 on the basis of its open market value by Jones Lang LaSalle, an independent firm of qualified property valuers. The fair value gain during the period up to the date of reclassification amounted to $1,100,000 (year ended 31 December 2006: $1,600,000) and was credited to the consolidated income statement under other income (note 7).

## 19. Lease Premiums for Land

| | Group | |
|---|---|---|
| | **2007** **$'000** | 2006 $'000 |
| Net book value at 1 Jan | **94,123** | 94,670 |
| Amortisation | **(538)** | (547) |
| Transfer to non-current assets held for sale (note a) | **(32,368)** | - |
| Net book value at 31 Dec | **61,217** | 94,123 |
| Current portion of lease premiums for land | **(509)** | (548) |
| Non-current portion | **60,708** | 93,575 |

(a) On 19 September 2007, the Board approved the disposal of one of the leasehold properties used by the Group and the lease premium for the land of the property was reclassified as a non-current asset held for sale (note 27(d)).

(b) The leasehold land not reclassified as non-current assets held for sale is held under long-term lease and situated in Hong Kong. The cost of the leasehold land was $69,659,000 (2006: cost of the leasehold land of two leasehold properties was $102,770,000).

## 20. Investment in an Associate

| | Group | |
|---|---|---|
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| Share of net assets of associates (note a) | **-** | 18,170 |
| Goodwill (note b) | **-** | 50,207 |
| | **-** | 68,377 |

(a) Share of net assets of associates

| | **2007 $'000** | 2006 $'000 |
|---|---|---|
| At 1 Jan | **18,170** | 14,374 |
| Share of profits of associates: | | |
| - share of profits before taxation | **6,699** | 32,846 |
| - share of taxation | **(1,112)** | (5,722) |
| | **5,587** | 27,124 |
| Share of other comprehensive income of an associate | - | 37 |
| Share of reserves of an associate | **47** | 441 |
| Dividends received and receivable from an associate | **(9,660)** | (22,500) |
| Disposal of ADP Wilco Processing Services Limited ("AWPS") | - | (1,306) |
| Disposal of Computershare Hong Kong Investor Services Limited ("CHIS") | **(14,144)** | - |
| At 31 Dec | - | 18,170 |

(b) Goodwill

| | **2007 $'000** | 2006 $'000 |
|---|---|---|
| At 1 Jan (note i) | **50,207** | 50,207 |
| Disposal of CHIS | **(50,207)** | - |
| At 31 Dec | **-** | 50,207 |
| Represented by: | | |
| Opening value upon adoption of HKFRS 3 | - | 24,941 |
| At cost | - | 25,266 |
| | - | 50,207 |

(i) Goodwill as at 1 January 2006 represented opening value upon adoption of HKFRS 3 of $25,321,000 less accumulated impairment of $380,000, and further acquisition in 2005 at cost of $25,266,000.

(ii) Impairment tests for investment in an associate

The recoverable amount of the investment in CHIS as at 31 December 2006 was determined using discounted cash flows which represented the present value of estimated future cash flows expected to arise from dividends to be received from CHIS and its ultimate disposal. The discount rate used was the ten-year Hong Kong Government bond rate as at 31 December 2006 of 3.73 per cent.

**20. Investment in an Associate (continued)**

(c) On 29 March 2007, the Group entered into an agreement to sell all of its 7,317 fully paid Class A ordinary shares (equivalent to 30 per cent of the issued share capital) of CHIS for a consideration of $270,320,000 as the Board considered that the sale represented a good opportunity for the Group to realise a gain on the investment. The transaction was completed on 3 April 2007 and the Group ceased to have significant influence over CHIS on the same date. 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 consolidated income statement during the year ended 31 December 2007.

In March 2006, the Group received liquidation proceeds of $1,312,000 from the dissolution of AWPS which were $6,000 higher than the book value of the investment. The gain on liquidation of $6,000 was credited to other income in the consolidated income statement during the year ended 31 December 2006.

(d) The summarised financial information based on unaudited management accounts of the associates as at 31 December 2006 and for the year ended 31 December 2006 was as follows:

| | 2006<br>$'000 |
|---|---|
| Assets | 122,486 |
| Liabilities | 61,918 |
| Income | 374,121 |
| Profit | 90,409 |

## 21. Clearing House Funds

| | Group | |
|---|---|---|
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| Net assets of the Clearing House Funds were as follows: | | |
| HKSCC Guarantee Fund | **362,015** | 344,825 |
| SEOCH Reserve Fund | **1,263,056** | 578,407 |
| HKCC Reserve Fund | **567,133** | 1,347,299 |
| | **2,192,204** | 2,270,531 |
| Net assets of the Clearing House Funds were composed of: | | |
| Available-for-sale financial assets: | | |
| Debt securities, at market value | | |
| - listed in Hong Kong | **-** | 129,512 |
| - unlisted | **361,506** | 187,700 |
| Cash and cash equivalents | **1,841,508** | 1,957,229 |
| | **2,203,014** | 2,274,441 |
| Less: Other liabilities | **(10,810)** | (3,910) |
| | **2,192,204** | 2,270,531 |
| The Clearing House Funds were funded by: | | |
| Clearing Participants' cash contributions (note a) | **1,496,855** | 1,642,495 |
| Designated reserves (note 37): | | |
| - 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 | **282,213** | 232,148 |
| - Clearing houses' contributions | **90,512** | 73,540 |
| | **694,853** | 627,816 |
| Revaluation reserve (Note 35(b)) | **496** | 220 |
| | **2,192,204** | 2,270,531 |
| The maturity profile of the net assets of the Clearing House Funds was as follows: | | |
| Amounts maturing within twelve months | **2,192,204** | 2,270,531 |

(a) Amount included Participants' additional deposits of $1,116,555,000 (2006: $1,279,645,000).

(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 CCASS.

## 22. Available-for-sale Financial Assets

| | Group | |
|---|---|---|
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| Debt securities, at market value | | |
| - listed in Hong Kong | **-** | 28,462 |
| - listed outside Hong Kong | **-** | 43,574 |
| - unlisted | **3,067,007** | 510,086 |
| | **3,067,007** | 582,122 |
| Analysis of available-for-sale financial assets: | | |
| Non-current portion maturing after twelve months | **25,270** | - |
| Current portion maturing within twelve months | **3,041,737** | 582,122 |
| | **3,067,007** | 582,122 |

## 23. Accounts Receivable, Prepayments and Deposits

| | Group | | HKEx | |
|---|---|---|---|---|
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| Receivable from Exchange and Clearing Participants: | | | | |
| - CNS money obligations | **17,301,606** | 9,586,161 | **-** | - |
| - transaction levy, stamp duty and fees receivable | **704,481** | 386,141 | **-** | - |
| - others | **92,243** | 22,180 | **-** | - |
| Other fees receivable | **239,947** | 175,656 | **-** | - |
| Prepayments | **17,364** | 9,811 | **17,023** | 9,398 |
| Other receivables and deposits | **13,096** | 26,292 | **113** | 360 |
| Less : Provision for impairment losses of trade receivables (note b) | **(4,608)** | (4,679) | **-** | - |
| | **18,364,129** | 10,201,562 | **17,136** | 9,758 |

(a) The carrying amounts of accounts receivable and deposits approximated their fair values.

(b) The movements in provision for impairment losses of trade receivables were as follows:

| | Group | |
|---|---|---|
| | **2007 $'000** | 2006 $'000 |
| At 1 Jan | **4,679** | 4,329 |
| (Reversal of provision for)/provision for impairment losses of trade receivables (note 10) | **(71)** | 350 |
| At 31 Dec | **4,608** | 4,679 |

## 23. Accounts Receivable, Prepayments and Deposits (continued)

(c) CNS money obligations receivable accounted for 94 per cent (2006: 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.

## 24. Margin Funds on Derivatives Contracts

| | Group | |
|---|---|---|
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| The Margin Funds comprised: | | |
| SEOCH Clearing Participants' Margin Funds | **9,741,149** | 3,994,664 |
| HKCC Clearing Participants' Margin Funds | **45,687,739** | 17,671,810 |
| | **55,428,888** | 21,666,474 |
| The net assets of the Margin Funds comprised: | | |
| Available-for-sale financial assets: | | |
| Debt securities, at market value: | | |
| - listed in Hong Kong | **-** | 137,191 |
| - listed outside Hong Kong | **243,047** | 634,688 |
| - unlisted | **16,491,959** | 10,311,166 |
| Time deposits with original maturities over three months | **2,508,559** | 51,459 |
| Cash and cash equivalents | **36,182,526** | 10,664,404 |
| Margin receivable from Clearing Participants | **3,068** | 61,813 |
| | **55,429,159** | 21,860,721 |
| Less: Other liabilities | **(271)** | (194,247) |
| | **55,428,888** | 21,666,474 |
| The Group's liabilities in respect of the Margin Funds were as follows: | | |
| Margin deposits from SEOCH and HKCC Participants on derivatives contracts | **55,428,888** | 21,666,474 |
| The maturity profile of the net assets of Margin Funds was as follows: | | |
| Amounts maturing after more than twelve months | **456,396** | - |
| Amounts maturing within twelve months | **54,972,492** | 21,666,474 |
| | **55,428,888** | 21,666,474 |

## 25. Financial Assets at Fair Value through Profit or Loss

| | Group | |
|---|---|---|
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| **Analysis of financial assets at fair value through profit or loss:** | | |
| Held for trading | | |
| Equity securities, at market value | | |
| - listed in Hong Kong | **49,559** | 186,658 |
| - listed outside Hong Kong | **177,591** | 194,267 |
| | **227,150** | 380,925 |
| Held for trading | | |
| Debt securities, at market value | | |
| - listed in Hong Kong | **47,569** | 70,539 |
| - listed outside Hong Kong | **1,363,356** | 1,255,022 |
| - unlisted | **1,258,030** | 1,169,592 |
| | **2,668,955** | 2,495,153 |
| Held for trading | | |
| Mutual funds, at market value | | |
| - listed outside Hong Kong | **96,778** | - |
| Held for trading | | |
| Derivative financial instruments, at market value | | |
| - futures contracts, listed outside Hong Kong | **159** | - |
| - forward foreign exchange contracts | **3,513** | 2,146 |
| | **3,672** | 2,146 |
| | **2,996,555** | 2,878,224 |

## 26. Financial Liabilities at Fair Value through Profit or Loss

| | Group | |
|---|---|---|
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| **Analysis of financial liabilities at fair value through profit or loss:** | | |
| Held for trading | | |
| Derivative financial instruments, at market value | | |
| - forward foreign exchange contracts | **6,149** | 7,505 |

## 27. Non-current Assets Held for Sale

| | Group | |
|---|---|---|
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| Leasehold building (note b) | **7,524** | - |
| Investment property (note c) | **24,200** | - |
| Lease premium for land of leasehold property (note d) | **32,368** | - |
| | **64,092** | - |
| Reserves associated with assets held for sale recognised in other comprehensive income (leasehold buildings revaluation reserve (note 35)) | **3,155** | - |

(a) 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.

Subsequent to 31 December 2007, the Group has 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 properties, after deducting related selling expenses of $1,047,000, amounted to $68,641,000 and was recognised in the consolidated income statement in February 2008.

(b) Leasehold building

| | Group | |
|---|---|---|
| | **2007 $'000** | 2006 $'000 |
| Transfer from leasehold building (note 17(a) (iii)) and at 31 Dec | **7,524** | - |

The cost of the leasehold building was $11,000,000. The carrying amount of the leasehold building as at 31 December 2007 would have been $3,598,000 had it been carried at cost less accumulated depreciation.

(c) Investment property

| | Group | |
|---|---|---|
| | **2007 $'000** | 2006 $'000 |
| Transfer from investment property (note 18(a)) | **20,400** | - |
| Fair value gain | **3,800** | - |
| At 31 Dec | **24,200** | - |

The investment property is held under long-term lease and situated in Hong Kong. The cost of the investment property was $8,229,000. The investment property was revalued as at 31 December 2007 on the basis of its open market value by Jones Lang LaSalle, an independent firm of qualified property valuers. The fair value gain for the valuation amounted to $3,800,000 and was credited to the consolidated income statement under other income (note 7).

## 27. Non-current Assets Held for Sale (continued)

(d) Leasehold premium for land of leasehold property

| | Group | |
|---|---|---|
| | **2007** **$'000** | 2006 $'000 |
| Transfer from lease premiums for land (note 19(a)) and at 31 Dec | **32,368** | - |

The leasehold land is held under long-term lease and situated in Hong Kong. The cost of the leasehold land was $33,111,000.

(e) At 31 December 2007, the liabilities associated with the non-current assets held for sale, being operating expenses payable, were $44,000 and are not expected to be included in the sale.

## 28. Accounts Payable, Accruals and Other Liabilities

| | Group | | HKEx | |
|---|---|---|---|---|
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| Payable to Exchange and Clearing Participants: | | | | |
| - CNS money obligations | **17,300,191** | 9,588,374 | **-** | - |
| - cash collateral and marks | **2,719,588** | 734,696 | **-** | - |
| - others | **169,976** | 69,559 | **-** | - |
| Transaction levy payable to the SFC | **166,988** | 84,670 | **-** | - |
| Unclaimed dividends (note b) | **229,088** | 191,681 | **57,906** | 41,346 |
| Stamp duty payable | **414,202** | 268,236 | **-** | - |
| Deposits received | **28,911** | 24,243 | **-** | - |
| Other payables and accruals | **346,965** | 156,849 | **109,138** | 63,145 |
| | **21,375,909** | 11,118,308 | **167,044** | 104,491 |

(a) The carrying amounts of accounts payable and other liabilities approximated their fair values.

(b) Unclaimed dividends for the Group represent dividends declared by listed companies which were held by HKSCC Nominees Limited but not yet claimed by shareholders of the companies concerned, and dividends declared by HKEx but not yet claimed by its shareholders. During the year, dividends declared by HKEx which were unclaimed over a period of six years from the date of payment amounting to $2,454,000 (2006: $686,000) were forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association (note 39).

(c) CNS money obligations payable accounted for 81 per cent (2006: 86 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations payable mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

## 29. Participants' Admission Fees Received

The admission fees are non-interest bearing and may be repayable upon the expiry of seven years from the date of admission of a Participant or upon the termination of a Participant's participation in CCASS, whichever is later. HKSCC may, at its discretion, grant early refunds of admission fees to terminated Participants after six months from the date of termination of their participation in CCASS and to Participants after six months from the date of sale of their Stock Exchange Trading Right. Participants' admission fees received are included in non-current liabilities unless the admission fees are expected to be repayable to the Participants within twelve months of the end of the reporting period.

## 30. Provisions

(a) Group

| | **Reinstatement costs $'000** | **Employee benefit costs $'000** | **Total $'000** |
|---|---|---|---|
| At 1 Jan 2007 | **24,128** | **26,712** | **50,840** |
| Provision for the year | **-** | **37,391** | **37,391** |
| Amount used during the year | **-** | **(33,109)** | **(33,109)** |
| Amount paid during the year | **-** | **(1,364)** | **(1,364)** |
| At 31 Dec 2007 | **24,128** | **29,630** | **53,758** |

| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
|---|---|---|
| Analysis of provisions: | | |
| Current | **29,630** | 26,712 |
| Non-current | **24,128** | 24,128 |
| | **53,758** | 50,840 |

(b) HKEx

| | **Reinstatement costs $'000** | **Employee benefit costs $'000** | **Total $'000** |
|---|---|---|---|
| At 1 Jan 2007 | **575** | **26,712** | **27,287** |
| Provision for the year | **-** | **37,391** | **37,391** |
| Amount used during the year | **-** | **(33,109)** | **(33,109)** |
| Amount paid during the year | **-** | **(1,364)** | **(1,364)** |
| At 31 Dec 2007 | **575** | **29,630** | **30,205** |

| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
|---|---|---|
| Analysis of provisions: | | |
| Current | **29,630** | 26,712 |
| Non-current | **575** | 575 |
| | **30,205** | 27,287 |

(i) The provision for reinstatement costs represents the estimated costs used to restore the leased office premises to their original state upon the expiry of the leases. The leases are expected to expire within four years.

(ii) The provision for employee benefit costs represents unused annual leave that has been accumulated at the end of the reporting period. It is expected to be fully utilised in the coming twelve months.

## 31. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5 per cent (2006: 17.5 per cent).

(a) The movements on the deferred tax liabilities/(assets) account were as follows:

| | Group | | HKEx | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| At 1 Jan | **10,673** | 17,710 | **(3,330)** | (2,967) |
| Charged/(credited) to income statement (note 14(a)) | **14,689** | (9,218) | **(280)** | (363) |
| Charged to other comprehensive income (note b) | **7,901** | 2,181 | **-** | - |
| At 31 Dec (note e) | **33,263** | 10,673 | **(3,610)** | (3,330) |

(b) The deferred taxation relating to each component of other comprehensive income charged/(credited) to other comprehensive income during the year was as follows:

| | Group | |
|---|---|---|
| | **2007 $'000** | 2006 $'000 |
| Change in valuation of leasehold buildings (note 35) | **(7)** | 87 |
| Reclassification of a leasehold building to "Non-current assets held for sale" (note 35) | **(552)** | - |
| Change in fair value of available-for-sale financial assets (note 35) | **8,460** | 2,094 |
| | **7,901** | 2,181 |

(c) Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of $239,773,000 as at 31 December 2007 (2006: $272,486,000) carried forward for offsetting against future taxable income.

## 31. Deferred Taxation (continued)

(d) The movements on the deferred tax liabilities/(assets) account were as follows:

| | Group | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Accelerated tax depreciation | | Revaluation of properties | | Tax losses | | Revaluation of available-for-sale financial assets | | Employee benefits | | Total | |
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| At 1 Jan | **17,115** | 25,052 | **2,810** | 2,291 | **(6,656)** | (5,136) | **2,079** | (15) | **(4,675)** | (4,482) | **10,673** | 17,710 |
| Charged/(credited) to income statement | **22,728** | (7,937) | **(1,994)** | 432 | **(5,535)** | (1,520) | **-** | - | **(510)** | (193) | **14,689** | (9,218) |
| Charged/(credited) to other comprehensive income | **-** | - | **(559)** | 87 | **-** | - | **8,460** | 2,094 | **-** | - | **7,901** | 2,181 |
| At 31 Dec | **39,843** | 17,115 | **257** | 2,810 | **(12,191)** | (6,656) | **10,539** | 2,079 | **(5,185)** | (4,675) | **33,263** | 10,673 |

| | HKEx | | | | | |
|---|---|---|---|---|---|---|
| | Accelerated tax depreciation | | Employee benefits | | Total | |
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| At 1 Jan | **1,345** | 1,515 | **(4,675)** | (4,482) | **(3,330)** | (2,967) |
| Charged/(credited) to income statement | **230** | (170) | **(510)** | (193) | **(280)** | (363) |
| At 31 Dec | **1,575** | 1,345 | **(5,185)** | (4,675) | **(3,610)** | (3,330) |

(e) Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to tax levied by the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

| | Group | | HKEx | |
|---|---|---|---|---|
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| Net deferred tax assets recognised on the statement of financial position | **(3,610)** | (3,330) | **(3,610)** | (3,330) |
| Net deferred tax liabilities recognised on the statement of financial position | **36,873** | 14,003 | **-** | - |
| | **33,263** | 10,673 | **(3,610)** | (3,330) |

## 32. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity

(a) Investments in subsidiaries

| | HKEx | |
|---|---|---|
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| Investments in unlisted shares, at cost | **4,145,198** | 4,145,198 |
| Financial guarantee granted to a subsidiary (note 42(b)(i)) | **11,390** | 11,390 |
| | **4,156,588** | 4,156,588 |

(b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries are interest-free and repayable on demand.

(c) Particulars of subsidiaries

HKEx had direct or indirect interests in the following subsidiaries as at 31 December 2007, all of which are wholly-owned private companies incorporated and operating in Hong Kong. Details of these companies were as follows:

| **Company** | **Issued and fully paid up share capital** | **Principal activities** | **Interest held** |
|---|---|---|---|
| **Direct subsidiaries:** | | | |
| The Stock Exchange of Hong Kong Limited | "A" shares $929 | Operates the single, unified stock exchange in Hong Kong for the purposes of the Securities and Futures Ordinance | 100% |
| Hong Kong Futures Exchange Limited | Ordinary $19,600,000 Standard $850,000 | Operates a futures and options exchange | 100% |
| Hong Kong Securities Clearing Company Limited | Ordinary $2 | Operates a clearing house for securities traded on the unified stock exchange in Hong Kong and the central securities depository and provides custody and nominee services for eligible securities listed in Hong Kong | 100% |
| HKEC Nominees Limited | Ordinary $2 | Nominee services | 100% |
| Hong Kong Financial Markets Development Limited | $2 | Promotes the securities, futures and financial industry | 100% |
| HKEx (China) Limited | $2 | Promotes HKEx products and services | 100% |
| HKEx (Singapore) Limited | $2 | Dormant | 100% |

**32. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity (continued)**

(c) Particulars of subsidiaries (continued)

| Company | Issued and fully paid up share capital | Principal activities | Interest held |
|---|---|---|---|
| **Indirect subsidiaries:** | | | |
| The SEHK Options Clearing House Limited | Ordinary $1,000,000 | Operates a clearing house for options contracts traded on the Stock Exchange | 100% |
| HKEx Information Services Limited | $100 | Sale of stock market information | 100% |
| Prime View Company Limited | $20 | Property holding | 100% |
| The Stock Exchange Club Limited | $8 | Property holding | 100% |
| The Stock Exchange Nominee Limited | $2 | Nominee services | 100% |
| HKFE Clearing Corporation Limited | Ordinary $1,000,000 | Operates a clearing house for derivatives contracts traded on the Futures Exchange | 100% |
| HKFE Clearing Linkage Limited | $2 | Dormant | 100% |
| HKSCC Nominees Limited | $20 | Acting as common nominee in respect of securities held in the CCASS depository | 100% |
| Many Profit Limited | $2 | Dormant | 100% |
| Freestar Corporation Limited | $2 | Dormant | 100% |
| Star Prime Limited | $2 | Dormant | 100% |
| HK Conversion Agency Services Limited | $2 | Conversion agency services | 100% |

## 32. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity (continued)

(d) Controlled special purpose entity

There was one special purpose entity controlled by HKEx which operates in Hong Kong, particulars of which are as follows:

| Special purpose entity | Principal activities |
|---|---|
| The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust") | Administering and holding HKEx shares for the Share Award Scheme for the benefit of eligible HKEx employees (note 34(c)) |

As HKEx has the power to govern the financial and operating policies of the HKEx Employee Share Trust and can derive benefits from the contributions of the employees who have been awarded the Awarded Shares through their continued employment with the Group, the Group is required to consolidate the HKEx Employee Share Trust.

As at 31 December 2007, HKEx had contributed $43,635,000 (2006: $49,825,000) to the HKEx Employee Share Trust for shares not yet vested and the amount was recorded as "Contributions to HKEx Employee Share Trust" in HKEx's statement of financial position.

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

| | Group and HKEx | |
|---|---|---|
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| Authorised: | | |
| 2,000,000,000 shares of $1 each | **2,000,000** | 2,000,000 |

## 33. Share Capital, Share Premium and Shares Held for Share Award Scheme (continued)

Issued and fully paid:

| | Group | | | | |
|---|---|---|---|---|---|
| | **Number of shares of $1 each** | **Share capital** $'000 | **Share premium** $'000 | **Shares held for Share Award Scheme** $'000 | **Total** $'000 |
| At 1 Jan 2006 | 1,061,796,846 | 1,062,755 | 150,405 | (30,028) | 1,183,132 |
| Shares issued under employee share option schemes (note a) | 2,693,500 | 2,693 | 28,202 | - | 30,895 |
| Transfer from employee share-based compensation reserve (note 34) | - | - | 7,335 | - | 7,335 |
| Shares purchased for Share Award Scheme (note b) | (300,000) | - | - | (21,269) | (21,269) |
| At 31 Dec 2006 | 1,064,190,346 | 1,065,448 | 185,942 | (51,297) | 1,200,093 |
| 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 34) | **-** | **-** | **19,013** | **-** | **19,013** |
| Vesting of shares of Share Award Scheme (note c) | **243,868** | **-** | **-** | **8,373** | **8,373** |
| Shares purchased for Share Award Scheme (note b) | **(42,500)** | **-** | **-** | **(4,879)** | **(4,879)** |
| At 31 Dec 2007 | **1,069,228,714** | **1,070,285** | **266,170** | **(47,803)** | **1,288,652** |

| | HKEx | | | |
|---|---|---|---|---|
| | **Number of shares of $1 each** | **Share capital** $'000 | **Share premium** $'000 | **Total** $'000 |
| At 1 Jan 2006 | 1,062,754,846 | 1,062,755 | 150,405 | 1,213,160 |
| Shares issued under employee share option schemes (note a) | 2,693,500 | 2,693 | 28,202 | 30,895 |
| Transfer from employee share-based compensation reserve (note 34) | - | - | 7,335 | 7,335 |
| At 31 Dec 2006 | 1,065,448,346 | 1,065,448 | 185,942 | 1,251,390 |
| At 1 Jan 2007 | **1,065,448,346** | **1,065,448** | **185,942** | **1,251,390** |
| 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 34) | **-** | **-** | **19,013** | **19,013** |
| At 31 Dec 2007 | **1,070,285,346** | **1,070,285** | **266,170** | **1,336,455** |

## 33. Share Capital, Share Premium and Shares Held for Share Award Scheme (continued)

(a) During the year, employee share options granted under the Pre-Listing Scheme and the Post-Listing Scheme were exercised to subscribe for 4,837,000 shares (2006: 2,693,500 shares) in HKEx at an average consideration of $13.66 per share (2006: $11.47 per share), of which $1.00 per share was credited to share capital and the balance was credited to the share premium account.

(b) During the year, the HKEx Employee Share Trust acquired 42,500 HKEx shares (2006: 300,000 shares) through purchases on the open market for the Share Award Scheme (note 34(c)). The total amount paid to acquire the shares during the year was $4,879,000 (2006: $21,269,000) and has been deducted from shareholders' equity.

(c) During the year, the HKEx Employee Share Trust transferred 243,868 HKEx shares (2006: Nil shares) to the awardees upon vesting of certain Awarded Shares on 19 December 2007. The total cost of the related vested shares was $8,373,000 (2006: $Nil).

## 34. Employee Share–based Compensation Reserve

| | Group | | HKEx | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| At 1 Jan | **52,119** | 34,980 | **51,606** | 34,908 |
| Employee share-based compensation benefits (note a and note 8) | **24,362** | 24,033 | **24,362** | 24,033 |
| Transfer to share premium upon exercise of employee share options (note 33) | **(19,013)** | (7,335) | **(19,013)** | (7,335) |
| Vesting of shares of Share Award Scheme | **(7,286)** | - | **(7,286)** | - |
| Share of reserve of an associate | | | | |
| - during the year | **47** | 441 | **-** | - |
| - eliminated through disposal of associate | **(560)** | - | **-** | - |
| At 31 Dec | **49,669** | 52,119 | **49,669** | 51,606 |

(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 shares 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.

**34. 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 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 34(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:

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **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** | **788,000** | 6.88 | 2,126,000 |
| Exercised | **6.88** | **(409,000)** | 6.88 | (1,338,000) |
| Outstanding at 31 Dec | **6.88** | **379,000** | 6.88 | 788,000 |
| **Post-Listing Scheme** | | | | |
| Outstanding at 1 Jan | **15.68** | **14,593,500** | 15.80 | 16,574,000 |
| Exercised | **14.28** | **(4,428,000)** | 16.00 | (1,355,500) |
| Forfeited | **13.01** | **(1,076,000)** | 18.32 | (625,000) |
| Outstanding at 31 Dec | **16.67** | **9,089,500** | 15.68 | 14,593,500 |
| Total | **16.28** | **9,468,500** | 15.23 | 15,381,500 |

At 31 December 2007, out of the 9,468,500 outstanding options (2006: 15,381,500), 1,656,500 options (2006: 2,626,500) were exercisable at a weighted average exercise price of $12.92 (2006: $10.39) per share.

During the year, employee share options granted under the Pre-Listing Scheme and the Post-Listing Scheme were exercised to subscribe for 4,837,000 shares (2006: 2,693,500 shares) in HKEx at a weighted average exercise price of $13.66 per share (2006: $11.47 per share). The weighted average closing share price on the dates on which the options were exercised was $110.02 (2006: $51.33) per share.

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

(b) Share options (continued)

(iii) Share options outstanding as at 31 December had the following remaining contractual lives and exercise prices:

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Remaining contractual life** | **Number of shares issuable under options granted** | Remaining contractual life | Number of shares issuable under options granted |
| Exercise price | | | | |
| $6.88 | **2.41 years** | **379,000** | 3.41 years | 788,000 |
| $8.28 | **5.33 years** | **1,240,000** | 6.33 years | 2,460,000 |
| $12.45 | **5.62 years** | **273,500** | 6.62 years | 547,000 |
| $12.49 | **N/A** | **-** | 6.63 years | 1,476,000 |
| $17.30 | **6.04 years** | **547,000** | 7.04 years | 822,000 |
| $16.96 | **6.24 years** | **2,827,500** | 7.24 years | 4,084,500 |
| $15.91 | **6.37 years** | **125,000** | 7.37 years | 150,000 |
| $19.25 | **7.07 years** | **4,076,500** | 8.07 years | 5,054,000 |
| | **6.30 years** | **9,468,500** | 7.08 years | 15,381,500 |

(iv) Had all the outstanding employee share options been fully exercised on 31 December 2007, the Group would have received $154,159,000 in proceeds. The market value of the shares issued based on the closing price of $221.20 per share on that date would have been $2,094,432,000. The theoretical gains made by the employees or Executive Director concerned would have been as follows:

| | **Number of shares issuable under options granted as at 31 Dec 2007** | **Exercise price $** | **Gain per share $** | **Aggregate gain $'000** |
|---|---|---|---|---|
| **Pre-Listing Scheme** | | | | |
| – granted to employees on 20 Jun 2000 | **379,000** | **6.88** | **214.32** | **81,227** |
| **Post-Listing Scheme** | | | | |
| – granted to an Executive Director on 2 May 2003 | **1,240,000** | **8.28** | **212.92** | **264,021** |
| – granted to an employee on 14 Aug 2003 | **273,500** | **12.45** | **208.75** | **57,093** |
| – granted to an employee on 15 Jan 2004 | **547,000** | **17.30** | **203.90** | **111,533** |
| – granted to employees on 31 Mar 2004 | **2,827,500** | **16.96** | **204.24** | **577,489** |
| – granted to an employee on 17 May 2004 | **125,000** | **15.91** | **205.29** | **25,661** |
| – granted to employees on 26 Jan 2005 | **4,076,500** | **19.25** | **201.95** | **823,249** |
| Total | **9,468,500** | | | **1,940,273** |

**34. 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. 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 ("the 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.

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.

960,000 Awarded Shares were awarded on 19 December 2005 to a number of employees which will be transferred to the employees at nil consideration upon vesting between 19 December 2007 and 19 December 2010. The trustee acquired 958,000 HKEx shares at a total cost (including related transaction costs) of $30,028,000 in December 2005 and the remaining 2,000 shares at a total cost (including related transaction costs) of $70,000 in January 2006. 232,375 Awarded Shares at a cost of $7,286,000 were vested on 19 December 2007 and transferred to the employees at nil consideration.

On 13 December 2006, the Board approved and awarded an Awarded Sum of $19,673,000 to certain employees (including the Chief Executive). Subsequently, the trustee purchased 272,500 Awarded Shares at a total cost (including related transaction costs) of $19,696,000 (ie, average fair value of $72.28 per share), and 272,465 Awarded Shares were allocated to eligible employees (including the Chief Executive) on 15 January 2007. The Awarded Shares will be transferred to the employees and the Chief Executive at nil consideration upon vesting between 13 December 2008 and 13 December 2011.

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

(c) Awarded Shares (continued)

(i) (continued)

On 14 February 2007, the Board approved an Awarded Sum of $600,000 to be awarded to an employee who joined HKEx on 16 April 2007. Subsequently, the trustee purchased 7,000 Awarded Shares at a total cost (including related transaction costs) of $569,000 (ie, average fair value of $81.33 per share) and they were allocated to the employee on 7 June 2007. The Awarded Shares will be transferred to the employee at nil consideration upon vesting between 16 April 2009 and 16 April 2012.

On 15 May 2007, the Board approved an Awarded Sum of $600,000 to be awarded to an employee who joined HKEx on 18 June 2007. Subsequently, the trustee purchased 5,500 Awarded Shares at a total cost (including related transaction costs) of $563,000 (ie, average fair value of $102.29 per share) and they were allocated to the employee on 17 July 2007. The Awarded Shares will be transferred to the employee at nil consideration upon vesting between 18 June 2009 and 18 June 2012.

On 12 December 2007, the Board approved and awarded an Awarded Sum of $26,300,000 to certain employees. No Awarded Shares were purchased by the trustee before 31 December 2007. Subsequently in January 2008, the trustee purchased 151,000 Awarded Shares at a total cost (including related transaction costs) of $24,721,000 (ie, average fair value of $163.72 per share), and 150,965 Awarded Shares were allocated to eligible employees on 4 February 2008. The Awarded Shares will be transferred to the employees at nil consideration upon vesting between 12 December 2009 and 12 December 2012.

Further, during the year ended 31 December 2007, 30,000 HKEx shares (2006: 25,500 shares) were acquired by the trustee through reinvesting dividends received at a total cost (including related transaction costs) of $3,747,000 (2006: $1,503,000), of which 29,132 shares (2006: 24,867 shares) were subsequently allocated to awardees. 11,493 HKEx shares at a cost of $1,087,000 acquired from reinvesting dividends received were vested on 19 December 2007 and transferred to the employees at nil consideration.

(ii) Movements in the number of Awarded Shares awarded and their related average fair value were as follows:

| | **2007** Number of Awarded Shares awarded | 2006 Number of Awarded Shares awarded |
|---|---|---|
| Outstanding at 1 Jan | **955,906** | 960,000 |
| Awarded (average fair vale per share of $73.08) * # | **284,965** | - |
| Forfeited | **(1,800)** | (28,700) |
| Vested | **(232,375)** | - |
| Dividends reinvested | | |
| - allocated to awardees | **29,132** | 24,867 |
| - allocated to awardees but subsequently forfeited | **(73)** | (261) |
| - vested | **(11,493)** | - |
| Outstanding at 31 Dec | **1,024,262** | 955,906 |

* Included 272,465 Awarded Shares purchased for the Awarded Sum of $19,673,000 approved by the Board on 13 December 2006, which were allocated to the awardees upon the completion of share purchase by the trustee on 15 January 2007.

\# Excluded 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.

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

(c) Awarded Shares (continued)

(ii) (continued)

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.

(iii) The remaining vesting periods of the Awarded Shares awarded outstanding as at 31 December were as follows:

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Remaining vesting period** | **Number of Awarded Shares outstanding** | Remaining vesting period | Number of Awarded Shares outstanding |
| Fair value | | | | |
| $31.20 | **0.97 year to 2.97 years** | **697,125** | 0.97 year to 3.97 years | 931,300 |
| $72.28 | **0.95 year to 3.95 years** | **272,465** | N/A | - |
| $81.33 | **1.29 year to 4.29 years** | **7,000** | N/A | - |
| $102.29 | **1.47 year to 4.47 years** | **5,500** | N/A | - |
| Dividends reinvested | **0.95 year to 4.47 years** | **42,172** | 0.97 year to 3.97 years | 24,606 |
| | | **1,024,262** | | 955,906 |

(iv) As at 31 December 2007, 32,370 forfeited and unallocated shares were held by the HKEx Employee Share Trust and would be allocated to awardees in future (2006: 302,904 forfeited and unallocated shares, of which 272,465 shares were allocated to awardees on 15 January 2007).

(v) Had all the outstanding Awarded Shares been fully vested on 31 December 2007, the theoretical gains of the awardees based on the closing price of $221.20 per share on that date would have been $226,567,000.

## 35. Revaluation Reserves

| | Group | | |
|---|---|---|---|
| | **Leasehold buildings revaluation reserve** $'000 | **Investment revaluation reserve (notes b and c)** $'000 | **Total** $'000 |
| At 1 Jan 2006 | 2,225 | (39,311) | (37,086) |
| Change in valuation of leasehold buildings (note 17(a)(iv)) | 502 | - | 502 |
| Change in fair value of available-for-sale financial assets | - | 31,356 | 31,356 |
| Realisation of change in fair value of available-for-sale financial assets on maturity and disposal | - | 17,941 | 17,941 |
| Deferred tax arising from change in valuation of leasehold buildings (note 31(b)) | (87) | - | (87) |
| Deferred tax arising from change in fair value of available-for-sale financial assets (note 31(b)) | - | (2,094) | (2,094) |
| Share of reserve of an associate | - | 37 | 37 |
| At 31 Dec 2006 | 2,640 | 7,929 | 10,569 |
| At 1 Jan 2007 | **2,640** | **7,929** | **10,569** |
| Change in valuation of leasehold buildings (note 17(a)(iv)) | **(44)** | **-** | **(44)** |
| Change in fair value of available-for-sale financial assets | **-** | **63,421** | **63,421** |
| Realisation of change in fair value of available-for-sale financial assets on maturity and disposal | **-** | **(9,951)** | **(9,951)** |
| Deferred tax arising from change in valuation of leasehold buildings (note 31(b)) | **7** | **-** | **7** |
| Deferred tax arising from reclassification of a leasehold building to "Non-current assets held for sale" (note 31(b)) | **552** | **-** | **552** |
| Deferred tax arising from change in fair value of available-for-sale financial assets (note 31(b)) | **-** | **(8,460)** | **(8,460)** |
| Elimination of share of reserve of an associate through disposal | **-** | **(58)** | **(58)** |
| At 31 Dec 2007 | **3,155** | **52,881** | **56,036** |

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

(b) Included gross investment revaluation surplus of $496,000 (2006: $220,000) which was attributable to investments of the Clearing House Funds.

(c) Balance at 31 December 2006 included share of investment revaluation reserve of an associate of $58,000.

## 36. Hedging Reserve

| | Group | | HKEx | |
|---|---|---|---|---|
| | **2007** **$'000** | 2006 $'000 | **2007** **$'000** | 2006 $'000 |
| At 1 Jan | - | - | - | - |
| Cash flow hedges: | | | | |
| - fair value gains of hedging instruments | **132** | 475 | **132** | 469 |
| - Gains reclassified to profit or loss as information technology and computer maintenance expenses | **(70)** | (475) | **(70)** | (469) |
| - Gains reclassified to profit or loss as net investment income | **(62)** | - | **(62)** | - |
| At 31 Dec | - | - | - | - |
| Fair value of hedging instruments at 31 Dec | - | 16,531 | - | 16,531 |

In 2005, one of the subsidiaries designated a bank deposit of 8,500,000 Swedish Krona ("SEK") as a cash flow hedge for hedging the foreign exchange risk of HKEx's forecast information technology and computer maintenance expenses of SEK8,500,000 from August to December 2005. On 29 August 2005, the said bank deposit was transferred to HKEx without changing the terms of the cash flow hedge. As at 31 December 2007, the bank deposits had matured (2006: SEK933,000 outstanding).

In 2006, one of the subsidiaries designated SEK7,880,000 as a cash flow hedge for hedging the foreign exchange risk of HKEx's forecast information technology and computer maintenance expenses of SEK7,880,000 from May to August 2006. On 3 May 2006, the amount was transferred to HKEx and placed as a bank deposit without changing the terms of the cash flow hedge. As at 31 December 2007, the bank deposit had matured (2006: SEK3,812,000 outstanding).

In 2006, HKEx designated bank deposits of SEK9,800,000 as cash flow hedges for hedging the foreign exchange risk of its forecast information technology and computer maintenance expenses of SEK9,800,000 from June to December 2006. As at 31 December 2007, the bank deposits had matured (2006: SEK9,800,000 outstanding).

In 2007, HKEx designated a bank deposit of SEK10,587,000 as cash flow hedges for hedging the foreign exchange risk of its forecast information technology and computer maintenance expenses of SEK10,587,000 from January to May 2007. As at 31 December 2007, the bank deposit had matured.

In addition to the above, a bank deposit of SEK1,413,000 was designated in January 2007 as a hedging instrument for hedging forecast information technology and computer maintenance expenses of SEK1,413,000 from 30 May 2007 to 31 December 2007. In May 2007, the cash flow hedge was terminated as the forecast transactions for 30 May 2007 to 31 December 2007 were no longer expected to materialise. As a result, the exchange gain of the hedging instrument deferred in the hedging reserve of $62,000 was reclassified from hedging reserve to profit or loss as net investment income during the year ended 31 December 2007.

The ineffectiveness of cash flow hedges credited to profit or loss for the Group and HKEx during the year amounted to $Nil (2006: $3,000).

## 37. Designated Reserves

These reserves are segregated for their respective purposes. Details of the movements on the reserves during the year were as follows:

| | Group | | | |
|---|---|---|---|---|
| | **Clearing House Funds reserves (note a)** $'000 | **Compensation Fund Reserve Account reserve** $'000 | **Development reserve (note b)** $'000 | **Total** $'000 |
| At 1 Jan 2006, as previously reported | 589,976 | 38,420 | 72,245 | 700,641 |
| Effect of reclassification of CFRA | - | (38,420) | - | (38,420) |
| At 1 Jan 2006, as restated | 589,976 | - | 72,245 | 662,221 |
| Surplus of net investment income net of expenses transferred from retained earnings | 37,840 | - | - | 37,840 |
| Transfer to retained earnings | - | - | (72,245) | (72,245) |
| Transfer from/(to) retained earnings | 37,840 | - | (72,245) | (34,405) |
| At 31 Dec 2006, as restated | 627,816 | - | - | 627,816 |
| At 1 Jan 2007, as previously reported | **627,816** | **40,446** | **-** | **668,262** |
| Effect of reclassification of CFRA | **-** | **(40,446)** | **-** | **(40,446)** |
| At 1 Jan 2007, as restated | **627,816** | **-** | **-** | **627,816** |
| Surplus of net investment income net of expenses transferred from retained earnings | **67,037** | **-** | **-** | **67,037** |
| At 31 Dec 2007 | **694,853** | **-** | **-** | **694,853** |

## 37. Designated Reserves (continued)

(a) Clearing House Funds reserves

| | HKSCC Guarantee Fund reserve $'000 | SEOCH Reserve Fund reserve $'000 | HKCC Reserve Fund reserve $'000 | Total $'000 |
|---|---|---|---|---|
| At 1 Jan 2006 | 250,444 | 56,346 | 283,186 | 589,976 |
| Surplus of net investment income net of expenses of Clearing House Funds transferred from retained earnings | 6,070 | 14,847 | 16,923 | 37,840 |
| At 31 Dec 2006 | 256,514 | 71,193 | 300,109 | 627,816 |
| At 1 Jan 2007 | **256,514** | **71,193** | **300,109** | **627,816** |
| Surplus of net investment income net of expenses of Clearing House Funds transferred from retained earnings | **13,121** | **31,635** | **22,281** | **67,037** |
| At 31 Dec 2007 | **269,635** | **102,828** | **322,390** | **694,853** |

(b) Development reserve

The reserve was set aside for systems development for the Stock Exchange and the betterment of the securities market. During 2006, the reserve was fully utilised and $72,245,000 of the reserve was transferred to the Group's retained earnings (note 39) for funding projects that were for the betterment of the securities market.

## 38. Merger Reserve

The Group has taken advantage of the merger relief available under section 48C of the Hong Kong Companies Ordinance and treated the premium created by the issuance of shares on 6 March 2000, the date HKEx became the holding company of the Stock Exchange and the Futures Exchange and their subsidiaries, as a merger reserve. In the consolidated statement of financial position, the full amount of the merger reserve has been used to offset against the reserve arising on consolidation as explained in note 39(c).

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

| | Group | | HKEx | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| At 1 Jan, as previously reported | **3,326,543** | 2,455,804 | **377,601** | 237,675 |
| Effect of reclassification of CFRA | **40,446** | 38,420 | - | - |
| At 1 Jan, as restated | **3,366,989** | 2,494,224 | **377,601** | 237,675 |
| Profit attributable to shareholders (notes a and b) | **6,169,278** | 2,518,569 | **3,161,859** | 1,821,661 |
| Surplus of net investment income net of expenses of Clearing House Funds transferred to Clearing House Funds reserves | **(67,037)** | (37,840) | - | - |
| Transfer from Development reserve | - | 72,245 | - | - |
| | **(67,037)** | 34,405 | - | - |
| Dividends: | | | | |
| 2006/2005 final dividend | **(1,266,387)** | (679,549) | **(1,267,884)** | (680,163) |
| Dividend on shares issued for employee share options exercised after 31 Dec 2006/31 Dec 2005 | **(3,879)** | (1,039) | **(3,879)** | (1,039) |
| | **(1,270,266)** | (680,588) | **(1,271,763)** | (681,202) |
| 2007/2006 interim dividend | **(1,911,131)** | (1,000,050) | **(1,913,437)** | (1,000,962) |
| Dividend on shares issued for employee share options exercised after 30 Jun 2007/30 Jun 2006 | **(1,062)** | (257) | **(1,062)** | (257) |
| | **(1,912,193)** | (1,000,307) | **(1,914,499)** | (1,001,219) |
| Unclaimed dividend forfeited | **2,454** | 686 | **2,454** | 686 |
| Vesting of shares of Share Award Scheme | **(1,087)** | - | - | - |
| At 31 Dec | **6,288,138** | 3,366,989 | **355,652** | 377,601 |
| Representing: | | | | |
| Retained earnings | **2,652,760** | 2,100,602 | **(3,283,318)** | (890,283) |
| Proposed/declared dividends | **3,635,378** | 1,266,387 | **3,638,970** | 1,267,884 |
| At 31 Dec | **6,288,138** | 3,366,989 | **355,652** | 377,601 |

(a) Profit attributable to shareholders included a profit of $3,161,859,000, of which $3,156,100,000 was dividends from subsidiaries (2006: $1,821,661,000, of which $1,802,995,000 was dividends from subsidiaries), which has been dealt with in the accounts of HKEx, the holding company of the Group.

(b) The Group's profit attributable to shareholders included the net investment income net of expenses of the Clearing House Funds for an aggregate amount of $67,037,000 (2006: $37,840,000).

(c) The negative reserve arising on consolidation of $4,116,436,000, representing the difference between the cost of acquiring the subsidiaries at the time of the merger and their respective issued share capital, was offset against merger reserve of $2,997,115,000 (note 38) and retained earnings of $1,119,321,000.

## 40. Notes to the Consolidated Statement of Cash Flows

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

| | **2007** **$'000** | 2006 $'000 |
|---|---|---|
| Profit before taxation | **7,190,809** | 2,963,467 |
| Adjustments for: | | |
| Net interest income | **(1,012,988)** | (365,780) |
| Net realised and unrealised gains and interest income on financial assets and financial liabilities at fair value through profit or loss | **(208,728)** | (228,985) |
| Dividend income from financial assets at fair value through profit or loss | **(6,091)** | (6,115) |
| Interest expenses on bank overdrafts | **491** | - |
| Amortisation of lease premiums for land | **538** | 547 |
| Fair value gain of an investment property | **(4,900)** | (1,600) |
| Depreciation | **79,144** | 99,888 |
| Employee share-based compensation benefits | **24,362** | 24,033 |
| Provision for/(reversal of provision for) impairment losses of leasehold buildings | **74** | (422) |
| (Reversal of provision for)/provision for impairment losses of trade receivables | **(71)** | 350 |
| Changes in provisions | **2,918** | (751) |
| Share of profits of associates | **(5,587)** | (27,124) |
| Gain on disposal/liquidation of associates | **(206,317)** | (6) |
| (Gain)/loss on disposal of fixed assets | **(262)** | 627 |
| Net increase in financial assets and financial liabilities at fair value through profit or loss | **(47,084)** | (110,506) |
| Settlement of amounts transferred from retained earnings to Clearing House Funds | **(67,037)** | (37,840) |
| Increase in accounts receivable, prepayments and deposits | **(8,161,024)** | (6,891,416) |
| Increase in other current liabilities | **10,203,546** | 7,537,365 |
| Net cash inflow from operations | **7,781,793** | 2,955,732 |
| Interest received from bank deposits | **1,030,736** | 516,468 |
| Dividends received from financial assets at fair value through profit or loss | **6,276** | 6,473 |
| Interest received from financial assets at fair value through profit or loss | **147,772** | 91,067 |
| Interest paid | **(715,761)** | (442,188) |
| Hong Kong Profits Tax paid | **(606,632)** | (259,268) |
| Net cash inflow from operating activities | **7,644,184** | 2,868,284 |

(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 year therefore did not constitute any cash or cash equivalent transactions to the Group.

## 41. Commitments

(a) Commitments in respect of capital expenditures:

| | Group | | HKEx | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| Contracted but not provided for | **33,555** | 9,144 | **105** | 2,123 |
| Authorised but not contracted for | **131,349** | 82,461 | **29,361** | 22,598 |
| | **164,904** | 91,605 | **29,466** | 24,721 |

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

(b) Commitments for total future minimum lease payments under non-cancellable operating leases

| | Group | | HKEx | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| Land and buildings | | | | |
| - within one year | **88,736** | 91,910 | **1,403** | 1,558 |
| - in the second to fifth years | **8,151** | 96,819 | **1,391** | 2,734 |
| | **96,887** | 188,729 | **2,794** | 4,292 |
| Computer systems, software and equipment | | | | |
| - within one year | **17,097** | 8,320 | **14,664** | 7,605 |
| - in the second to fifth years | **1,786** | 2,218 | **1,786** | 2,218 |
| | **18,883** | 10,538 | **16,450** | 9,823 |
| | **115,770** | 199,267 | **19,244** | 14,115 |

As at 31 December 2007, in respect of computer systems, software and equipment, the majority of the leases would mature within one year (2006: one year) and the Group did not have any purchase options.

(c) Commitments for computer maintenance contracts

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 post-trading clearing and settlement services. In order to maintain the high standard of performance of the systems, the Group has entered into various maintenance contracts with its vendors. The total commitments under maintenance contracts in respect of computer systems and equipment were as follows:

| | Group | | HKEx | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| Computer systems and equipment | | | | |
| - within one year | **47,839** | 34,377 | **47,013** | 24,684 |
| - in the second to fifth years | **107,611** | 2,101 | **107,611** | 2,101 |
| | **155,450** | 36,478 | **154,624** | 26,785 |

**41. Commitments (continued)**

(d) Commitment in respect of financial contributions to Financial Reporting Council

In 2006, the Board approved the funding arrangements for the Financial Reporting Council ("FRC"), an independent statutory body established on 1 December 2006 under the Financial Reporting Council Ordinance to receive and investigate complaints concerning irregularities of auditors and reporting accountants of listed companies and non-compliances in the financial reports of listed companies.

Under the arrangement, HKEx has agreed to make recurrent contributions of $2.5 million per annum in the first three financial years to provide funding for the FRC's operations and an initial contribution of $5 million to a reserve fund to give the FRC more financial assurance to meet any inadequacies of the annual recurrent funding. The first recurrent contribution and the initial contribution to the reserve fund were paid in February 2007 and the second recurrent contribution will be payable in February 2008. After the first three financial years, the contributions to the FRC will be subject to a review of its operating experience and other factors.

**42. Contingent Liabilities**

(a) Group

(i) The Group has a contingent liability in respect of potential calls to be made by the SFC to replenish all or part of compensation less recoveries paid by the Compensation Fund established under the Securities Ordinance up to an amount not exceeding $72 million. At 31 December 2007, no calls have been made by the SFC in this connection.

(ii) 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 439 trading Participants as at 31 December 2007 (2006: 425) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to $87,800,000 (2006: $85,000,000).

The carrying amount of the financial guarantee contract recognised in the consolidated statement of financial position in accordance with HKAS 39 and HKFRS 4 (Amendments) was $19,909,000 (2006: $19,909,000).

(b) Group and HKEx

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

The carrying amount of the financial guarantee contract recognised in HKEx's statement of financial position in accordance with HKAS 39 and HKFRS 4 (Amendments) was $11,390,000 (2006: $11,390,000). The financial guarantee contract was eliminated on consolidation.

## 43. Future Operating Lease Arrangements

As at 31 December, the future aggregate minimum lease receipts under non-cancellable operating leases of the Group were as follows:

| | Group | |
|---|---|---|
| | **2007 $'000** | 2006 $'000 |
| Land and buildings | | |
| - within one year | **354** | 933 |
| - in the second to fifth years | **6** | 815 |
| | **360** | 1,748 |
| Trading booths and related facilities | | |
| - within one year | **9,610** | 9,610 |
| - in the second to fifth years | **387** | 9,997 |
| | **9,997** | 19,607 |
| Total | **10,357** | 21,355 |

## 44. 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 consolidated statement of financial position.

As at 31 December, 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:

| | Group | | | |
|---|---|---|---|---|
| | **2007** | | 2006 (As restated) | |
| | **Amount received $'000** | **Amount utilised $'000** | Amount received $'000 | Amount utilised $'000 |
| **Clearing House Funds** | | | | |
| Bank guarantees | **1,759,650** | **519,137** | 699,130 | 491,866 |
| **Margin Funds** | | | | |
| Equity securities, listed in Hong Kong, at market value | **1,847,054** | **-** * | 604,276 | - * |
| US Treasury Bills, at market value | **8,672,944** | **5,935,238** | 1,516,506 | 1,090,589 |
| Bank guarantees | **854,000** | **607,930** | 269,000 | 181,111 |
| | **11,373,998** | **6,543,168** | 2,389,782 | 1,271,700 |
| | **13,133,648** | **7,062,305** | 3,088,912 | 1,763,566 |

* 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 31 December 2007, $1,307,776,000 (2006: $286,494,000) of equity securities received were used for such purpose (including those amounts decovered but not yet released of $23,066,000 (2006: $34,102,000)).

## 45. Connected Transactions and Material Related Party Transactions

(a) Connected transactions and material related party transactions

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

Certain transactions undertaken during the year were regarded as related party transactions in accordance with HKAS 24 but the amounts were immaterial. Certain transactions fell under the definition of continuing connected transactions under the Main Board Listing Rules are disclosed in the Corporate Governance Report.

(ii) The Group also entered into the following material transactions with entities that were both related parties and connected persons as one of their directors was a director of HKEx:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **$'000** | $'000 |
| Rental payments (including air conditioning and cleaning service charges) to Shine Hill Development Limited ("Shine Hill") | **-** | 1,757 |

On 16 February 2005, the Futures Exchange as the tenant renewed the lease in respect of the tenancy of an office premises ("Lease") with Shine Hill as the landlord for a term of two years commencing 1 January 2005. The Futures Exchange is a wholly-owned subsidiary of HKEx. When the Lease was renewed, Shine Hill was a subsidiary of Great Eagle Holdings Limited ("Great Eagle"), and Dr LO Ka Shui, an Independent Non-executive Director of HKEx retired on 26 April 2006, was the deputy chairman, managing director and substantial shareholder of Great Eagle. The Lease was an arm's length transaction entered into on normal commercial terms. The rental payments for the year ended 31 December 2006 disclosed above represented expenses incurred up to 26 April 2006 and were related party transactions under HKAS 24. The transactions were also continuing connected transactions as defined under the Main Board Listing Rules but the amount disclosed as continuing connected transactions for 2007 and 2006 in the Corporate Governance Report represented expenses incurred from 1 January 2007 to 26 April 2007 and from 1 January 2006 to 31 December 2006 respectively.

**45. Connected Transactions and Material Related Party Transactions (continued)**

(b) Material related party transactions

In addition to the above, the Group or HKEx entered into certain material related party transactions which were not regarded as connected transactions as defined under the Main Board Listing Rules. Details of such transactions are set out below.

(i) Transactions with associates, subsidiaries and a controlled special purpose entity

| | Group | | HKEx | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| Income received and receivable from/ (expenses paid and payable to) associates: | | | | |
| <u>CHIS</u> | | | | |
| - Dividend income | **9,660** | 22,500 | **-** | - |
| - Share registration service fees | **(396)** | (637) | **(396)** | (637) |
| <u>AWPS</u> | | | | |
| - Liquidation proceeds | **-** | 1,312 | **-** | - |
| Transactions with subsidiaries and a controlled special purpose entity : | | | | |
| - Dividend income | **-** | - | **3,156,100** | 1,802,995 |
| - Management fee and equipment rental fee charged | **-** | - | **333,592** | 286,817 |
| - Expenses recharged | **-** | - | **876,137** | 726,571 |
| - Dividend paid | **-** | - | **(3,803)** | (1,526) |

On 3 April 2007, the Group disposed of all of its interest in CHIS. The dividend income and share registration service fees for the year ended 31 December 2007 disclosed above represented transactions up to that date.

(ii) Key management personnel compensation

| | Group | | HKEx | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| Salaries and other short-term employee benefits | **80,467** | 61,182 | **65,045** | 55,440 |
| Employee share-based compensation benefits | **8,001** | 5,972 | **6,599** | 5,394 |
| Retirement benefit costs | **5,687** | 5,552 | **4,598** | 5,022 |
| | **94,155** | 72,706 | **76,242** | 65,856 |

## 45. Connected Transactions and Material Related Party Transactions (continued)

(b) Material related party transactions (continued)

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

| | Group | | HKEx | |
|---|---|---|---|---|
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| Amounts due from: | | | | |
| - Subsidiaries | **-** | - | **1,171,921** | 1,020,858 |
| Amounts due to: | | | | |
| - An associate | **-** | (162) | **-** | (162) |
| - Subsidiaries | **-** | - | **(522,218)** | (498,224) |

On 3 April 2007, the Group disposed of all of its interest in CHIS, which ceased to be a related party of the Group thereafter.

(iv) Post-retirement benefit plans

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

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

## 46. Banking Facilities with Assets Pledged

The Group did not have any assets pledged as at 31 December 2007 and 31 December 2006.

## 47. Capital Management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth; and
- To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group adopts a dividend policy of providing shareholders with regular dividends with a target payout ratio of 90 per cent of the profit of the year, while retaining 10 per cent of the profit as capital of the Group for future use. As at 31 December 2007, the Group had set aside $3,100 million of shareholders' funds (2006: $3,100 million) for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

As in prior years, the Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("adjusted capital"). Adjusted capital comprises all components of shareholders' equity other than the hedging reserve relating to cash flow hedges, designated reserves and investment revaluation reserve of the Clearing House Funds net of applicable deferred taxes. The adjusted capital of the Group at 31 December 2007 was $7,682,086,000 (2006: $4,629,594,000). The increase in adjusted capital during the year was mainly attributable to the increase in retained earnings arising from higher profit and increase in share capital and share premium due to shares issued under the employee share option schemes.

## 48. 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.

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

(a) Market risk (continued)

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.

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.

The Group and HKEx had entered into the following hedges as at 31 December 2007:

<u>Cash flow hedges</u>

Details of the cash flow hedges of the HKEx and the Group are set out in note 36.

<u>Fair value hedges</u>

In 2005, HKEx designated a bank deposit of SEK11,000,000 as a fair value hedge to hedge against the foreign exchange risk of financial liabilities of the Group of SEK11,000,000 of which SEK1,800,000 related to financial liabilities of one of the subsidiaries. As at 31 December 2007, the amount of the deposits remained unpaid was SEK195,000 (2006: SEK3,444,000), which will be used to settle HKEx's liabilities (2006: SEK1,644,000 will be used to settle HKEx's liabilities and SEK1,800,000 will be used to settle a subsidiary's liabilities).

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

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

In 2006, one of the subsidiaries designated SEK6,690,000 as a fair value hedge to hedge against the foreign exchange risk of HKEx's financial liabilities of SEK6,690,000. On 3 May 2006, the amount was transferred to HKEx and placed as a bank deposit without changing the terms of the fair value hedge. As at 31 December 2007, the amount of the deposits remained unpaid was SEK15,000 (2006: SEK630,000).

In 2006, HKEx designated bank deposits of SEK2,410,000 as fair value hedges to hedge against the foreign exchange risk of its financial liabilities of SEK2,410,000. As at 31 December 2007, the deposits had matured (2006: SEK381,000 outstanding).

In 2007, HKEx designated bank deposits of SEK1,340,000 as fair value hedges to hedge against the foreign exchange risk of its financial liabilities of SEK1,340,000. As at 31 December 2007, the deposit had matured.

As at 31 December 2007, the fair value of the bank deposits designated as fair value hedges held by the Group and HKEx was $253,000 (2006: $5,062,000) and $253,000 (2006: $3,017,000) respectively.

The fair value losses on the bank deposits designated as hedging instruments for the Group during 2007 were $12,000 (2006: gains of $1,465,000) whereas the fair value gains on the financial liabilities being hedged for the Group were $12,000 (2006: losses of $1,465,000).

The fair value gains on the bank deposits designated as hedging instruments for HKEx during 2007 were $11,000 (2006: gains of $1,173,000) whereas the fair value losses on the financial liabilities being hedged for HKEx were $11,000 (2006: losses of $1,173,000).

## 48. Financial Risk Management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Details of the financial assets and financial liabilities denominated in foreign currencies and the net open position of the foreign currency risks (ie, gross position less forward foreign exchange contracts and related hedges) as at 31 December in HKD equivalents were as follows:

| | | Group | | |
|---|---|---|---|---|
| | | At 31 Dec 2007 | | |
| | Foreign currency | Gross open position $'000 | Forward foreign exchange contracts and hedges $'000 | Net open position $'000 |
| **Financial assets/(financial liabilities)** | | | | |
| Other financial assets | RMB | **342** | **-** | **342** |
| | USD | **44** | **-** | **44** |
| Accounts receivable and deposits | USD | **1,687** | **-** | **1,687** |
| Margin Funds on derivatives contracts* | JPY | **7,863,052** | **(7,863,052)** | **-** |
| | USD | **2,526,813** | **(39)** | **2,526,774** |
| Financial assets at fair value through | AUD | **52,075** | **(3,413)** | **48,662** |
| profit or loss @ | CAD | **6,003** | **-** | **6,003** |
| | EUR | **263,173** | **(194,821)** | **68,352** |
| | GBP | **109,795** | **(91,384)** | **18,411** |
| | JPY | **46,418** | **(23,170)** | **23,248** |
| | SGD | **11,362** | **-** | **11,362** |
| | USD | **2,424,810** | **(537,532)** | **1,887,278** |
| Time deposits with original maturities over three months | USD | **39,070** | **-** | **39,070** |
| Cash and cash equivalents | SEK # | **623** | **(253)** | **370** |
| | GBP | **1,366** | **-** | **1,366** |
| | JPY | **8,921** | **-** | **8,921** |
| | RMB | **526** | **-** | **526** |
| | SGD | **7,458** | **-** | **7,458** |
| | USD | **102,643** | **-** | **102,643** |
| | NZD | **1** | **-** | **1** |
| | AUD | **240** | **-** | **240** |
| | CAD | **3** | **-** | **3** |
| | CHF | **8,932** | **-** | **8,932** |
| | EUR | **5,825** | **-** | **5,825** |
| Margin deposits from Clearing Participants | JPY | **(7,863,052)** | **7,863,052** | **-** |
| on derivatives contracts* | USD | **(39)** | **39** | **-** |
| Accounts payable, accruals and other liabilities | MYR | **(2)** | **-** | **(2)** |
| | RMB | **(1,602)** | **-** | **(1,602)** |
| | SEK # | **(257)** | **253** | **(4)** |
| | USD | **(32,294)** | **-** | **(32,294)** |
| | GBP | **(8)** | **-** | **(8)** |
| **Non-financial assets/(non-financial liabilities)** | | | | |
| Net non-financial liabilities | USD | **(8,138)** | **-** | **(8,138)** |
| **Total net open position for the Group** | AUD | | | **48,902** |
| | CAD | | | **6,006** |
| | CHF | | | **8,932** |
| | EUR | | | **74,177** |
| | GBP | | | **19,769** |
| | JPY | | | **32,169** |
| | MYR | | | **2** |
| | NZD | | | **1** |
| | RMB | | | **734** |
| | SEK | | | **366** |
| | SGD | | | **18,820** |
| | USD | | | **4,517,064** |
| | | | | **4,726,942** |

## 48. Financial Risk Management (continued)

### (a) Market risk (continued)

#### (i) Foreign exchange risk (continued)

| | | Group | | |
|---|---|---|---|---|
| | | At 31 Dec 2006 | | |
| | Foreign currency | Gross open position $'000 | Forward foreign exchange contracts and hedges $'000 | Net open position $'000 |
| **Financial assets/(financial liabilities)** | | | | |
| Time deposit with maturity over one year | USD | 38,886 | - | 38,886 |
| Other financial assets | RMB | 1 | - | 1 |
| Accounts receivable and deposits | USD | 1,200 | - | 1,200 |
| Margin Funds on derivatives contracts* | JPY | 2,080,887 | (2,080,887) | - |
| | USD | 41 | (41) | - |
| Financial assets at fair value through profit or loss [@] | AUD | 66,502 | (26,326) | 40,176 |
| | CAD | 21,376 | (20,713) | 663 |
| | CHF | 9,370 | - | 9,370 |
| | EUR | 152,423 | (81,547) | 70,876 |
| | GBP | 87,803 | (74,504) | 13,299 |
| | JPY | 58,289 | (11,404) | 46,885 |
| | NZD | 14,753 | (8,746) | 6,007 |
| | SGD | 38,082 | (15,208) | 22,874 |
| | USD | 1,725,314 | 233,089 | 1,958,403 |
| Cash and cash equivalents | SEK [#] | 22,467 | (21,593) | 874 |
| | GBP | 17 | - | 17 |
| | JPY | 905 | - | 905 |
| | RMB | 111 | - | 111 |
| | SGD | 1 | - | 1 |
| | USD | 6,267 | - | 6,267 |
| Margin deposits from Clearing Participants on derivatives contracts* | JPY | (2,080,887) | 2,080,887 | - |
| | USD | (41) | 41 | - |
| Accounts payable, accruals and other liabilities | MYR | (2) | - | (2) |
| | RMB | (288) | - | (288) |
| | SEK [#] | (24,271) | 21,593 | (2,678) |
| | USD | (2,848) | - | (2,848) |
| | GBP | (274) | - | (274) |
| **Non-financial assets/(non-financial liabilities)** | | | | |
| Net non-financial liabilities | USD | (4,812) | - | (4,812) |
| **Total net open position for the Group** | AUD | | | 40,176 |
| | CAD | | | 663 |
| | CHF | | | 9,370 |
| | EUR | | | 70,876 |
| | GBP | | | 13,042 |
| | JPY | | | 47,790 |
| | MYR | | | 2 |
| | NZD | | | 6,007 |
| | RMB | | | 176 |
| | SEK | | | 1,804 |
| | SGD | | | 22,875 |
| | USD | | | 1,997,096 |
| | | | | 2,209,877 |

## 48. Financial Risk Management (continued)

### (a) Market risk (continued)

#### (i) Foreign exchange risk (continued)

| | Foreign currency | HKEx At 31 Dec 2007 Gross open position $'000 | Forward foreign exchange contracts and hedges $'000 | Net open position $'000 |
|---|---|---|---|---|
| **Financial assets/(financial liabilities)** | | | | |
| Other financial assets | USD | **44** | **-** | **44** |
| | RMB | **342** | **-** | **342** |
| Cash and cash equivalents | RMB | **520** | **-** | **520** |
| | SEK # | **623** | **(253)** | **370** |
| Accounts payable, accruals and other liabilities | USD | **(14,140)** | **-** | **(14,140)** |
| | RMB | **(1,602)** | **-** | **(1,602)** |
| | SEK # | **(257)** | **253** | **(4)** |
| **Total net open position for HKEx** | RMB | | | **740** |
| | USD | | | **14,096** |
| | SEK | | | **366** |
| | | | | **15,202** |

| | Foreign currency | HKEx At 31 Dec 2006 Gross open position $'000 | Forward foreign exchange contracts and hedges $'000 | Net open position $'000 |
|---|---|---|---|---|
| **Financial assets/(financial liabilities)** | | | | |
| Other financial assets | RMB | 1 | - | 1 |
| Cash and cash equivalents | RMB | 105 | - | 105 |
| | SEK # | 22,467 | (19,548) | 2,919 |
| Accounts payable, accruals and other liabilities | USD | (706) | - | (706) |
| | RMB | (289) | - | (289) |
| | SEK # | (19,914) | 19,548 | (366) |
| **Total net open position for HKEx** | RMB | | | 183 |
| | USD | | | 706 |
| | SEK | | | 2,553 |
| | | | | 3,442 |

* Foreign currency margin deposits received by the Group are hedged by investments in the same currencies.

@ Forward foreign exchange contracts have been used to hedge the currency exposure of the Group's investments by external fund managers.

\# Foreign currency cash and bank deposits have been used to hedge the currency exposure of the Group's liabilities.

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

(a) Market risk (continued)

(ii) Equity and commodity price risk

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

(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.

## 48. Financial Risk Management (continued)

(a) Market risk (continued)

(iv) Risk management (continued)

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

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **2007** | | | 2006 | | |
| | **Average $'000** | **Highest $'000** | **Lowest $'000** | Average $'000 | Highest $'000 | Lowest $'000 |
| Foreign exchange risk | **5,606** | **10,944** | **3,566** | 5,957 | 7,422 | 4,907 |
| Equity price risk | **12,665** | **15,748** | **7,922** | 11,207 | 13,032 | 8,991 |
| Interest rate risk | **19,091** | **36,958** | **13,703** | 11,884 | 13,862 | 9,040 |
| Total VaR | **23,382** | **34,797** | **16,966** | 18,751 | 21,005 | 15,939 |

| | HKEx | | | | | |
|---|---|---|---|---|---|---|
| | **2007** | | | 2006 | | |
| | **Average $'000** | **Highest $'000** | **Lowest $'000** | Average $'000 | Highest $'000 | Lowest $'000 |
| Foreign exchange risk | **469** | **1,032** | **17** | 794 | 1,245 | 273 |
| Equity price risk | **-** | **-** | **-** | - | - | - |
| Interest rate risk | **32** | **74** | **9** | 14 | 35 | 2 |
| Total VaR | **471** | **1,029** | **63** | 793 | 1,249 | 277 |

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 year, the highest and lowest VaRs in each market did not necessarily occur on the same day.

(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 liquid 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.

## 48. Financial Risk Management (continued)

(b) Liquidity risk (continued)

The non-derivative financial liabilities of the Group and HKEx as at 31 December are analysed into relevant maturity buckets based on their contractual maturity dates in the table below:

| | **Group** | | | | |
|---|---|---|---|---|---|
| | **At 31 Dec 2007** | | | | |
| | **Up to 1 month $'000** | **>1 month to 3 months $'000** | **>3 months to 1 year $'000** | **Not determinable $'000** | **Total $'000** |
| **Current liabilities** | | | | | |
| Margin deposits from Clearing Participants on derivatives contracts | **55,428,888** | **-** | **-** | **-** | **55,428,888** |
| Accounts payable, accruals and other liabilities | **21,269,118** | **3,254** | **4,364** | **99,173** | **21,375,909** |
| Participants' admission fees received | **1,000** | **100** | **450** | **1,500** | **3,050** |
| | **76,699,006** | **3,354** | **4,814** | **100,673** | **76,807,847** |
| **Non-current liabilities** | | | | | |
| Participants' admission fees received | **-** | **-** | **-** | **82,550** | **82,550** |
| Participants' contributions to Clearing House Funds | **-** | **-** | **-** | **1,496,855** | **1,496,855** |
| Financial guarantee contract (note i) | **-** | **-** | **-** | **87,800** | **87,800** |
| | **-** | **-** | **-** | **1,667,205** | **1,667,205** |
| Total | **76,699,006** | **3,354** | **4,814** | **1,767,878** | **78,475,052** |

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | At 31 Dec 2006 | | | | | |
| | Up to 1 month $'000 | >1 month to 3 months $'000 | >3 months to 1 year $'000 | >1 year to 5 years $'000 | Not determinable $'000 | Total $'000 |
| **Current liabilities** | | | | | | |
| Margin deposits from Clearing Participants on derivatives contracts | 21,666,474 | - | - | - | - | 21,666,474 |
| Accounts payable, accruals and other liabilities | 11,043,627 | 45,937 | 234 | 363 | 28,147 | 11,118,308 |
| Participants' admission fees received | 700 | 50 | 600 | - | 350 | 1,700 |
| | 32,710,801 | 45,987 | 834 | 363 | 28,497 | 32,786,482 |
| **Non-current liabilities** | | | | | | |
| Participants' admission fees received | - | - | - | - | 79,750 | 79,750 |
| Participants' contributions to Clearing House Funds | - | - | - | - | 1,642,495 | 1,642,495 |
| Financial guarantee contract (note i) | - | - | - | - | 85,000 | 85,000 |
| | - | - | - | - | 1,807,245 | 1,807,245 |
| Total | 32,710,801 | 45,987 | 834 | 363 | 1,835,742 | 34,593,727 |

## 48. Financial Risk Management (continued)

(b) Liquidity risk (continued)

| | HKEx At 31 Dec 2007 | | | | |
|---|---|---|---|---|---|
| | **Up to 1 month $'000** | **>1 month to 3 months $'000** | **>3 months to 1 year $'000** | **Not determinable $'000** | **Total $'000** |
| **Current liabilities** | | | | | |
| Accounts payable, accruals and other liabilities | **164,922** | **1,813** | **18** | **291** | **167,044** |
| Amounts due to subsidiaries | **522,218** | **-** | **-** | **-** | **522,218** |
| | **687,140** | **1,813** | **18** | **291** | **689,262** |
| **Non-current liabilities** | | | | | |
| Financial guarantee contract (note i) | **-** | **-** | **-** | **50,000** | **50,000** |
| | **-** | **-** | **-** | **50,000** | **50,000** |
| Total | **687,140** | **1,813** | **18** | **50,291** | **739,262** |

| | HKEx At 31 Dec 2006 | | | | |
|---|---|---|---|---|---|
| | Up to 1 month $'000 | >1 month to 3 months $'000 | >3 months to 1 year $'000 | Not determinable $'000 | Total $'000 |
| **Current liabilities** | | | | | |
| Accounts payable, accruals and other liabilities | 102,883 | 1,328 | 17 | 263 | 104,491 |
| Amounts due to subsidiaries | 498,224 | - | - | - | 498,224 |
| | 601,107 | 1,328 | 17 | 263 | 602,715 |
| **Non-current liabilities** | | | | | |
| Financial guarantee contract (note i) | - | - | - | 50,000 | 50,000 |
| | - | - | - | 50,000 | 50,000 |
| Total | 601,107 | 1,328 | 17 | 50,263 | 652,715 |

(i) The amount disclosed for financial guarantee contracts represented the amount of contingent liabilities at the end of the reporting period.

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

(b) Liquidity risk (continued)

As at 31 December 2007, the maximum gross nominal value of outstanding forward foreign exchange contracts held by the Group was $2,926,473,000 (2006: $280,976,000). The table below analyses the Group's outstanding forward foreign exchange contracts as at 31 December that would be settled on a gross basis into relevant maturity buckets based on their remaining contractual maturity dates. The amounts disclosed in the table are contractual undiscounted cash flows, which are different from the carrying amount (ie, market value) in the consolidated statement of financial position.

| | Group | | | |
|---|---|---|---|---|
| | **At 31 Dec 2007** | | | At 31 Dec 2006 |
| | **Up to 1 month $'000** | **>1 month to 3 months $'000** | **Total $'000** | Up to 1 month $'000 |
| Forward foreign exchange contracts | | | | |
| - outflows | **2,078,860** | **847,613** | **2,926,473** | 280,976 |
| - inflows | **2,076,152** | **847,685** | **2,923,837** | 275,617 |

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 31 December 2007, the Group's total available banking facilities amounted to $3,058 million (2006: $1,558 million), of which $3,000 million (2006: $1,500 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 31 December 2007, the bonds held were of investment grade and had a weighted average credit rating of Aa1 (2006: Aa2), and there were no financial assets whose terms were renegotiated (2006: $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.

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

(c) Credit risk

(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.

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 31 December 2007, bank guarantees of $5,509,200,000 (2006: $1,511,500,000 were accepted for such purpose.

In addition to the above, the Group had set aside $3,100 million of shareholders' funds (2006: $3,100 million) for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

## 48. Financial Risk Management (continued)

(c) Credit risk (continued)

(iii) Exposure to credit risk

As at 31 December, the financial assets and financial liabilities of the Group and HKEx that were exposed to credit risk and their maximum exposure were as follows:

| | Group | | | |
|---|---|---|---|---|
| | **At 31 Dec 2007** | | At 31 Dec 2006 | |
| | **Carrying amount in statement of financial position $'000** | **Maximum exposure to credit risk $'000** | Carrying amount in statement of financial position $'000 | Maximum exposure to credit risk $'000 |
| **Financial assets** | | | | |
| Clearing House Funds: | | | | |
| Available-for-sale financial assets | **361,506** | **361,506** | 317,212 | 317,212 |
| Cash and cash equivalents | **1,841,508** | **1,841,508** | 1,957,229 | 1,957,229 |
| Time deposit with maturity over one year | **-** | **-** | 38,886 | 38,886 |
| Other financial assets | **19,177** | **19,177** | 18,583 | 18,583 |
| Accounts receivable and deposits # | **18,346,765** | **18,346,765** | 10,191,751 | 10,191,751 |
| Margin Funds on derivatives contracts: | | | | |
| Available-for-sale financial assets | **16,735,006** | **16,735,006** | 11,083,045 | 11,083,045 |
| Time deposits with original maturities over three months | **2,508,559** | **2,508,559** | 51,459 | 51,459 |
| Cash and cash equivalents | **36,182,526** | **36,182,526** | 10,664,404 | 10,664,404 |
| Margin receivable from Clearing Participants | **3,068** | **3,068** | 61,813 | 61,813 |
| Financial assets at fair value through profit or loss | **2,996,555** | **2,996,555** | 2,878,224 | 2,878,224 |
| Available-for-sale financial assets (including non-current and current portions) | **3,067,007** | **3,067,007** | 582,122 | 582,122 |
| Time deposits with original maturities over three months | **682,174** | **682,174** | 185,611 | 185,611 |
| Cash and cash equivalents | **4,744,711** | **4,744,711** | 2,223,910 | 2,223,910 |
| **Financial liabilities** | | | | |
| Undertaking to indemnify the Collector of Stamp Revenue | **(19,909)** | **87,800** | (19,909) | 85,000 |

# Certain debtors were required to place cash deposits with the Group to mitigate the maximum exposure to credit risk.

## 48. Financial Risk Management (continued)

(c) Credit risk (continued)

(iii) Exposure to credit risk (continued)

| | HKEx | | | |
|---|---|---|---|---|
| | **At 31 Dec 2007** | | At 31 Dec 2006 | |
| | **Carrying amount in statement of financial position $'000** | **Maximum exposure to credit risk $'000** | Carrying amount in statement of financial position $'000 | Maximum exposure to credit risk $'000 |
| **Financial assets** | | | | |
| Other financial assets | **481** | **481** | 483 | 483 |
| Accounts receivable and deposits | **113** | **113** | 360 | 360 |
| Amounts due from subsidiaries | **1,171,921** | **1,171,921** | 1,020,858 | 1,020,858 |
| Time deposits with original maturities over three months | **46,880** | **46,880** | 29,089 | 29,089 |
| Cash and cash equivalents | **20,184** | **20,184** | 41,656 | 41,656 |
| **Financial liabilities** | | | | |
| Financial guarantee granted to HKSCC | **(11,390)** | **50,000** | (11,390) | 50,000 |

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

As at 31 December, 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:

| | Group | |
|---|---|---|
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| Up to 6 months | **271,196** | 186,359 |
| Over 6 months to 1 year | **1** | - |
| Over 1 year to 3 years | **2** | - |
| Over 3 years * | **8,651** | 8,651 |
| Total | **279,850** | 195,010 |

* No provision for impairment losses has been made against trade receivables amounting to $8,510,000 (2006: $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 $12,643,000 (2006: $6,088,000).

No financial assets of HKEx were past due as at 31 December 2007 and 31 December 2006.

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

(c) Credit risk (continued)

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

As at 31 December 2007, trade receivables of the Group amounting to $4,608,000 (2006: $4,679,000) 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 are disclosed in note 2(s)(vi). No cash deposits had been placed by the related trade debtors with the Group (2006: $Nil).

No financial assets of HKEx were impaired as at 31 December 2007 and 31 December 2006.

(vi) 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 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 31 December 2007, the amount of doubtful deferred revenue amounted to $48,955,000 (2006: $44,242,000).

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

Summarised in the following table are the carrying amounts and fair values of financial assets and financial liabilities not presented in the Group's and HKEx's statements of financial position at their fair values. The carrying amounts of short-term receivables (ie, accounts receivable, deposits and cash and cash equivalents) and short-term payables (ie, accounts payable and other liabilities) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

## 48. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities not reported at fair values (continued)

| | Group | | | |
|---|---|---|---|---|
| | **Carrying amount in statement of financial position** | | **Fair value** | |
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| **Financial assets** | | | | |
| Time deposit with maturity over one year | **-** | 38,886 | **-** | 37,499 |
| Other financial assets (note i) | **19,177** | 18,583 | **18,076** | 16,688 |
| **Financial liabilities** | | | | |
| Participants' admission fees received included in non-current liabilities (note i) | **82,550** | 79,750 | **79,874** | 76,727 |
| Participants' contributions to Clearing House Funds: | | | | |
| - Minimum contributions (note i) | **380,300** | 362,850 | **367,973** | 349,096 |
| - Participants' additional deposits (note i) | **1,116,555** | 1,279,645 | **1,080,363** | 1,231,138 |
| Financial guarantee contract (note ii) | **19,909** | 19,909 | **25,412** | 22,788 |

| | HKEx | | | |
|---|---|---|---|---|
| | **Carrying amount in statement of financial position** | | **Fair value** | |
| | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 | **At 31 Dec 2007 $'000** | At 31 Dec 2006 $'000 |
| **Financial assets** | | | | |
| Other financial assets (note i) | **481** | 483 | **455** | 438 |
| **Financial liabilities** | | | | |
| Financial guarantee contract (note ii) | **11,390** | 11,390 | **14,472** | 13,405 |

(i) The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets/liabilities, adjusted by an estimated credit spread. Assets/liabilities without a contractual maturity date are assumed to mature exactly one year after the end of the reporting period. The discount rates used ranged from 3.35 per cent to 3.76 per cent as at 31 December 2007 (2006: 3.94 per cent to 4.17 per cent).

(ii) The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity. The discount rate was 3.46 per cent as at 31 December 2007 (2006: 3.73 per cent).

## 49. Events after the Reporting Period

Subsequent to 31 December 2007, the Group has disposed of the two properties held under "Non-current assets held for sale", details of which are disclosed in note 27(a) to the consolidated accounts.

## 50. Comparative Figures

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