1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34: Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants.

These unaudited condensed consolidated accounts should be read in conjunction with the 2006 annual accounts. The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2006.

The Group manages a significant portfolio of investments. Securities and derivative financial instruments (ie forward foreign exchange contracts) held for trading purposes (such as those of the Corporate Funds managed by external fund managers), and securities or bank deposits with embedded derivatives of the Margin Funds and the Corporate Funds whose economic characteristics and risks are not closely related to the host investments ("structured securities" or "structured deposits") are classified as financial assets/liabilities at fair value through profit or loss with changes in fair value recognised in the profit and loss account. Securities not held for trading (such as those of the Corporate Funds managed internally and those held for the Clearing House Funds, Compensation Fund Reserve Account and Margin Funds (other than structured securities or structured deposits)) are classified as available-for-sale financial assets with changes in fair value recognised in the investment revaluation reserve.

2. Turnover

Turnover comprises trading fees and trading tariff from securities and options traded on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and derivatives contracts traded on Hong Kong Futures Exchange Limited ("Futures Exchange"), Stock Exchange listing fees, clearing and settlement fees, depository, custody and nominee services fees, income from sale of information, investment income (including investment income net of interest expenses of Clearing House Funds) and other income, which are **disclosed as Income** in the condensed consolidated profit and loss account.

3. Segment Information

The Group's income is derived solely from business activities in Hong Kong. An analysis of the Group's income and results for the period by business segment is as follows:

	Three months ended 31 Mar 2007				
	Cash Market $'000	**Derivatives Market $'000**	**Clearing Business $'000**	**Information Services $'000**	**Group $'000**
Income	**618,590**	**262,329**	**389,303**	**128,717**	**1,398,939**
Operating expenses					
Direct costs	**111,158**	**33,285**	**84,383**	**11,463**	**240,289**
Indirect costs	**37,798**	**13,100**	**25,806**	**5,650**	**82,354**
	148,956	**46,385**	**110,189**	**17,113**	**322,643**
Segment results	**469,634**	**215,944**	**279,114**	**111,604**	**1,076,296**
Share of profits of an associate	–	–	**5,587**	–	**5,587**
Segment profits before taxation	**469,634**	**215,944**	**284,701**	**111,604**	**1,081,883**
Taxation					**(159,346)**
Profit attributable to shareholders					**922,537**

	Three months ended 31 Mar 2006				
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Group $'000
Income	397,373	129,383	241,006	86,365	854,127
Operating expenses					
Direct costs	105,224	29,185	78,996	10,856	224,261
Indirect costs	32,007	9,492	21,764	5,003	68,266
	137,231	38,677	100,760	15,859	292,527
Segment results	260,142	90,706	140,246	70,506	561,600
Share of profits of associates	1	–	3,219	–	3,220
Segment profits before taxation	260,143	90,706	143,465	70,506	564,820
Taxation					(85,981)
Profit attributable to shareholders					478,839

3. Segment Information (continued)

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. Costs of the Listing Function are treated as segment costs under the Cash Market. 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 equity and interest rate futures and options. Its income mainly comprises trading fees and investment income on the Margin Funds invested.

The **Clearing Business** refers to the operations of the three Clearing Houses, namely Hong Kong Securities Clearing Company Limited ("HKSCC"), The SEHK Options Clearing House Limited ("SEOCH") and HKFE Clearing Corporation Limited ("HKCC"), which are responsible for clearing, settlement and custodian activities and the related risk management of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from 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.

In addition to the above, central income (mainly investment income of the Corporate Funds) and central costs (mainly costs of the support functions that centrally provide services to all of the business segments) are allocated to the business segments and included in the segment income and costs.

4. Trading Fees and Trading Tariff

	Three months ended 31 Mar 2007 $'000	Three months ended 31 Mar 2006 $'000
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	**370,966**	216,090
Derivatives contracts traded on the Derivatives Market	**133,447**	81,463
	504,413	297,553

5. Stock Exchange Listing Fees

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

	Three months ended 31 Mar 2007				Three months ended 31 Mar 2006			
	Equity		**Debt**		Equity		Debt	
	Main Board	**GEM**	**& Derivatives**	**Total**	Main Board	GEM	& Derivatives	Total
	$'000	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000	$'000
Income								
Annual listing fees	**65,915**	**6,067**	**434**	**72,416**	60,146	6,196	433	66,775
Initial and subsequent issue listing fees	**12,387**	**590**	**56,609**	**69,586**	11,297	1,280	28,963	41,540
Prospectus vetting fees	**585**	**30**	**40**	**655**	585	135	10	730
Other listing fees	**658**	**86**	**–**	**744**	542	106	–	648
Total income	**79,545**	**6,773**	**57,083**	**143,401**	72,570	7,717	29,406	109,693
Costs of Listing Function								
Direct costs								
Staff costs and related expenses	**35,630**	**6,510**	**2,705**	**44,845**	27,899	8,222	1,383	37,504
Information technology and computer maintenance expenses	**438**	**105**	**–**	**543**	364	95	–	459
Premises expenses	**4,322**	**766**	**228**	**5,316**	3,012	889	170	4,071
Legal and professional fees	**186**	**53**	**–**	**239**	2,619	240	–	2,859
Depreciation	**473**	**94**	**9**	**576**	1,141	354	14	1,509
Other operating expenses	**1,040**	**367**	**35**	**1,442**	5,387	1,500	93	6,980
Total direct costs	**42,089**	**7,895**	**2,977**	**52,961**	40,422	11,300	1,660	53,382
Total indirect costs	**7,445**	**1,289**	**1,905**	**10,639**	6,532	1,468	1,079	9,079
Contribution	**30,011**	**(2,411)**	**52,201**	**79,801**	25,616	(5,051)	26,667	47,232

Listing fee income was primarily fees paid by issuers to enable them to gain access to the Stock Exchange and enjoy the privileges and facilities by being admitted, listed and traded on the Stock Exchange.

The direct costs listed above were regulatory in nature, which comprised costs of the Listing Function on vetting Initial Public Offerings ("IPOs") and enforcing the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and disseminating information relating to listed companies. Indirect costs comprised costs of support services and other central overheads attributable to the Listing Function.

6. Investment Income

	Three months ended 31 Mar 2007 $'000	Three months ended 31 Mar 2006 $'000
Interest income		
– bank deposits	**153,324**	130,918
– listed available-for-sale financial assets	**8,384**	3,379
– unlisted available-for-sale financial assets	**148,792**	19,618
	310,500	153,915
Interest expenses	**(147,156)**	(90,390)
Net interest income	**163,344**	63,525
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	**32,411**	40,574
– unlisted securities	**13,905**	7,634
– exchange differences	**11,605**	35
	57,921	48,243
Dividend income		
– listed financial assets at fair value through profit or loss	**1,712**	1,111
Other exchange differences on loans and receivables	**166**	80
Total investment income	**223,143**	112,959
Total investment income was derived from:		
Corporate Funds (note a)	**85,652**	63,811
Margin Funds	**123,391**	38,319
Clearing House Funds	**14,100**	10,829
	223,143	112,959

(a) Investment income derived from Corporate Funds included investment income of Compensation Fund Reserve Account of $541,000 (2006: $455,000).

7. Other Income

	Three months ended 31 Mar 2007 $'000	Three months ended 31 Mar 2006 $'000
Network, terminal user, dataline and software sub-license fees	**53,061**	35,198
Participants' subscription and application fees	**8,480**	8,515
Brokerage on direct IPO applications	**8,347**	3,264
Trading booth user fees	**2,394**	1,980
Fair value gain of an investment property (note 14)	**500**	600
Accommodation income on securities deposited by Participants as alternatives to cash deposits of the Margin Funds	**1,841**	358
Miscellaneous income	**3,501**	2,767
	78,124	52,682

8. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Three months ended 31 Mar 2007 $'000	Three months ended 31 Mar 2006 $'000
Salaries and other short-term employee benefits	**162,633**	138,594
Employee share-based compensation benefits (note 26)	**6,132**	7,220
Termination benefits	**173**	160
Retirement benefit costs (note a):		
– ORSO Plan	**13,257**	13,060
– MPF Scheme	**110**	92
	182,305	159,126

(a) The Group has sponsored two defined contribution post-retirement benefit plans – the Hong Kong Exchanges and Clearing Provident Fund Scheme ("ORSO Plan") and the AIA-JF Premium MPF Scheme ("MPF Scheme"). The retirement benefit costs charged to the condensed consolidated profit and loss account represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees. No contribution payable was outstanding as at 31 March 2007 and 31 December 2006.

9. Information Technology and Computer Maintenance Expenses

	Three months ended 31 Mar 2007 $'000	Three months ended 31 Mar 2006 $'000
Costs of services and goods:		
– consumed by the Group	**33,708**	32,447
– directly consumed by Participants	**17,593**	14,017
	51,301	46,464

10. Other Operating Expenses

	Three months ended 31 Mar 2007 $'000	Three months ended 31 Mar 2006 $'000
(Reversal of provision for)/provision for impairment losses of trade receivables	**(63)**	115
Insurance	**1,196**	4,007
Financial data subscription fees	**1,006**	1,139
Custodian and fund management fees	**2,193**	2,019
Bank charges	**3,490**	1,979
Repair and maintenance expenses	**1,756**	1,692
License fees	**3,845**	2,508
Communication expenses	**1,250**	1,148
Other miscellaneous expenses	**14,939**	13,049
	29,612	27,656

11. Taxation

Taxation charge/(credit) in the condensed consolidated profit and loss account represented:

	Three months ended 31 Mar 2007 $'000	Three months ended 31 Mar 2006 $'000
Provision for Hong Kong Profits Tax for the period (note a)	**159,527**	89,105
Deferred taxation	**(181)**	(3,124)
	159,346	85,981

(a) 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 period.

12. Earnings Per Share

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

(a) Basic earnings per share

	Three months ended 31 Mar 2007	Three months ended 31 Mar 2006
Profit attributable to shareholders ($'000)	**922,537**	478,839
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme	**1,065,201,786**	1,062,111,757
Basic earnings per share	**$0.87**	$0.45

(b) Diluted earnings per share

	Three months ended 31 Mar 2007	Three months ended 31 Mar 2006
Profit attributable to shareholders ($'000)	**922,537**	478,839
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme	**1,065,201,786**	1,062,111,757
Effect of employee share options	**11,314,431**	10,488,116
Effect of Awarded Shares	**1,185,988**	959,297
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,077,702,205**	1,073,559,170
Diluted earnings per share	**$0.86**	$0.45

13. Fixed Assets

The total cost of additions to fixed assets of the Group during the three months to 31 March 2007 was $32,413,000 (2006: $8,744,000) which mainly related to purchases of computer systems, hardware and software (2006: mainly represented costs incurred in the renovation of the Trading Hall and the Exhibition Hall). The total cost and net book value of disposals and write-offs of fixed assets during the three months to 31 March 2007 were $925,000 and $Nil respectively (2006: $10,857,000 and $1,012,000 respectively).

14. Investment Property

The Group's investment property was revalued as at 31 March 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 three months ended 31 March 2007 of $500,000 (2006: $600,000) was credited to the condensed consolidated profit and loss account under other income (note 7).

15. Investment in an Associate

	At 31 Mar 2007 $'000	At 31 Dec 2006 $'000
Share of net assets of an associate	–	18,170
Goodwill (note a)	–	50,207
	–	68,377

(a) Goodwill

	2007 $'000	2006 $'000
At 1 Jan	**50,207**	50,207
Transfer to non-current asset held for sale (note c)	**(50,207)**	–
At 31 Mar 2007/31 Dec 2006	–	50,207

	At 31 Mar 2007 $'000	At 31 Dec 2006 $'000
Represented by:		
Opening value upon adoption of HKFRS 3	–	24,941
At cost	–	25,266
	–	50,207

(b) Details of the unlisted associate as at 31 March 2007 were as follows:

Name	**Place of incorporation**	**Principal activities**	**Particulars of shares held**	**Interest held**
Computershare Hong Kong Investor Services Limited ("CHIS")	Hong Kong	Provision of share registration services	7,317 Class A ordinary shares	30%

(c) On 29 March 2007, the Group entered into an agreement to sell all of its 7,317 Class A ordinary shares of CHIS and the investment was reclassified as a non-current asset held for sale (note 22).

16. Clearing House Funds

	At 31 Mar 2007 $'000	At 31 Dec 2006 $'000
Net assets of the Clearing House Funds were as follows:		
HKSCC Guarantee Fund	**349,253**	344,825
SEOCH Reserve Fund	**575,052**	578,407
HKCC Reserve Fund	**907,512**	1,347,299
	1,831,817	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	**128,276**	129,512
– unlisted	**83,234**	187,700
Cash and cash equivalents	**1,633,467**	1,957,229
	1,844,977	2,274,441
Less: Other liabilities	**(13,160)**	(3,910)
	1,831,817	2,270,531
The Clearing House Funds were funded by:		
Clearing Participants' cash contributions (note a)	**1,190,003**	1,642,495
Designated reserves (note 28):		
– Clearing houses' contributions	**320,200**	320,200
– Forfeiture of a defaulted Clearing Participant's contributions	**1,928**	1,928
– Accumulated investment income net of expenses attributable to:		
– Clearing Participants' contributions	**242,169**	232,148
– Clearing houses' contributions	**77,589**	73,540
	641,886	627,816
Revaluation reserve (note 27(c))	**(72)**	220
	1,831,817	2,270,531
The maturity profile of the net assets of the Clearing House Funds was as follows:		
Amounts maturing within twelve months	**1,831,817**	2,270,531

(a) Amount included Participants' additional deposits of $830,003,000 (31 December 2006: $1,279,645,000).

(b) The HKSCC Guarantee Fund provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Broker Participants in Central Clearing and Settlement System ("CCASS") arising from their Stock Exchange trades accepted for settlement on the Continuous Net Settlement ("CNS") basis and defective securities deposited into CCASS. The SEOCH Reserve Fund and the HKCC Reserve Fund were established for the exclusive purpose of supporting SEOCH and HKCC to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to SEOCH and HKCC respectively.

17. Compensation Fund Reserve Account

	At 31 Mar 2007 $'000	At 31 Dec 2006 $'000
Net assets of the Compensation Fund Reserve Account were composed of:		
Available-for-sale financial assets:		
Unlisted debt securities, at market value	**43,007**	42,990
Cash and cash equivalents	**9,436**	8,653
	52,443	51,643
Less: Other liabilities	**(11,441)**	(11,108)
	41,002	40,535
The Fund represented:		
Accumulated investment and other income net of expenses included in designated reserves (note 28)	**40,987**	40,446
Revaluation reserve (note 27(c))	**15**	89
	41,002	40,535
The maturity profile of the net assets of the Compensation Fund Reserve Account was as follows:		
Amounts maturing within twelve months	**41,002**	40,535

The Securities and Futures Commission ("SFC") is responsible for maintaining the Unified Exchange Compensation Fund ("Compensation Fund"). By virtue of Schedule 10 of the Securities and Futures Ordinance ("SFO"), the Stock Exchange's obligation under the repealed Securities Ordinance ("SO") to deposit with the SFC and keep deposited $50,000 in respect of each Stock Exchange Trading Right in the Compensation Fund remains. The Stock Exchange maintains an account known as the Compensation Fund Reserve Account for all receipts and payments in relation to the Compensation Fund under the Rules of the Exchange, in particular the following:

(i) The interest received from the SFC on the statutory deposits paid in respect of each Stock Exchange Trading Right into the Compensation Fund maintained by the SFC;

(ii) Amounts received or paid out in relation to each of the Stock Exchange Trading Rights granted or revoked by the Stock Exchange respectively; and

(iii) Amounts reserved for the replenishment to the Compensation Fund.

The Compensation Fund is further explained in note 32(a).

18. Available-for-sale Financial Assets

	At 31 Mar 2007 $'000	At 31 Dec 2006 $'000
Debt securities, at market value		
– listed in Hong Kong	**28,190**	28,462
– listed outside Hong Kong	**–**	43,574
– unlisted	**1,265,169**	467,096
	1,293,359	539,132
Analysis of available-for-sale financial assets:		
Non-current portion maturing after twelve months	**23,210**	–
Current portion maturing within twelve months	**1,270,149**	539,132
	1,293,359	539,132

19. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits amounted to $9,820,560,000 (31 December 2006: $10,201,562,000). These mainly represented the Group's CNS money obligations receivable under the T+2 settlement cycle, which accounted for 94 per cent (31 December 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.

20. Margin Funds on Derivatives Contracts

	At 31 Mar 2007 $'000	At 31 Dec 2006 $'000
The Margin Funds comprised:		
SEOCH Clearing Participants' Margin Funds	**3,481,067**	3,994,664
HKCC Clearing Participants' Margin Funds	**21,001,672**	17,671,810
	24,482,739	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	**146,021**	137,191
– listed outside Hong Kong	**465,866**	634,688
– unlisted	**14,856,794**	10,311,166
Time deposits with original maturities over three months	**–**	51,459
Cash and cash equivalents	**8,997,636**	10,664,404
Margin receivable from Clearing Participants	**16,422**	61,813
	24,482,739	21,860,721
Less: Other liabilities	**–**	(194,247)
	24,482,739	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	**24,482,739**	21,666,474
The maturity profile of the net assets of Margin Funds was as follows:		
Amounts maturing after more than twelve months	**451,705**	–
Amounts maturing within twelve months	**24,031,034**	21,666,474
	24,482,739	21,666,474

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

	At 31 Mar 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	**177,759**	186,658
– listed outside Hong Kong	**216,769**	194,267
	394,528	380,925
Held for trading		
Debt securities, at market value		
– listed in Hong Kong	**87,102**	70,539
– listed outside Hong Kong	**1,312,909**	1,255,022
– unlisted	**1,113,668**	1,169,592
	2,513,679	2,495,153
Held for trading		
Derivative financial instruments, at market value		
– forward foreign exchange contracts	**179**	2,146
	2,908,386	2,878,224
Analysis of financial liabilities at fair value through profit or loss:		
Held for trading		
Derivative financial instruments, at market value		
– forward foreign exchange contracts	**3,248**	7,505

22. Non-current Asset Held for Sale

	At 31 Mar 2007 $'000	At 31 Dec 2006 $'000
Investment in an associate:		
Share of net assets of an associate	**16,304**	–
Goodwill	**50,207**	–
	66,511	–
Reserves associated with assets held for sale recognised directly in equity	**618**	–

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amounts are recovered principally through a sale transaction rather than continuing use.

22. Non-current Asset Held for Sale (continued)

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% interest) of CHIS for a consideration of $270,320,000 as the board of directors considered that the sale represented a good opportunity for the Group to realise a gain on the investment. The net proceeds of the sale substantially exceeded the carrying amount of the investment in associate and accordingly, no impairment loss was required on the reclassification of the investment in associate as held for sale. After CHIS had declared and paid a further dividend of $2,160,000 on 3 April 2007, the sale transaction was completed and the Group ceased to have significant influence over CHIS on that date. The accounting profit on disposal of the investment, after deducting stamp duty of $270,000 and eliminating the carrying value of the investment (less the Group's share of CHIS's reserves and the further dividend) stated above, amounted to $206,317,000 and was recognised in the profit and loss account in April 2007.

As at 31 March 2007, the amount due to CHIS, being share registration services fees payable, was $370,000, which was not included in the sale transaction.

23. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities amounted to $10,870,240,000 (31 December 2006: $11,107,200,000). These mainly represented the Group's CNS money obligations payable under the T+2 settlement cycle, which accounted for 85 per cent (31 December 2006: 86 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

24. Provisions

	Reinstatement costs $'000	**Employee benefit costs $'000**	**Total $'000**
At 1 Jan 2007	**24,128**	**26,712**	**50,840**
Provision for the period	–	**10,324**	**10,324**
Amount used during the period	–	**(8,466)**	**(8,466)**
Amount paid during the period	–	**(212)**	**(212)**
At 31 Mar 2007	**24,128**	**28,358**	**52,486**

	At 31 Mar 2007 $'000	At 31 Dec 2006 $'000
Analysis of provisions:		
Current	**28,358**	26,712
Non-current	**24,128**	24,128
	52,486	50,840

25. Share Capital, Share Premium and Shares Held for Share Award Scheme

	At 31 Mar 2007 $'000	At 31 Dec 2006 $'000
Authorised:		
2,000,000,000 shares of $1 each	**2,000,000**	2,000,000

Issued and fully paid:

	Number of shares of $1 each	Share capital $'000	Share premium $'000	Shares held for Share Award Scheme $'000	Total $'000
At 1 Jan 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 26)	–	–	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)	**1,348,500**	**1,349**	**19,764**	**–**	**21,113**
Transfer from employee share-based compensation reserve (note 26)	**–**	**–**	**5,979**	**–**	**5,979**
At 31 Mar 2007	**1,065,538,846**	**1,066,797**	**211,685**	**(51,297)**	**1,227,185**

(a) During the period, employee share options granted under the Pre-Listing Share Option Scheme ("Pre-Listing Scheme") and the Post-Listing Share Option Scheme ("Post-Listing Scheme") were exercised to subscribe for 1,348,500 shares (year ended 31 December 2006: 2,693,500 shares) in HKEx at an average consideration of $15.66 per share (year ended 31 December 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 ended 31 December 2006, The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust") acquired 300,000 HKEx shares through purchases on the open market and held the shares for the Employees' Share Award Scheme adopted by the Board on 14 September 2005 and subsequently amended on 16 August 2006 ("Share Award Scheme") (note 26(c)). The total amount paid to acquire the shares during the year ended 31 December 2006 was $21,269,000 and had been deducted from shareholders' equity. No shares were acquired during the three months ended 31 March 2007.

26. Employee Share-based Compensation Reserve

	2007 **$'000**	2006 $'000
At 1 Jan	**52,119**	34,980
Employee share-based compensation benefits (note a)	**6,132**	24,033
Transfer to share premium upon exercise of employee share options (note 25)	**(5,979)**	(7,335)
Share of reserve of an associate	**47**	441
At 31 Mar 2007/31 Dec 2006	**52,319**	52,119

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

(b) Share options

(i) Share options were granted to an Executive Director and employees of the Group to subscribe for shares in HKEx in accordance with the terms and conditions of the Share Option Schemes approved by the shareholders of HKEx at an extraordinary general meeting held on 31 May 2000. Share options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of grant, providing that the grantees remain under the employ of the Group. The vested share options are exercisable within ten years of the grant date.

No share options were granted since 26 January 2005 and no further share options will be granted following the adoption of the Share Award Scheme in September 2005.

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

26. Employee Share-based Compensation Reserve (continued)

(b) Share options (continued)

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

	Three months ended 31 Mar 2007		Year ended 31 Dec 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**	**(76,000)**	6.88	(1,338,000)
Outstanding at 31 Mar 2007/ 31 Dec 2006	**6.88**	**712,000**	6.88	788,000
Post-Listing Scheme				
Outstanding at 1 Jan	**15.68**	**14,593,500**	15.80	16,574,000
Exercised	**16.18**	**(1,272,500)**	16.00	(1,355,500)
Forfeited	**12.49**	**(984,000)**	18.32	(625,000)
Outstanding at 31 Mar 2007/ 31 Dec 2006	**15.88**	**12,337,000**	15.68	14,593,500
Total	**15.39**	**13,049,000**	15.23	15,381,500

(iii) Had all the outstanding employee share options been fully exercised on 31 March 2007, the Group would have received $200,802,000 in proceeds. The market value of the shares issued based on the closing price of $76.15 per share on that date would have been $993,681,000. The theoretical gains made by the employees or Executive Director concerned would have been as follows:

	Number of shares issuable under options granted at 31 Mar 2007	**Exercise price $**	**Gain per share $**	**Aggregate gain $'000**
Pre-Listing Scheme				
– granted to employees on 20 Jun 2000	**712,000**	**6.88**	**69.27**	**49,320**
Post-Listing Scheme				
– granted to an Executive Director on 2 May 2003	**2,460,000**	**8.28**	**67.87**	**166,960**
– granted to an employee on 14 Aug 2003	**547,000**	**12.45**	**63.70**	**34,844**
– granted to an employee on 15 Jan 2004	**547,000**	**17.30**	**58.85**	**32,191**
– granted to employees on 31 Mar 2004	**4,065,500**	**16.96**	**59.19**	**240,637**
– granted to an employee on 17 May 2004	**150,000**	**15.91**	**60.24**	**9,036**
– granted to employees on 26 Jan 2005	**4,567,500**	**19.25**	**56.90**	**259,891**
Total				**792,879**

26. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares

(i) On 14 September 2005, the Board of HKEx approved the Share Award Scheme under which shares of HKEx ("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. Awarded Shares awarded and the income derived therefrom are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of award, providing that the awardees remain under the employ of the Group.

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. 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 of the award. 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.

On 19 December 2005, 960,000 Awarded Shares were awarded 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.

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

Further in 2006, 25,500 HKEx shares were acquired by the trustee through reinvesting dividends received at a total cost (including related transaction costs) of $1,503,000, of which 24,867 shares were subsequently allocated to awardees.

26. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

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

	Three months ended 31 Mar 2007		Year ended 31 Dec 2006	
	Average fair value per share $	**Number of Awarded Shares awarded**	Average fair value per share $	Number of Awarded Shares awarded
Outstanding at 1 Jan	**31.20**	**955,906**	31.20	960,000
Awarded*	**72.28**	**272,465**	–	–
Forfeited	–	–	31.20	(28,700)
Dividends reinvested:				
– allocated to awardees	–	–	N/A	24,867
– allocated to awardees but subsequently forfeited	–	–	N/A	(261)
Outstanding at 31 Mar 2007/ 31 Dec 2006	**40.31**	**1,228,371**	31.20	955,906

* On 13 December 2006, the Board awarded an Awarded Sum of $19,673,000 for the purchase of HKEx shares for eligible employees. Subsequently, 272,465 Awarded Shares were allocated to the awardees upon the completion of share purchase by the trustee on 15 January 2007.

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 total costs of the Awarded Shares acquired by the trustee from the market. The expected dividends during the vesting periods have been incorporated into the fair value.

(iii) As at 31 March 2007, 29,629 forfeited and unallocated shares were held by the HKEx Employee Share Trust and would be allocated to awardees in future (31 December 2006: 302,094 shares, of which 272,465 shares were allocated to awardees on 15 January 2007).

(iv) Had all the outstanding Awarded Shares been fully vested on 31 March 2007, the theoretical gains of the awardees based on the closing price of $76.15 per share on that date would have been $93,540,000.

27. Revaluation Reserves

	At 31 Mar 2007 $'000	At 31 Dec 2006 $'000
Leasehold buildings revaluation reserve (note b)	**2,640**	2,640
Investment revaluation reserve (note c and note d)	**(3,682)**	7,929
	(1,042)	10,569

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

(b) Leasehold buildings are revalued on a six-monthly basis at the end of June and December each year.

(c) Included gross investment revaluation deficit of $72,000 and gross surplus of $15,000 which were attributable to investments of the Clearing House Funds and the Compensation Fund Reserve Account respectively (31 December 2006: gross surpluses of $220,000 and $89,000 respectively).

(d) Included share of investment revaluation reserve of an associate of $58,000 (31 December 2006: $58,000).

28. Designated Reserves

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

	At 31 Mar 2007 $'000	At 31 Dec 2006 $'000
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	**259,650**	256,514
– SEOCH Reserve Fund reserve	**76,873**	71,193
– HKCC Reserve Fund reserve	**305,363**	300,109
	641,886	627,816
Compensation Fund Reserve Account reserve	**40,987**	40,446
	682,873	668,262

29. Retained Earnings (Including Proposed/Declared Dividends)

	2007 $'000	2006 $'000
At 1 Jan		
Retained earnings	**2,060,156**	1,775,641
Proposed/declared dividends	**1,266,387**	680,163
At 1 Jan	**3,326,543**	2,455,804
Profit for the period/year (note a)	**922,537**	2,518,569
Surplus of investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves	**(14,070)**	(37,840)
Investment income net of expenses of Compensation Fund Reserve Account for the period/year transferred to Compensation Fund Reserve Account reserve	**(541)**	(2,026)
Transfer from Development reserve (note b)	–	72,245
	(14,611)	32,379
Unclaimed dividend forfeited	–	686
Dividends:		
2005 final dividend	–	(679,549)
Dividend on shares issued for employee share options exercised after 31 Dec 2005	–	(1,039)
	–	(680,588)
2006 interim dividend	–	(1,000,050)
Dividend on shares issued for employee share options exercised after 30 Jun 2006	–	(257)
	–	(1,000,307)
At 31 Mar 2007/31 Dec 2006	**4,234,469**	3,326,543
Representing:		
Retained earnings	**2,966,478**	2,060,156
Proposed dividend	**1,267,991**	1,266,387
At 31 Mar 2007/31 Dec 2006	**4,234,469**	3,326,543

(a) The Group's profit for the period/year included a net profit attributable to investment income net of expenses of the Clearing House Funds and Compensation Fund Reserve Account for an aggregate amount of $14,611,000 (year ended 31 December 2006: $39,866,000).

(b) The Development reserve was fully utilised in 2006 for funding projects that were for the betterment of the securities market.

30. Notes to the Condensed Consolidated Cash Flow Statement

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

	Three months ended 31 Mar 2007 $'000	As restated Three months ended 31 Mar 2006 $'000
Profit before taxation	**1,081,883**	564,820
Adjustments for:		
Net interest income	**(163,344)**	(63,525)
Net realised and unrealised gains and interest income on financial assets and financial liabilities at fair value through profit or loss	**(57,921)**	(48,243)
Dividend income from financial assets at fair value through profit or loss	**(1,712)**	(1,111)
Amortisation of lease premiums for land	**137**	136
Fair value gain of an investment property	**(500)**	(600)
Depreciation	**23,162**	24,940
Employee share-based compensation benefits	**6,132**	7,220
(Reversal of provision for)/provision for impairment losses of trade receivables	**(63)**	115
Changes in provisions	**1,646**	(973)
Share of profits of associates	**(5,587)**	(3,220)
Gain on liquidation of an associate	**–**	(6)
(Gain)/loss on disposal of fixed assets	**(100)**	679
Net increase in financial assets and financial liabilities at fair value through profit or loss	**(7,426)**	(29,703)
Fair value losses of hedging instruments deferred in hedging reserve	**(42)**	–
Settlement of amounts transferred from retained earnings to Clearing House Funds and Compensation Fund Reserve Account	**(14,611)**	(8,596)
Decrease/(increase) in accounts receivable, prepayments and deposits	**412,019**	(2,222,393)
(Decrease)/increase in other current liabilities	**(328,562)**	2,722,514
Net cash inflow from operations	**945,111**	942,054
Interest received	**153,324**	130,918
Dividends received from financial assets at fair value through profit or loss	**1,068**	872
Cash received on financial assets at fair value through profit or loss	**31,155**	23,023
Interest paid	**(147,361)**	(90,446)
Hong Kong Profits tax paid	**(60,162)**	(53,881)
Net cash inflow from operating activities	**923,135**	952,540

(b) The net assets of the Clearing House Funds, Compensation Fund Reserve Account and Margin Funds are held in segregated accounts for specific purposes. Movements in individual items of the net assets of the funds during the period therefore did not constitute any cash or cash equivalent transactions to the Group.

31. Commitments

Commitments in respect of capital expenditures:

	At 31 Mar 2007 $'000	At 31 Dec 2006 $'000
Contracted but not provided for	**9,645**	9,144
Authorised but not contracted for	**71,829**	82,461
	81,474	91,605

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

32. Contingent Liabilities

(a) The Compensation Fund is a fund set up under the repealed SO for the purpose of compensating any person (other than a Stock Exchange Participant) dealing with a Stock Exchange Participant for any pecuniary losses suffered as a result of a default by the Stock Exchange Participant. According to section 109(3) of the repealed SO, the maximum compensation amount is $8 million for each Stock Exchange Participant's default. Under section 113(5A) of the repealed SO, the Stock Exchange may, upon satisfying certain conditions, and with the approval of the SFC, allow an additional payment to successful claimants before apportionment. Under section 107(1) of the repealed SO, the Stock Exchange has contingent liabilities to the Compensation Fund as it is obligated to replenish the Compensation Fund upon the SFC's request. The amounts to be replenished should be equal to the amount paid in connection with the satisfaction of the claims, including any legal and other expenses paid or incurred in relation to the claims but capped at $8 million per default. As at 31 March 2007, there were outstanding claims received in respect of two Stock Exchange Participants (31 December 2006: two).

Pursuant to the SFO, the Stock Exchange issued a notice on 3 April 2003 inviting claims against the Compensation Fund in relation to any default of a Stock Exchange Participant occurring before 1 April 2003. The claims period expired on 3 October 2003 and no claims were received in response to that notice. Claims made after the claims period are, unless the Stock Exchange otherwise determines, barred. As at 31 March 2007, no such claims had been received in response to the said notice.

Following the implementation of the new compensation arrangements under the SFO, an Investor Compensation Fund has been established to replace the existing Compensation Fund, the Commodity Exchange Compensation Fund and the Dealers' Deposit Schemes for non-exchange participant dealers. Pursuant to the SFO, Exchange Participants are no longer required to make deposits to the Investor Compensation Fund and the Stock Exchange is not required to replenish the Investor Compensation Fund. Hence, deposits to the Commodity Exchange Compensation Fund were returned to the Futures Exchange by the SFC in January 2004. The Futures Exchange had in turn reimbursed holders of Futures Exchange Trading Rights their contributions to the Commodity Exchange Compensation Fund. Similarly, deposits to the Compensation Fund would be returned to the Stock Exchange in accordance with the SFO pending completion of any determination of outstanding claims and replenishment to the Compensation Fund.

32. Contingent Liabilities (continued)

(b) The Stock Exchange has undertaken to indemnify the Collector of Stamp Revenue against any loss of revenue resulting from any underpayment or default or delay in payment of stamp duty by its Participants, up to $200,000 in respect of the default of any one Participant. In the unlikely event that all of its 427 trading Participants as at 31 March 2007 (31 December 2006: 425) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to $85,400,000 (31 December 2006: $85,000,000).

The carrying amount of the financial guarantee contract recognised in the Group's balance sheet in accordance with HKAS 39 and HKFRS 4 (Amendments) was $19,909,000 (31 December 2006: $19,909,000).

On 24 January 2007, HKEx had written to the Collector of Stamp Revenue seeking its permission to abolish the undertaking.

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

33. Non-cash Collateral Received from Participants

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. In accordance with HKAS 39, only cash collateral is recognised as assets and liabilities on the condensed consolidated balance sheet.

As at 31 March 2007, 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 were as follows:

	At 31 Mar 2007		At 31 Dec 2006	
	Amount received $'000	**Amount utilised $'000**	Amount received $'000	Amount utilised $'000
Clearing House Funds				
Bank guarantees	**801,150**	**339,052**	699,130	491,866
Margin Funds				
Equity securities, listed in Hong Kong, at market value	**755,989**	**–***	604,276	–*
US Treasury Bills, at market value	**3,763,954**	**2,934,391**	1,516,506	1,074,285
Hong Kong Exchange Fund Notes, at market value	**2,990**	**–**	–	–
Bank guarantees	**909,000**	**761,420**	269,000	181,111
	5,431,933	**3,695,811**	2,389,782	1,255,396
	6,233,083	**4,034,863**	3,088,912	1,747,262

* $352,516,000 (31 December 2006: $286,494,000) of 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.

34. Material Related Party Transactions

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.

34. Material Related Party Transactions (continued)

In addition to the above, the Group has entered into the following transactions with related parties:

(a) Related companies with common directors

	Three months ended 31 Mar 2007 $'000	Three months ended 31 Mar 2006 $'000
Rental payments (including air conditioning and cleaning service charges) to Shine Hill Development Limited ("Shine Hill")	–	1,371

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.

(b) Transactions with associates

	Three months ended 31 Mar 2007 $'000	Three months ended 31 Mar 2006 $'000
Income received and receivable from/(expenses paid and payable to) associates:		
CHIS		
– Dividend income	**7,500**	3,000
– Share registration service fees	**(395)**	(123)
ADP Wilco Processing Services Limited		
– Liquidation proceeds	–	1,312

(c) Key management personnel compensation

	Three months ended 31 Mar 2007 $'000	Three months ended 31 Mar 2006 $'000
Salaries and other short-term employee benefits	**16,186**	13,171
Employee share-based compensation benefits	**2,165**	2,372
Retirement benefit costs	**1,344**	1,388
	19,695	16,931

34. Material Related Party Transactions (continued)

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

	At 31 Mar 2007 $'000	At 31 Dec 2006 $'000
Amount due to an associate	**(370)**	(162)

(e) Post-retirement benefit plans

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

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

35. 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.

The Group's investment policy is to prudently invest all funds managed by the Group in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

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

(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).

35. Financial Risk Management (continued)

(a) Market risk (continued)

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

As at 31 March 2007, the aggregate net open foreign currency positions amounted to HK$2,259 million, of which HK$223 million were non-USD exposures (31 December 2006: HK$2,210 million, of which HK$213 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK$280 million (31 December 2006: HK$281 million). All forward foreign exchange contracts would mature within one month (31 December 2006: one month).

35. Financial Risk Management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The Group had entered into the following hedges as at 31 March 2007:

Cash flow hedges

				Amount of hedging instruments used up	
Year	Hedged items	Hedging instruments	Hedged risk	**Up to 31 Mar 2007**	Up to 31 Dec 2006
2005	Forecast information technology and computer maintenance expenses of Swedish Krona ("SEK") 8,500,000 from August to December 2005	Bank deposit of SEK8,500,000	Foreign exchange risk	**SEK7,567,000**	SEK7,567,000
2006	Forecast information technology and computer maintenance expenses of SEK17,680,000 from May to December 2006	Cash and bank deposits of SEK17,680,000	Foreign exchange risk	**SEK9,947,000**	SEK4,068,000
2007	Forecast information technology and computer maintenance expenses of SEK12,000,000 from January to December 2007	Bank deposits of SEK12,000,000	Foreign exchange risk	**–**	–

As at 31 March 2007, the fair value of the bank deposits designated as cash flow hedges held by the Group was $23,017,000 (31 December 2006: $16,531,000). The fair value loss on the bank deposits deferred in the hedging reserve as of 31 March 2007 will be released to the profit and loss account between April to December 2007 when the forecast expenses being hedged materialise.

The ineffectiveness of cash flow hedges credited to the profit and loss account during the period was $Nil (2006: $Nil).

Fair value hedges

				Amount of hedging instruments used up	
Year	Hedged items	Hedging instruments	Hedged risk	**Up to 31 Mar 2007**	Up to 31 Dec 2006
2005	Financial liabilities of SEK11,000,000	Bank deposit of SEK11,000,000	Foreign exchange risk	**SEK7,556,000**	SEK7,556,000
2006	Financial liabilities of SEK9,100,000	Cash and bank deposits of SEK9,100,000	Foreign exchange risk	**SEK8,089,000**	SEK8,089,000
2007	Financial liabilities of SEK1,340,000	Bank deposit of SEK1,340,000	Foreign exchange risk	**–**	–

35. Financial Risk Management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Fair value hedges (continued)

As at 31 March 2007, the fair value of the bank deposits designated as fair value hedges was $6,453,000 (31 December 2006: $5,062,000).

The fair value changes of hedging instruments and hedged items during the period were as follows:

	Three months ended 31 Mar 2007 $'000	Three months ended 31 Mar 2006 $'000
Fair value (losses)/gains on hedging instruments	**(112)**	299
Fair value gains/(losses) on hedged items	**112**	(299)

(ii) Equity and commodity price risk

The Group is exposed to equity price risk as equities 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.

35. Financial Risk Management (continued)

(a) Market risk (continued)

(iv) Risk management (continued)

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

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

	Three months ended 31 Mar 2007			Three months ended 31 Mar 2006		
	Average $'000	**Highest $'000**	**Lowest $'000**	Average $'000	Highest $'000	Lowest $'000
Foreign exchange risk	**5,437**	**6,094**	**3,769**	5,871	6,671	4,949
Equity price risk	**13,077**	**15,232**	**11,486**	11,477	13,032	9,909
Interest rate risk	**16,349**	**18,452**	**13,703**	11,498	13,862	9,040
Total VaR	**24,854**	**27,446**	**21,423**	17,336	19,673	15,939

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

(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.

35. Financial Risk Management (continued)

(b) Liquidity risk (continued)

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

(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.

35. Financial Risk Management (continued)

(c) Credit risk (continued)

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

The Group mitigates its exposure to risks described above by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants, monitoring compliance with risk management measures such as position limits established by the Group and requiring Clearing Participants to contribute to the Clearing House Funds set up by HKSCC, SEOCH and HKCC. HKSCC also retains recourse against those Participants whose securities are deposited and accepted in the CCASS depository.

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. As of 31 March 2007, bank guarantees of $1,550,700,000 (31 December 2006: $1,511,500,000) were accepted for such purpose.

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

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

As at 31 March 2007, the age analysis of the trade receivables of the Group that were past due but not determined to be impaired according to the period past due was as follows:

	At 31 Mar 2007 $'000	At 31 Dec 2006 $'000
Up to 6 months	**60,805**	186,359
Over 6 months to 1 year	**3**	–
Over 1 year to 3 years	**–**	–
Over 3 years*	**8,651**	8,651
Total	**69,459**	195,010

* No provision for impairment losses has been made against trade receivables amounting to $8,510,000 (31 December 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 $6,717,000 (31 December 2006: $6,088,000).

35. Financial Risk Management (continued)

(c) Credit risk (continued)

(iv) Financial assets that were impaired at balance sheet date

As at 31 March 2007, trade receivables of the Group amounting to $4,616,000 (31 December 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 balance sheet date or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired were disclosed in the 2006 annual accounts. No cash deposits had been placed by the related trade debtors with the Group (31 December 2006: $Nil).

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

As soon as a loan or receivable becomes impaired, the Group may continue to provide services or facilities to the debtors concerned but no further accounts receivable will be recognised on balance sheet 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 received. As at 31 March 2007, the amount of doubtful deferred revenue amounted to $43,722,000 (31 December 2006: $44,242,000).

36. Comparative Figures

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