Hong Kong Exchanges and Clearing Limited
香港交易及結算所有限公司

Quarterly Report 2007

For the nine months ended 30 September

Stock Code: 388

CONTENTS

(Financial figures in this report are expressed in HKD unless otherwise stated)

FINANCIAL HIGHLIGHTS

	Nine months ended 30 Sept 2007	Nine months ended 30 Sept 2006	Change	Three months ended 30 Sept 2007	Three months ended 30 Sept 2006	Change
KEY MARKET STATISTICS						
Average daily turnover value on the Stock Exchange	**$72.4 billion**	$30.4 billion	138%	**$97.7 billion**	$26.3 billion	271%
Average daily number of derivatives contracts traded on the Futures Exchange	**163,664**	96,926	69%	**197,874**	95,911	106%
Average daily number of stock options contracts traded on the Stock Exchange	**168,392**	64,608	161%	**240,131**	66,836	259%

	Unaudited Nine months ended 30 Sept 2007 $'000	Unaudited Nine months ended 30 Sept 2006 $'000	Change	Unaudited Three months ended 30 Sept 2007 $'000	Unaudited Three months ended 30 Sept 2006 $'000	Change
RESULTS						
Income	**5,495,518**	2,843,683	93%	**2,338,580**	948,435	147%
Operating expenses	**1,028,493**	893,651	15%	**362,849**	297,163	22%
Operating profit	**4,467,025**	1,950,032	129%	**1,975,731**	651,272	203%
Gain on disposal of an associate	**206,317**	-	N/A	**-**	-	N/A
Share of profits of associates	**5,587**	15,986	(65%)	**-**	6,734	(100%)
Profit before taxation	**4,678,929**	1,966,018	138%	**1,975,731**	658,006	200%
Taxation	**(666,549)**	(291,989)	128%	**(293,652)**	(92,288)	218%
Profit attributable to shareholders	**4,012,380**	1,674,029	140%	**1,682,079**	565,718	197%
Basic earnings per share	**$3.76**	$1.57	139%	**$1.58**	$0.53	198%
Diluted earnings per share	**$3.72**	$1.56	138%	**$1.56**	$0.53	194%

	Unaudited at 30 Sept 2007 $'000	Audited at 31 Dec 2006 $'000	Change
KEY BALANCE SHEET ITEMS			
Shareholders' funds	**6,167,718**	5,257,586	17%
Total assets *	**83,322,077**	40,453,298	106%
Net assets per share #	**$5.77**	$4.94	17%

* The Group's total assets include the Margin Funds received from Participants on futures and options contracts.

\# Based on 1,068,257,846 shares as at 30 September 2007, being 1,069,558,346 shares issued and fully paid less 1,300,500 shares held for the Share Award Scheme (31 December 2006: 1,064,190,346 shares, being 1,065,448,346 shares issued and fully paid less 1,258,000 shares held for the Share Award Scheme)

CORPORATE INFORMATION

Board of Directors

Independent Non-executive Chairman

ARCULLI, Ronald Joseph* GBS, JP

Executive Director, Chief Executive

CHOW Man Yiu, Paul SBS, JP

Independent Non-executive Directors

CHA May-Lung, Laura* SBS, JP

CHENG Mo Chi, Moses* GBS, JP

CHEUNG Kin Tung, Marvin* SBS, JP
(re-appointment effective 26 April 2007)

FAN Hung Ling, Henry* SBS, JP
(re-appointment effective 26 April 2007)

FONG Hup* MH
(re-appointment effective 26 April 2007)

KWOK Chi Piu, Bill

LEE Kwan Ho, Vincent Marshall

LOH Kung Wai, Christine

STRICKLAND, John Estmond GBS, JP
(re-elected on 26 April 2007)

WEBB, David Michael

WONG Sai Hung, Oscar
(re-elected on 26 April 2007)

* Government Appointed Directors

Committees

Audit Committee

CHEUNG Kin Tung, Marvin (Chairman)
(retired as member on 26 April 2007 and appointed as Chairman on 27 April 2007)

STRICKLAND, John Estmond (ex-Chairman)
(retired on 26 April 2007)

FONG Hup (Deputy Chairman)
(re-appointment effective 27 April 2007)

CHENG Mo Chi, Moses

LEE Kwan Ho, Vincent Marshall

WEBB, David Michael
(appointment effective 27 April 2007)

Executive Committee

ARCULLI, Ronald Joseph (Chairman)

CHOW Man Yiu, Paul

FONG Hup
(re-appointment effective 27 April 2007)

KWOK Chi Piu, Bill

LEE Kwan Ho, Vincent Marshall

Investment Advisory Committee

STRICKLAND, John Estmond (Chairman)
(appointment effective 27 April 2007)

FAN Hung Ling, Henry (ex-Chairman)
(retired on 26 April 2007)

WONG Sai Hung, Oscar (Deputy Chairman)
(re-appointment effective 27 April 2007)

CHA May-Lung, Laura

SUN Tak Kei, David

WEBB, David Michael

Nomination Committee

ARCULLI, Ronald Joseph (Chairman)

FAN Hung Ling, Henry
(appointment effective 27 April 2007)

FONG Hup
(retired on 26 April 2007)

LEE Kwan Ho, Vincent Marshall

STRICKLAND, John Estmond
(appointment effective 27 April 2007)

WEBB, David Michael

WONG Sai Hung, Oscar
(retired on 26 April 2007)

Panel Member Nomination Committee

CHA May-Lung, Laura (Chairman)
(re-appointment effective 1 June 2007)

FONG Hup
(re-appointment effective 27 April 2007)

KWOK Chi Piu, Bill

LEE Kwan Ho, Vincent Marshall

WONG Sai Hung, Oscar
(re-appointment effective 27 April 2007)

Remuneration Committee

ARCULLI, Ronald Joseph (Chairman)
(appointment effective 27 April 2007)

CHEUNG Kin Tung, Marvin (ex-Chairman)
(retired on 26 April 2007)

CHA May-Lung, Laura
(appointment effective 27 April 2007)

CHENG Mo Chi, Moses

FONG Hup
(retired on 26 April 2007)

LEE Kwan Ho, Vincent Marshall

LOH Kung Wai, Christine

Risk Management Committee
(established under Section 65 of the SFO)

ARCULLI, Ronald Joseph (Chairman)

CHAN Ka-lok**
(re-appointment effective 1 July 2007)

CHEUNG Kin Tung, Marvin
(appointment effective 27 April 2007)

FAN Hung Ling, Henry
(retired on 26 April 2007)

FONG Hup**
(re-appointment effective 1 July 2007)

HE Guangbei**

KWOK Chi Piu, Bill

LAU Ying Pan, Edmond**
(appointment effective 1 September 2007)

LUI Kei Kwong, Keith**

YUE Wai Man, Eddie**
(retired on 31 August 2007)

** Appointed by the Financial Secretary

Company Secretary

MAU Kam Shing, Joseph

Authorised Representatives

CHOW Man Yiu, Paul

MAU Kam Shing, Joseph

Auditors

PricewaterhouseCoopers

Legal Advisers

Allen & Overy

Listing

GEM Review

On 27 July 2007, HKEx released a consultation paper on GEM to invite market comments on the proposals to further develop GEM as a second board. A total of seven submissions were received at the end of the consultation period on 31 October 2007. Taking into account the market comments, proposed rule changes will be developed for further market consultation.

Survey of Corporate Governance Practices

At the end of July 2007, HKEx sent a questionnaire to all listed issuers as part of its review of compliance with the CG Code by listed issuers. Based on the results, HKEx will assess the overall progress in, and identify any issues that might have arisen from, complying with the CG Code. Results of the survey will be published in the first quarter of 2008.

Consultation Paper on Periodic Financial Reporting

HKEx released a consultation paper on Periodic Financial Reporting on 31 August 2007. The paper sets out HKEx's proposals to: (a) shorten the half-year and annual reporting deadlines for Main Board issuers; (b) introduce mandatory quarterly reporting for Main Board issuers; and (c) align the GEM quarterly reporting requirements with the proposed new Main Board requirements. The consultation period ended on 5 November 2007, and the responses to the consultation paper have been posted onto the HKEx website. Consultation conclusions will be published in due course.

Cash Market

Market Performance

There were 52 newly listed companies on the Main Board (none on GEM) in the first nine months of 2007 with total capital raised, including post-listing funds, reaching $332.4 billion. As at 30 September 2007, 1,018 and 192 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about $20,054.9 billion. In addition, there were 3,344 derivative warrants, 17 ETFs, seven REITs, 62 CBBCs and 175 debt securities listed as at the end of September 2007. The average daily turnover in the first three quarters of 2007 was about $71.7 billion on the Main Board and about $685 million on GEM.

Introduction of Closing Auction Session

On 19 July 2007, HKEx published the consultation conclusions on the proposal to arrange a closing auction after the continuous trading session. A total of 23 sets of comments were received from the brokerage community, investment management and advisory firms, and banking and legal sectors with the majority in support of the proposal.

Taking into consideration system preparations by EPs and the scheduled introduction of five-digit stock codes in April 2008, the closing auction session for the securities market will be introduced on 26 May 2008. Meanwhile, HKEx will conduct a series of education programmes to ensure market readiness.

Proposal on Suspension of Tick Rule for Short Selling

HKEx submitted the proposed rule amendments to the SFC in August 2007. The SFC was of the view that further assessment and consideration of the implementation date would be required before approving the rule amendments.

Introduction of Five-Digit Stock Codes

In view of the growing number of new listings and structured products, HKEx will introduce five-digit stock codes on 7 April 2008 subject to market readiness.

The implementation of five-digit stock codes will not only support further market growth but will also provide flexibility to standardise and rationalise stock code classification. With the range extended to 99999, it will be possible to apply new coding conventions to better differentiate products and information.

HKEx will conduct seminars and rehearsals for market users and provide education materials to promote awareness of the new arrangement.

Derivatives Market

Market Performance

In the third quarter of 2007, some products achieved record highs as shown in the following table.

	Record High Daily Volume		Record High Open Interest	
Products	**Date**	**Number of Contracts**	**Date**	**Number of Contracts**
HSI Futures	25 Sept	201,717	–	–
HSI Options	27 Jul	77,739	29 Aug	476,682
Mini-HSI Futures	21 Aug	37,684	–	–
H-shares Index Futures	29 Aug	152,692	25 Sept	149,201
H-shares Index Options	–	–	25 Sept	268,769
Stock Options	17 Aug	431,494	25 Sept	7,032,800

Proposal to Increase Position Limits

HKEx had discussed with the SFC on the market demand for higher position limits for futures and options in view of the robust market activities. In September 2007, the SFC released its consultation conclusions on the proposed introduction of flexible excess position limits to be authorised by the SFC to the EPs and their affiliates who demonstrate a relevant business need to facilitate the provision of services to clients. Under the proposal, the EPs and their affiliates may apply to the SFC to exceed the statutory prescribed limits for specified contracts (initially HSI Futures and Options and H-shares Index Futures and Options contracts only) up to 50 per cent (could be adjusted later). The new arrangement will take effect by the end of 2007, subject to the approval of the proposed sub-legislation amendments by the Legislative Council. This is expected to have a positive impact on the market activities as major players will be eligible to hold more positions when necessary.

Enhancements to Block Trade Facility

To improve the extension of HKEx's clearing services to trades conducted over-the-counter, certain features of the Block Trade Facility provided on HKATS were enhanced in order to facilitate the execution of block trades by EPs with effect from 3 September 2007. The requirements whereby a block trade had to be executed at the prevailing bid, the prevailing ask, or the only traded price if that was the only price available were removed, and EPs are required to execute the block trade at a fair and reasonable price in cases where the specified price range is not available. In addition, the order size limit for stock futures and stock options (on all order types) was increased from 1,000 contracts to 5,000 contracts.

Expansion of Stock Options

With the introduction of options for trading on three additional stocks, namely Jiangxi Copper Company Limited, China CITIC Bank Corporation Limited and China Coal Energy Company Limited, on 3 September 2007, there were 47 stock option classes as at the end of the third quarter of 2007.

Study of Commodities Derivatives and Emissions-related Products

Two consultants commenced respective studies of the feasibility of trading commodities derivatives and emissions-related products in Hong Kong in August 2007. The studies are expected to be completed by the end of the year.

Education and Marketing

In the third quarter of 2007, HKEx organised several public investor seminars on stock options and some more will be held before the end of this year in conjunction with EPs. HKEx is also sponsoring an Online Promotional Programme launched by EPs who offer Q&A games on their websites, post HKEx banner advertisements and send electronic promotional material regarding HKEx products/services to their clients. HKEx souvenirs will be distributed to investors participating in the Q&A games.

Clearing

Enhancements to the SSA with Statement Service

HKSCC introduced additional features to its SSA with Statement Service on 9 July 2007. SSA users can receive corporate communications directly from share registrars and give voting instructions electronically to CCASS Broker and Custodian Participants. They can opt to use the affirmation function to confirm the transfer of shares out of the SSA, and to settle stock transfers "Free of Payment" or "Delivery Against Payment". The limit on the number of SSAs that can be opened by each CCASS Participant was lifted.

Enhancements to CCASS

In July 2007, HKSCC introduced two enhancements to help streamline the IPO procedures for Participants. CCASS has been enhanced to enable a listed company to pay, by autopay, the one per cent brokerage commission to EPs on successful applications for its IPO. Moreover, CCASS Broker and Custodian Participants can obtain via CCASS Terminals a Yellow Form Share Allotment Report in respect of their clients' yellow form applications on the day the allotment results are announced.

Extension of DCASS Cutoff Time

Effective 9 July 2007, the cutoff time for the input of post-trade transactions by HKCC and SEOCH Participants was extended by 30 minutes from 6:15 pm to 6:45 pm with the support of advanced backup technology to handle the DCASS day-end batch processing.

TPC and Remote Exchange Participantship

The TPC model has been finalised and various rules and operational procedures will be amended. Subject to the SFC's approval, TPC would tentatively be implemented before the end of 2007. Following the introduction of TPC, HKEx will proceed with the proposal for launching the Remote Exchange Participantship for the Cash and Derivatives Markets. Under the proposal, a brokerage service provider which is not incorporated in Hong Kong and has not established a licensed brokerage in Hong Kong would in general be admitted as a Remote EP by obtaining a trading right from HKEx, installing the necessary trading facilities and appointing a General Clearing Participant who can clear all its trades in Hong Kong on its behalf. The relevant rule amendments and operational arrangement would be ready by the end of 2007.

Risk Management

Organisational Changes

To enhance the risk management effectiveness, all risk management responsibilities that resided with different divisions and departments within HKEx were consolidated with effect from 16 July 2007. As a result, Cash Clearing Risk Management and Derivatives Clearing Risk Management under the Clearing Division, Market Surveillance and Participant Surveillance under the Participant Admission and Surveillance Department, and the Risk Management Department were merged to form a new Risk Management Division.

Risk Management Measures

Effective 3 July 2007, the long-established arrangement for HKCC Participants to use Client Offset Claim Accounts for eligible pairs of client positions to be allocated and margined on a net basis was extended to SEOCH Participants.

A review of the treatment of interest on Variable Contributions ("VC") to the Reserve Fund ("RF") of SEOCH and the use of non-cash collateral to meet the demand for VC to the RF was completed. SEOCH Participants have been notified of the changes in the clearing rules and procedures, which serve to align the arrangements of SEOCH with those of HKCC effective 1 November 2007.

Default of Participants

In respect of the failure of Tai Wah Securities Limited (in liquidation) to meet its obligations to HKSCC, recovery from the HKSCC Guarantee Fund will be made if the outstanding balance of about $1.8 million cannot be fully settled upon completion of the liquidation process.

On 31 August 2007, HKSCC declared Man Lung Hong Securities Limited ("MLH") a defaulter and closed out the unsettled positions of MLH in CCASS following the issuance of restriction notice by the SFC. HKSCC applied the collateral provided by MLH to cover the closing-out losses and will proceed to recover the balance of the losses of about $178,000.

Upon issuance of a restriction notice by the SFC on Great Honest Investment Company Limited ("Great Honest") on 12 November 2007, HKSCC declared Great Honest a defaulter and closed out the unsettled positions of Great Honest in CCASS. The settlement of Great Honest's positions by HKSCC left an overall net surplus which will be returned to Great Honest's administrator in due course.

Regarding the failure of Yicko Futures Limited (in liquidation) to meet its obligations to HKCC, recovery from the HKCC Reserve Fund will be made if the outstanding debt of about $7.8 million cannot be fully settled upon completion of the liquidation process.

Business Development

Promotional Activities for Local Companies

On 30 July 2007, HKEx delivered a presentation at The Hong Kong General Chamber of Commerce ("HKGCC") Roundtable Luncheon to HKGCC's members on listing in Hong Kong as well as on the latest developments in the securities market.

Promotional Activities Targeting Mainland Enterprises

On 17 July 2007, HKEx and the Shandong's Department of Foreign Trade and Economic Cooperation co-organised a "Listing in Hong Kong Conference" for a delegation of 160 senior Shandong officials and representatives from Shandong enterprises led by the Vice Governor of Shandong Province.

With the support of the provincial and regional authorities, and joined by over 50 representatives from Hong Kong market intermediaries, conferences and networking events were held in Changchun, the capital of Jilin, and Huhhot, the capital of Inner Mongolia in early September 2007. A roundtable meeting on issues relating to listings in Hong Kong was also held in Huhhot between potential issuers and Hong Kong market intermediaries.

Promotional Activities Targeting Overseas Corporations

On 3 July 2007, HKEx entered into a Memorandum of Understanding with the Moscow Interbank Currency Exchange on cooperation and the exchange of information to foster a closer relationship between the two exchanges, and to facilitate fund raisings by quality Russian companies in Hong Kong.

Extensive promotional activities were conducted in the third quarter of 2007 in a number of places, including: Taipei, Taiwan; Mumbai, India; Ho Chi Minh City, Vietnam; Ulaanbaatar, Mongolia; Moscow and St. Petersburg, Russia; and Almaty, Kazakhstan. During the trips, HKEx participated in seven conferences with over 900 attendees, and had more than 50 meetings with government officials and representatives from stock exchanges, financial authorities, market intermediaries and prospective issuers.

On 12 September 2007, HKEx provided a training programme for representatives of Kazakhstan companies who visited Hong Kong. It also organised a conference for visiting representatives of Taiwan companies on 14 September 2007. Both events focused on the benefits of and requirements for listing in Hong Kong.

Information Services

Editorial Package for Real-time Information Vendors

HKEx introduced a new editorial package on 1 July 2007 for all real-time information vendors that have in-house news and editorial teams to provide news, analyses or commentary services to complement their real-time HKEx market data services. The package offers five free units of HKEx real-time market data and a special discount of 50 per cent on the regular monthly subscription fee for additional units.

Enhancement of Information Systems

In August 2007, HKEx increased the allocated bandwidth of the MDF, the information feed to provide real-time securities market data, from 384 kilobits per second (“Kbps”) to 470Kbps to cater for the increased volume of market activities. In addition, HKEx increased the capacity for the PRS, the information feed for Derivatives Market data, with price depth service from 500 messages per second (“mps”) to 900 mps and for the PRS without price depth service from 350 mps to 600 mps.

Information Technology

Production Systems Stability and Reliability

All major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets operated by HKEx achieved 100 per cent operational system uptime and operated smoothly despite heavy turnover in the Cash and Derivatives Markets that reached record high of 1,201,262 trades on 3 October 2007 and 773,545 contracts on 17 August 2007 respectively.

System Capacity Planning and Upgrade

HKEx regularly reviews its systems to ensure that they have sufficient capacity to support the trading and clearing volume of the Cash and Derivatives Markets at all times.

A market-wide rehearsal was conducted early this year to ensure that AMS/3 is capable of handling at least 1.5 million trades per day, and to enable our EPs and information vendors to review and verify the capacity and performance of their systems and trading facilities. In anticipation of further growth in market activities, the Board approved the migration of AMS/3 to the new Itanium platform during the quarter. In addition, the AMS/3 capacity will be increased by more than threefold from 1.5 million to 5 million trades per day by January 2008. HKEx is also planning to increase the capacity of CCASS/3 to support 5 million trades per day for all critical on-line and batch activities in the first quarter of 2008.

All key systems with DCASS and HKATS were successfully upgraded in May and July 2007 respectively. In view of the strong growth in the Derivatives Market trading activity, HKEx conducted a further review of HKATS and DCASS in October 2007 to examine potential upgrade alternatives and to work out the associated implementation roadmap to prepare for further capacity upgrade, if necessary, in 2008.

Technology Development and Upgrade

The migration of HKATS and DCASS to application software release 19.1 is making good progress and the implementation is scheduled to take place in the first quarter of 2008. The new version offers functional and technical enhancements to pave the way for the future development of the Derivatives Market.

The upgrade of the Securities Market Automated Research, Training & Surveillance System (SMARTS) is in progress for rollout in early 2008. The upgraded system will provide advanced features and higher performance and capacity to improve HKEx's market surveillance capability.

For the dissemination of issuer-related information, HKEx is developing a Designated Issuer Website which will be launched in January 2008. This new website will be independent from the current corporate website and provide better searching, archiving and backup functions for issuer information and regulatory news.

System Consolidation and Operational Efficiency

On 16 July 2007, HKEx completed the fourth and final phase of its implementation of SDNet, an integrated Optical Ethernet network infrastructure for Cash and Derivatives Markets trading, clearing and settlement, and market data dissemination systems. The SDNet provides wider bandwidth, improved reliability, greater operational flexibility and efficiency, and network cost reduction to both HKEx and EPs.

In August 2007, HKEx commenced the development of Participant Financial Resources Surveillance System to automate the processing of financial return data, which will facilitate the analysis and market surveillance by HKEx.

HKEx has started the review of the AMS/3 information pages, aiming to rationalise and streamline the stock information pages disseminated to MDF information vendors through the AMS/3 trading devices.

Treasury

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling $40.3 billion on average for the nine months ended 30 September 2007 (30 September 2006: $24.7 billion).

As compared with 30 June 2007, the overall size of funds available for investment as at 30 September 2007 increased by 67 per cent or $25.4 billion to $63.5 billion (30 June 2007: $38.1 billion). Details of the asset allocation of the investments as at 30 September 2007 against those as at 30 June 2007 are set out below.

	Investment Fund Size $ billion		Bonds		Cash or Bank Deposits		Global Equities	
	Sept	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun
Corporate Funds	**10.2**	7.5	**43%**	68%	**54%**	27%	**3%**	5%
Margin Funds	**50.5**	28.3	**24%**	51%	**76%**	49%	**0%**	0%
Clearing House Funds	**2.8**	2.3	**12%**	14%	**88%**	86%	**0%**	0%
Total	**63.5**	38.1	**26%**	52%	**73%**	47%	**1%**	1%

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the Clearing House Funds and Margin Funds. Excluding equities held under the Corporate Funds ($0.3 billion as at 30 September 2007 and $0.4 billion as at 30 June 2007), which have no maturity date, the maturity profiles of the remaining investments as at 30 September 2007 ($63.2 billion) and 30 June 2007 ($37.7 billion) were as follows:

	Investment Fund Size $ billion		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		> 3 years	
	Sept	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun
Corporate Funds	**9.9**	7.1	**49%**	20%	**11%**	6%	**19%**	46%	**14%**	18%	**7%**	10%
Margin Funds	**50.5**	28.3	**41%**	30%	**38%**	24%	**20%**	45%	**1%**	1%	**0%**	0%
Clearing House Funds	**2.8**	2.3	**88%**	86%	**0%**	0%	**12%**	14%	**0%**	0%	**0%**	0%
Total	**63.2**	37.7	**45%**	31%	**32%**	19%	**19%**	43%	**3%**	5%	**1%**	2%

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 30 September 2007, had a weighted average credit rating of Aa1 (30 June 2007: Aa1) and a weighted average maturity of 0.7 year (30 June 2007: 0.7 year). 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.

Risk management techniques, such as Value-at-Risk ("VaR") and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by 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 overall risk, as measured by the VaR methodology, during the third quarter and the second quarter of 2007 was as follows:

	Average VaR $ million		**Highest VaR** $ million		**Lowest VaR** $ million	
	Jul-Sept	Apr-Jun	**Jul-Sept**	Apr-Jun	**Jul-Sept**	Apr-Jun
Corporate Funds	**12.5**	16.6	**14.6**	18.1	**11.2**	15.5
Margin Funds	**11.7**	11.5	**12.4**	12.5	**10.7**	10.4
Clearing House Funds	**0.5**	0.5	**0.5**	0.6	**0.4**	0.2

Details of the Group's net investment income are set out in the Income section under the Financial Review and note 6 to the condensed consolidated accounts of this quarterly report.

FINANCIAL REVIEW

Overall Performance

	Unaudited Nine months ended 30 Sept 2007 $'000	Unaudited Nine months ended 30 Sept 2006 $'000
RESULTS		
Income:		
Income affected by market turnover	**3,461,015**	1,662,018
Stock Exchange listing fees	**474,214**	328,748
Income from sale of information	**466,526**	275,332
Net investment income	**774,248**	391,100
Other income	**319,515**	186,485
	5,495,518	2,843,683
Operating expenses	**1,028,493**	893,651
Operating profit	**4,467,025**	1,950,032
Gain on disposal of an associate	**206,317**	–
Share of profits of associates	**5,587**	15,986
Profit before taxation	**4,678,929**	1,966,018
Taxation	**(666,549)**	(291,989)
Profit attributable to shareholders	**4,012,380**	1,674,029
Basic earnings per share	**$3.76**	$1.57
Diluted earnings per share	**$3.72**	$1.56

	Unaudited at 30 Sept 2007 $'000	Audited at 31 Dec 2006 $'000
KEY BALANCE SHEET ITEMS		
Shareholders' funds	**6,167,718**	5,257,586
Total assets *	**83,322,077**	40,453,298
Net assets per share #	**$5.77**	$4.94

* The Group's total assets include the Margin Funds received from Participants on futures and options contracts.

Based on 1,068,257,846 shares as at 30 September 2007, being 1,069,558,346 shares issued and fully paid less 1,300,500 shares held for the Share Award Scheme (31 December 2006: 1,064,190,346 shares, being 1,065,448,346 shares issued and fully paid less 1,258,000 shares held for the Share Award Scheme)

The Group recorded a profit attributable to shareholders of $4,012 million for the first nine months of 2007 (first quarter: $922 million; second quarter: $1,408 million; third quarter: $1,682 million) compared with $1,674 million for the same period in 2006 (2006 first quarter: $479 million; second quarter: $629 million; third quarter $566 million).

As compared with that for the same period last year, the increase in profit for the nine months ended 30 September 2007 was primarily attributable to the higher turnover-related income resulting from the significant increase in level of activities in the Cash and Derivatives Markets, which was partly driven by the improved market sentiment following the relaxation of rules governing the permissible investments under the QDII scheme and the proposed Pilot Program for Direct Foreign Portfolio Investments by Domestic Individuals under which Mainland individuals are allowed to directly invest in products listed in Hong Kong. Net investment income nearly doubled as a result of higher net interest income and an increase in fair value gains of Corporate Fund investments in 2007. Moreover, the Group disposed of its entire interest in an associate, CHIS, during the period and generated a gain of $206 million.

Total operating expenses increased by 15 per cent during the period mainly due to higher staff costs, premises expenses and legal and professional fees but partly offset by a decrease in depreciation.

Income

(A) Income affected by market turnover

	Unaudited Nine months ended 30 Sept 2007 $'000	Unaudited Nine months ended 30 Sept 2006 $'000	Change
Trading fees and trading tariff	**1,962,937**	912,726	115%
Clearing and settlement fees	**1,014,759**	456,731	122%
Depository, custody and nominee services fees	**483,319**	292,561	65%
Total	**3,461,015**	1,662,018	108%

The increase in trading fees and trading tariff was mainly due to the higher market turnover of the Cash and Derivatives Markets in the first nine months of 2007 against that of the corresponding period last year.

Clearing and settlement fees were derived predominantly from Cash Market transactions. The increase in clearing and settlement fees in 2007 was mainly due to the higher market turnover of the Cash Market. Despite being mostly ad valorem fees, clearing and settlement fees were affected by the volume of settlement instructions and subject to a minimum and a maximum fee per transaction and may not always move exactly with changes in the Cash Market turnover.

Depository, custody and nominee services fees increased mainly due to higher scrip fees, electronic-IPO handling charges, corporate action fees, stock custody fees and dividend collection fees. The fees were influenced by the level of Cash Market activities but did not move proportionately with changes in the Cash Market turnover as they varied mostly with the board lots rather than the value of the securities concerned and many were subject to a maximum fee. Moreover, scrip fee was only chargeable on the net increase in individual Participants' aggregate holdings of the securities on book closing dates.

Key market indicators

	Nine months ended 30 Sept 2007	Nine months ended 30 Sept 2006	Change
Average daily turnover value on the Stock Exchange	**$72.4 billion**	$30.4 billion	138%
Average daily number of derivatives contracts traded on the Futures Exchange	**163,664**	96,926	69%
Average daily number of stock options contracts traded on the Stock Exchange	**168,392**	64,608	161%

(B) Stock Exchange listing fees

	Unaudited Nine months ended 30 Sept 2007 $'000	Unaudited Nine months ended 30 Sept 2006 $'000	Change
Annual listing fees	**225,202**	203,638	11%
Initial and subsequent issue listing fees	**244,583**	120,511	103%
Others	**4,429**	4,599	(4%)
Total	**474,214**	328,748	44%

The increase in annual listing fees was attributable to the higher number of listed securities. Initial and subsequent issue listing fees more than doubled due to the increase in number of newly listed companies on the Main Board and the substantial increase in number of newly listed derivative warrants.

Key drivers for annual listing fees

	As at 30 Sept 2007	As at 30 Sept 2006	Change
Number of companies listed on Main Board	**1,018**	954	7%
Number of companies listed on GEM	**192**	198	(3%)
Total	**1,210**	1,152	5%

Key drivers for initial and subsequent issue listing fees

	Nine months ended 30 Sept 2007	Nine months ended 30 Sept 2006	Change
Number of newly listed derivative warrants	**4,048**	1,828	121%
Number of newly listed companies on Main Board	**52**	32	63%
Number of newly listed companies on GEM	**–**	5	(100%)
Total equity funds raised on Main Board	**$318.7 billion**	$255.7 billion	25%
Total equity funds raised on GEM	**$13.7 billion**	$7.5 billion	83%

(C) Income from sale of information

	Unaudited Nine months ended 30 Sept 2007 $'000	Unaudited Nine months ended 30 Sept 2006 $'000	Change
Income from sale of information	**466,526**	275,332	69%

Income from sale of information rose as demand for information increased in tandem with the activities of the Cash and Derivatives Markets.

(D) Net investment income

	Unaudited Nine months ended 30 Sept 2007 $'000	Unaudited Nine months ended 30 Sept 2006 $'000	Change
Gross investment income	**1,245,500**	713,426	75%
Interest expenses	**(471,252)**	(322,326)	46%
Net investment income	**774,248**	391,100	98%

The average amount of funds available for investment was as follows:

	Nine months ended 30 Sept 2007 $ billion	Nine months ended 30 Sept 2006 $ billion	Change
Corporate Funds	**7.1**	4.7	51%
Margin Funds	**30.9**	18.1	71%
Clearing House Funds	**2.3**	1.9	21%
Total	**40.3**	24.7	63%

The increase in average amount of Corporate Funds during the period was mainly due to the profit net of dividends paid.

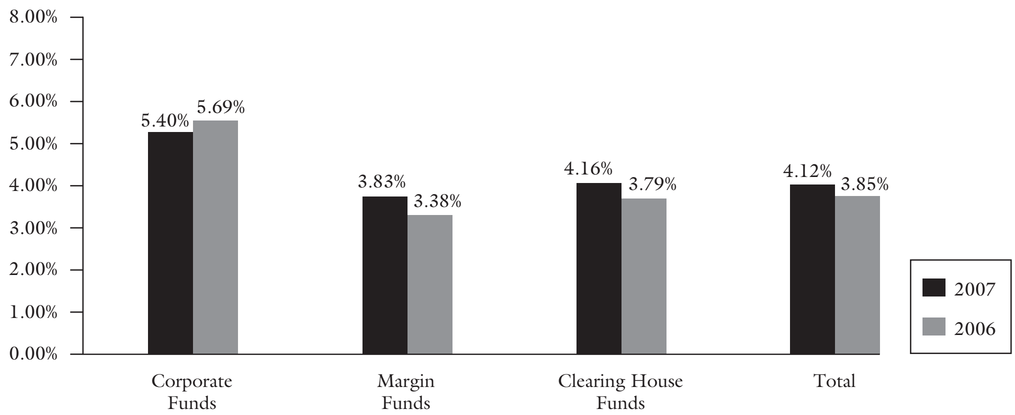
The rise in average amount of Margin Funds available for investment during the period was primarily caused by the increased open interest in futures and options contracts.

The increase in average amount of Clearing House Funds was mainly due to the increase in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

The higher net investment income was primarily due to the significant increase in net interest income of all funds available for investment arising from an increase in fund size and higher fair value gains of Corporate Fund investments, reflecting market movements, during the first nine months of 2007 as compared with the corresponding period in 2006.

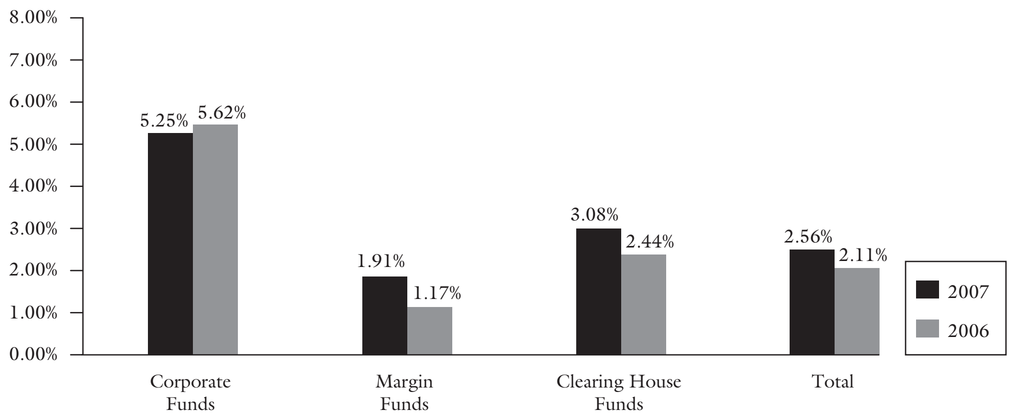
The annualised gross return on funds available for investment during the first nine months is set out below:

Annualised Gross Return on Funds Available for Investment



The annualised net return on funds available for investment after the deduction of interest expenses during the first nine months was as follows:

Annualised Net Return on Funds Available for Investment



The increase in gross return on Margin Fund investments was attributable to an increase in investment in debt securities for higher yield and a decrease in the proportion of Margin Funds denominated in Japanese Yen during the first nine months of 2007 as compared with the corresponding period in 2006. The increase in net return was higher than the rise in gross return as there was a drop in the interest rate (savings rate) payable to margin depositors in late 2006.

The higher gross return on Clearing House Fund investments was mainly due to increases in the interest rate of overnight deposits. The increase in net return of Clearing House Fund investments was higher than the increase in gross return as a lower proportion of the Clearing House Fund contributions was eligible for interest in 2007.

Details of the investment portfolio are set out in the Treasury section under the Business Review.

(E) Other income

	Unaudited Nine months ended 30 Sept 2007 $'000	Unaudited Nine months ended 30 Sept 2006 $'000	Change
Network, terminal user, dataline and software sub-license fees	**204,351**	117,971	73%
Participants' subscription and application fees	**25,574**	25,466	0%
Brokerage on direct IPO allotments	**58,610**	25,013	134%
Trading booth user fees	**7,216**	6,768	7%
Fair value gain of an investment property	**1,100**	1,400	(21%)
Accommodation income	**8,940**	1,589	463%
Sale of Trading Rights	**2,000**	–	N/A
Miscellaneous income	**11,724**	8,278	42%
Total	**319,515**	186,485	71%

Network, terminal user, dataline and software sub-license fees rose mainly due to an increase in AMS/3 line rental and sales of throttle.

Brokerage on direct IPO allotments increased as the number of newly listed companies increased.

Accommodation income (ie, retention interest charged on securities deposited by Participants as alternatives to cash deposits of the Margin Funds) increased mainly due to the increase in utilisation of non-cash collateral by Participants to meet their margin obligations.

Miscellaneous income increased as sundry income from Participants rose with market activities.

Operating Expenses

	Unaudited Nine months ended 30 Sept 2007 $'000	Unaudited Nine months ended 30 Sept 2006 $'000	Change
Staff costs and related expenses	**605,801**	481,527	26%
Information technology and computer maintenance expenses	**151,260**	148,206	2%
Premises expenses	**98,826**	88,391	12%
Product marketing and promotion expenses	**10,540**	8,347	26%
Legal and professional fees	**14,150**	7,968	78%
Depreciation	**59,984**	75,149	(20%)
Other operating expenses	**87,932**	84,063	5%
Total	**1,028,493**	893,651	15%

Staff costs and related expenses increased by $124 million, primarily due to the increase in salary costs and provident fund contributions as a result of the increase in headcount and salary adjustments in 2007, and an increase in performance bonus accruals on account of the improved performance of the Group.

Information technology and computer maintenance expenses of the Group, after excluding goods and services directly consumed by the Participants of $52 million (2006: $50 million), were $99 million (2006: $98 million). The increase in costs directly consumed by Participants was primarily due to the increase in line rentals related to the AMS/3 network. Costs consumed by Participants were mostly recovered from the Participants and the income was included as part of network, terminal user, dataline and software sub-license fees under Other income. During the period, capital expenditures on computer systems, hardware and software amounted to $125 million (2006: $13 million) mainly for the capacity upgrade of trading and clearing systems during the period.

Premises expenses rose due to the increase in rental upon the renewal of certain leases.

Legal and professional fees rose due to one-off consultancy fees incurred for the feasibility study of trading commodities derivatives and emission-related products in Hong Kong.

Depreciation decreased as certain fixed assets became fully depreciated.

Gain on Disposal of an Associate

	Unaudited Nine months ended 30 Sept 2007 $'000	Unaudited Nine months ended 30 Sept 2006 $'000	Change
Gain on disposal of an associate	**206,317**	–	N/A

In April 2007, the Group disposed of all of its 30 per cent interest in CHIS as the Board considered that the sale represented a good opportunity for the Group to realise the gain on the associate.

Share of Profits of Associates

	Unaudited Nine months ended 30 Sept 2007 $'000	Unaudited Nine months ended 30 Sept 2006 $'000	Change
Share of profits of associates	**5,587**	15,986	(65%)

Share of profits of associates decreased due to the disposal of the Group's investment in CHIS in April 2007.

Taxation

	Unaudited Nine months ended 30 Sept 2007 $'000	Unaudited Nine months ended 30 Sept 2006 $'000	Change
Taxation	**666,549**	291,989	128%

Taxation increased mainly attributable to an increase in profit before taxation, but partly offset by an increase in non-taxable investment income and the non-taxable gain on disposal of an associate.

Comparison of 2007 Third Quarter Performance with 2007 Second Quarter Performance

	Unaudited Three months ended 30 Sept 2007 $'000	Unaudited Three months ended 30 Jun 2007 $'000
Income:		
Income affected by market turnover:		
Trading fees and trading tariff	**888,118**	570,406
Clearing and settlement fees	**443,485**	309,770
Depository, custody and nominee services fees	**174,896**	247,681
Stock Exchange listing fees	**180,214**	150,599
Income from sale of information	**190,840**	148,074
Net investment income	**321,508**	229,597
Other income	**139,519**	101,872
	2,338,580	1,757,999
Operating expenses	**362,849**	343,001
Operating profit	**1,975,731**	1,414,998
Gain on disposal of an associate	**–**	206,317
Profit before taxation	**1,975,731**	1,621,315
Taxation	**(293,652)**	(213,551)
Profit attributable to shareholders	**1,682,079**	1,407,764

Profit attributable to shareholders increased by $274 million to $1,682 million for the third quarter of 2007 (2007 second quarter: $1,408 million). The increase in profit was mainly due to the increase in turnover-related income, income from sale of information, Stock Exchange listing fees, net investment income and other income, but partly offset by the absence of one-off gain on disposal of the Group's investment in an associate of $206 million recorded in the second quarter and the increase in operating expenses and taxation charge.

Despite a drop in depository, custody and nominee services fees due to seasonal fluctuations, the other turnover-related income and income from sale of information rose in tandem with the activities of the Cash and Derivatives Markets.

Stock Exchange listing fees rose as the number of newly listed derivative warrants in the third quarter increased by 545 to 1,743 (2007 second quarter: 1,198). Net investment income rose due to higher net interest income arising from increased fund size. Other income increased due to rising sales of throttle during the third quarter.

Key market indicators

	Three months ended 30 Sept 2007	Three months ended 30 Jun 2007	Change
Average daily turnover value on the Stock Exchange	**$97.7 billion**	$65.9 billion	48%
Average daily number of derivatives contracts traded on the Futures Exchange	**197,874**	147,572	34%
Average daily number of stock options contracts traded on the Stock Exchange	**240,131**	137,742	74%

Operating expenses increased mainly as a result of the increase in staff costs and legal and professional fees. The increase in staff costs was attributable to the increase in performance bonus accruals on account of the improved performance of the Group in the third quarter, and the increase in legal and professional fees was due to the one-off consultancy fees incurred for the feasibility study of trading commodities derivatives and emission-related products in Hong Kong during the quarter.

Taxation increased mainly attributable to an increase in profit before taxation and the absence of non-taxable gain on disposal of an associate recorded in the second quarter, but partly offset by an increase in non-taxable investment income.

Working Capital

Working capital increased by $939 million or 22 per cent to $5,210 million as at 30 September 2007 (31 December 2006: $4,271 million). The increase was primarily due to the profit generated during the first nine months of $4,012 million but was partly offset by the payment of the 2006 final dividend of $1,270 million and the 2007 interim dividend of $1,912 million, the reclassification of $60 million of non-current assets as held for sale and the increase in other working capital of $49 million.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 37(a)(i) – Foreign exchange risk to the condensed consolidated accounts of this quarterly report.

Contingent Liabilities

Details of contingent liabilities are included in note 34 to the condensed consolidated accounts of this quarterly report.

Changes since 31 December 2006

There were no other significant changes in the Group's financial position and from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2006.

It is the Group's plan to declare dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the third quarter ended 30 September 2007 (third quarter of 2006: $Nil).

Due to fluctuations in market conditions and changes in operating environment, certain categories of income and operating expenses may vary from quarter to quarter. Therefore, quarterly results should not be extrapolated to project the Group's full-year performance.

PROSPECTS

In the third quarter of 2007, the Hong Kong stock market was influenced by the global credit crunch brought on by the US sub-prime mortgage crisis and the announcement by the State Administration of Foreign Exchange of the Pilot Program for Direct Foreign Portfolio Investments by Domestic Individuals ("Program").

Despite the higher volatility, the Cash and Derivatives Markets remained buoyant and achieved successive record highs during the period. On 28 September 2007, the closing market capitalisation of the Cash Market reached $20,054.9 billion, exceeding the $20,000 billion mark for the first time, and further rose to $23,197.0 billion on 30 October 2007. On 3 October 2007, the turnover value of the Cash Market reached $210.5 billion, the largest ever. On 30 October 2007, the HSI and the H-shares Index peaked at 31638.22 and 20400.07 respectively, up 73 per cent and 175 per cent from the previous year. The closing price of HKEx shares surged to a record high of $265.60 per share on 2 November 2007, 2.4 times that on 29 June 2007, and 4.2 times the closing price one year ago.

The expansion of the QDII scheme in the first half of 2007 as well as the anticipated implementation of the Program should present new opportunities for the growth of the financial market in Hong Kong. HKEx will continue to support the Mainland authorities in preparing for the implementation of the Program.

However alongside positive factors, other potentially negative ones could dent market sentiment and investor confidence. These include a possible global economic slowdown, lingering volatility in the international credit and asset markets, and growing concern about domestic inflation which could lead the Central Government to implement measures to cool the Mainland economy.

HKEx will remain vigilant in monitoring market movements and possible repercussions. It also remains focused on enhancing market quality for Hong Kong to hold up well in the face of global market changes.

Hong Kong's strengths continue to be recognised internationally. The "Economic Freedom of the World: 2007 Annual Report" released in September 2007 by the Cato Institute in conjunction with Canada's Fraser Institute and the Economic Freedom Network ranked Hong Kong as the world's freest economy for the 11th consecutive year. Also encouraging was the "CG Watch 2007 – Corporate Governance in Asia" released in September 2007 by the Asian Corporate Governance Association in collaboration with CLSA Asia-Pacific Markets which considered Hong Kong as the top market in Asia in terms of corporate governance quality.

Leveraging on a solid foundation, HKEx is determined to continue to boost market infrastructure, enhance its product and service offerings, uphold the highest regulatory standards and promote market integrity to cement Hong Kong's position as a leading international financial centre.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	**Unaudited Nine months ended 30 Sept 2007 $'000**	Unaudited Nine months ended 30 Sept 2006 $'000	**Unaudited Three months ended 30 Sept 2007 $'000**	Unaudited Three months ended 30 Sept 2006 $'000
INCOME	2				
Trading fees and trading tariff	4	**1,962,937**	912,726	**888,118**	290,892
Stock Exchange listing fees	5	**474,214**	328,748	**180,214**	115,343
Clearing and settlement fees		**1,014,759**	456,731	**443,485**	140,076
Depository, custody and nominee services fees		**483,319**	292,561	**174,896**	73,953
Income from sale of information		**466,526**	275,332	**190,840**	91,475
Net investment income	6	**774,248**	391,100	**321,508**	174,178
Other income	7	**319,515**	186,485	**139,519**	62,518
	3	**5,495,518**	2,843,683	**2,338,580**	948,435
OPERATING EXPENSES					
Staff costs and related expenses	8	**605,801**	481,527	**219,253**	157,609
Information technology and computer maintenance expenses	9	**151,260**	148,206	**50,563**	54,405
Premises expenses		**98,826**	88,391	**33,251**	30,817
Product marketing and promotion expenses		**10,540**	8,347	**3,432**	1,894
Legal and professional fees		**14,150**	7,968	**9,760**	1,339
Depreciation		**59,984**	75,149	**17,528**	24,889
Other operating expenses	10	**87,932**	84,063	**29,062**	26,210
	3	**1,028,493**	893,651	**362,849**	297,163
OPERATING PROFIT	3	**4,467,025**	1,950,032	**1,975,731**	651,272
GAIN ON DISPOSAL OF AN ASSOCIATE	3/17(b)	**206,317**	–	**–**	–
SHARE OF PROFITS OF ASSOCIATES	3	**5,587**	15,986	**–**	6,734
PROFIT BEFORE TAXATION	3	**4,678,929**	1,966,018	**1,975,731**	658,006
TAXATION	3/11	**(666,549)**	(291,989)	**(293,652)**	(92,288)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	3/31	**4,012,380**	1,674,029	**1,682,079**	565,718
Basic earnings per share	13(a)	**$3.76**	$1.57	**$1.58**	$0.53
Diluted earnings per share	13(b)	**$3.72**	$1.56	**$1.56**	$0.53

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Share capital, share premium and shares held for Share Award Scheme (note 27) $'000	**Employee share-based compensation reserve (note 28) $'000**	**Revaluation reserves (note 29) $'000**	**Hedging reserve $'000**	**Designated reserves (note 30) $'000**	**Retained earnings (note 31) $'000**	**Total equity $'000**
At 1 Jan 2007	1,200,093	52,119	10,569	–	668,262	3,326,543	5,257,586
Change in valuation of leasehold buildings	–	–	(44)	–	–	–	(44)
Change in fair value of available-for-sale financial assets	–	–	20,416	–	–	–	20,416
Realisation of change in fair value of available-for-sale financial assets on maturity and disposal	–	–	(10,188)	–	–	–	(10,188)
Cash flow hedges:							
– fair value gains of hedging instruments	–	–	–	132	–	–	132
– transfer to profit and loss account as information technology and computer maintenance expenses	–	–	–	(70)	–	–	(70)
– transfer to profit and loss account as net investment income	–	–	–	(62)	–	–	(62)
Deferred tax arising from change in valuation of leasehold buildings	–	–	7	–	–	–	7
Deferred tax arising from change in fair value of available-for-sale financial assets	–	–	(1,451)	–	–	–	(1,451)
Unclaimed dividend forfeited	–	–	–	–	–	1,944	1,944
Net gains recognised directly in equity	–	–	8,740	–	–	1,944	10,684
Profit attributable to shareholders	–	–	–	–	–	4,012,380	4,012,380
Total recognised profit	–	–	8,740	–	–	4,014,324	4,023,064
2006 final dividend	–	–	–	–	–	(1,270,266)	(1,270,266)
2007 interim dividend	–	–	–	–	–	(1,912,193)	(1,912,193)
Shares issued under employee share option schemes	57,007	–	–	–	–	–	57,007
Shares purchased for Share Award Scheme	(4,879)	–	–	–	–	–	(4,879)
Employee share-based compensation benefits	–	17,970	–	–	–	–	17,970
Share of reserves of an associate:							
– during the period	–	47	–	–	–	–	47
– eliminated through disposal of associate	–	(560)	(58)	–	–	–	(618)
Transfer of reserves	16,278	(16,278)	–	–	54,109	(54,109)	–
At 30 Sept 2007	1,268,499	53,298	19,251	–	722,371	4,104,299	6,167,718

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Share capital, share premium and shares held for Share Award Scheme $'000	Employee share-based compensation reserve $'000	Revaluation reserves $'000	Hedging reserve $'000	Designated reserves $'000	Retained earnings $'000	Total equity $'000
At 1 Jan 2006	1,183,132	34,980	(37,086)	–	700,641	2,455,804	4,337,471
Change in valuation of leasehold buildings	–	–	52	–	–	–	52
Change in fair value of available-for-sale financial assets	–	–	24,055	–	–	–	24,055
Realisation of change in fair value of available-for-sale financial assets on maturity and disposal	–	–	15,595	–	–	–	15,595
Cash flow hedges:							
– fair value gains of hedging instruments	–	–	–	108	–	–	108
– transfer to profit and loss account as information technology and computer maintenance expenses	–	–	–	(199)	–	–	(199)
Deferred tax arising from change in valuation of leasehold buildings	–	–	(9)	–	–	–	(9)
Deferred tax arising from change in fair value of available-for-sale financial assets	–	–	(916)	–	–	–	(916)
Net gain/(loss) recognised directly in equity	–	–	38,777	(91)	–	–	38,686
Profit attributable to shareholders	–	–	–	–	–	1,674,029	1,674,029
Total recognised profit/(loss)	–	–	38,777	(91)	–	1,674,029	1,712,715
2005 final dividend	–	–	–	–	–	(680,588)	(680,588)
2006 interim dividend	–	–	–	–	–	(1,000,307)	(1,000,307)
Shares issued under employee share option schemes	26,921	–	–	–	–	–	26,921
Shares purchased for Share Award Scheme	(1,574)	–	–	–	–	–	(1,574)
Employee share-based compensation benefits	–	17,972	–	–	–	–	17,972
Share of reserves of an associate	–	395	(2)	–	–	–	393
Transfer of reserves	6,020	(6,020)	–	–	(43,323)	43,323	–
At 30 Sept 2006	1,214,499	47,327	1,689	(91)	657,318	2,492,261	4,413,003

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited at 30 Sept 2007 $'000**	Audited at 31 Dec 2006 $'000
NON-CURRENT ASSETS			
Fixed assets	14	**271,293**	210,161
Investment property	15	**–**	19,300
Lease premiums for land	16	**60,835**	93,575
Investment in an associate	17	**–**	68,377
Clearing House Funds	18	**2,798,368**	2,270,531
Compensation Fund Reserve Account	19	**42,176**	40,535
Available-for-sale financial assets	20	**25,099**	–
Time deposit with maturity over one year		**–**	38,886
Deferred tax assets		**4,001**	3,330
Other financial assets		**19,177**	18,583
Other assets		**3,212**	3,212
		3,224,161	2,766,490
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	21	**19,414,573**	10,201,562
Lease premiums for land	16	**509**	548
Margin Funds on derivatives contracts	22	**50,555,333**	21,666,474
Financial assets at fair value through profit or loss	23	**2,979,006**	2,878,224
Available-for-sale financial assets	20	**1,674,061**	539,132
Time deposits with original maturities over three months		**132,958**	185,611
Cash and cash equivalents		**5,281,184**	2,215,257
		80,037,624	37,686,808
Non-current assets held for sale	24	**60,292**	–
		80,097,916	37,686,808
CURRENT LIABILITIES			
Margin deposits from Clearing Participants on derivatives contracts	22	**50,555,333**	21,666,474
Accounts payable, accruals and other liabilities	25	**23,256,657**	11,107,200
Financial liabilities at fair value through profit or loss	23	**11,175**	7,505
Participants' admission fees received		**3,050**	1,700
Deferred revenue		**146,201**	318,468
Taxation payable		**885,918**	287,368
Provisions	26	**29,156**	26,712
		74,887,490	33,415,427
NET CURRENT ASSETS		**5,210,426**	4,271,381
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,434,587**	7,037,871

	Note	**Unaudited at 30 Sept 2007 $'000**	Audited at 31 Dec 2006 $'000
NON-CURRENT LIABILITIES			
Participants' admission fees received		**80,450**	79,750
Participants' contributions to Clearing House Funds	18	**2,118,427**	1,642,495
Deferred tax liabilities		**23,955**	14,003
Financial guarantee contract	34(b)	**19,909**	19,909
Provisions	26	**24,128**	24,128
		2,266,869	1,780,285
NET ASSETS		**6,167,718**	5,257,586
CAPITAL AND RESERVES			
Share capital	27	**1,069,558**	1,065,448
Share premium	27	**255,117**	185,942
Shares held for Share Award Scheme	27	**(56,176)**	(51,297)
Employee share-based compensation reserve	28	**53,298**	52,119
Revaluation reserves	29	**19,251**	10,569
Designated reserves	30	**722,371**	668,262
Retained earnings	31	**4,104,299**	2,060,156
Proposed/declared dividends	31	**–**	1,266,387
SHAREHOLDERS' FUNDS		**6,167,718**	5,257,586
SHAREHOLDERS' FUNDS PER SHARE		**$5.77**	$4.94

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Note	**Unaudited Nine months ended 30 Sept 2007 $'000**	Unaudited Nine months ended 30 Sept 2006 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	32(a)	**6,526,131**	1,726,988
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		**(61,914)**	(50,578)
Proceeds from sales of fixed assets		**260**	344
Net proceeds from disposal/liquidation of an associate		**270,050**	1,312
Dividends received from an associate		**9,660**	18,784
Decrease in time deposits with original maturities more than three months		**91,539**	95,117
Net increase in available-for-sale financial assets of the Corporate Funds		**(1,132,060)**	(86,032)
Interest received from available-for-sale financial assets		**468,139**	167,062
Net cash (outflow)/inflow from investing activities		**(354,326)**	146,009
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		**57,007**	26,921
Purchases of shares for Share Award Scheme		**(4,879)**	(1,574)
Net admission fees received from/(refunded to) Participants		**2,050**	(1,150)
Dividends paid		**(3,160,056)**	(1,664,121)
Net cash outflow from financing activities		**(3,105,878)**	(1,639,924)
Net increase in cash and cash equivalents		**3,065,927**	233,073
Cash and cash equivalents at 1 Jan		**2,215,257**	1,359,133
Cash and cash equivalents at 30 Sept		**5,281,184**	1,592,206
Analysis of cash and cash equivalents			
Time deposits with original maturities within three months		**1,856,557**	1,349,438
Cash at bank and in hand		**3,424,627**	242,768
Cash and cash equivalents at 30 Sept		**5,281,184**	1,592,206

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.

Hong Kong Exchanges and Clearing Limited ("HKEx") and its subsidiaries ("Group") manage a significant portfolio of investments. Securities and derivative financial instruments (ie, forward foreign exchange contracts and futures 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"), if any, 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, net 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:

	Nine months ended 30 Sept 2007				
	Cash Market $'000	**Derivatives Market $'000**	**Clearing Business $'000**	**Information Services $'000**	**Group $'000**
Income	**2,375,456**	**907,416**	**1,744,047**	**468,599**	**5,495,518**
Operating expenses					
Direct costs	**367,216**	**104,107**	**263,366**	**37,680**	**772,369**
Indirect costs	**117,566**	**37,877**	**83,774**	**16,907**	**256,124**
	484,782	**141,984**	**347,140**	**54,587**	**1,028,493**
Segment results	**1,890,674**	**765,432**	**1,396,907**	**414,012**	**4,467,025**
Gain on disposal of an associate	**–**	**–**	**206,317**	**–**	**206,317**
Share of profits of an associate	**–**	**–**	**5,587**	**–**	**5,587**
Segment profits before taxation	**1,890,674**	**765,432**	**1,608,811**	**414,012**	**4,678,929**
Taxation					**(666,549)**
Profit attributable to shareholders					**4,012,380**

	Nine months ended 30 Sept 2006				
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Group $'000
Income	1,216,147	455,537	894,789	277,210	2,843,683
Operating expenses					
Direct costs	323,755	88,312	244,041	31,598	687,706
Indirect costs	93,193	29,464	68,711	14,577	205,945
	416,948	117,776	312,752	46,175	893,651
Segment results	799,199	337,761	582,037	231,035	1,950,032
Share of profits of associates	1	–	15,985	–	15,986
Segment profits before taxation	799,200	337,761	598,022	231,035	1,966,018
Taxation					(291,989)
Profit attributable to shareholders					1,674,029

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 net investment income on the Margin Funds invested.

The **Clearing Business** refers to the operations of the three Clearing Houses, namely Hong Kong Securities Clearing Company Limited ("HKSCC"), The SEHK Options Clearing House Limited ("SEOCH") and HKFE Clearing Corporation Limited ("HKCC"), which are responsible for clearing, settlement and custodian activities of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from net investment income earned on the Clearing House Funds and fees from providing clearing, settlement, depository, custody and nominee services.

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 net 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

	Nine months ended 30 Sept 2007 $'000	Nine months ended 30 Sept 2006 $'000	**Three months ended 30 Sept 2007 $'000**	Three months ended 30 Sept 2006 $'000
Trading fees and trading tariff were derived from:				
Securities traded on the Cash Market	**1,508,778**	644,414	**693,538**	195,452
Derivatives contracts traded on the Derivatives Market	**454,159**	268,312	**194,580**	95,440
	1,962,937	912,726	**888,118**	290,892

5. Stock Exchange Listing Fees

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

	Nine months ended 30 Sept 2007				Nine months ended 30 Sept 2006			
	Equity				Equity			
	Main Board	**GEM**	**Debt & Derivatives**	**Total**	Main Board	GEM	Debt & Derivatives	Total
	$'000	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000	$'000
Stock Exchange Listing Fees								
Annual listing fees	**205,179**	**18,549**	**1,474**	**225,202**	183,599	18,694	1,345	203,638
Initial and subsequent issue listing fees	**44,496**	**3,665**	**196,422**	**244,583**	27,923	2,760	89,828	120,511
Prospectus vetting fees	**2,700**	**165**	**100**	**2,965**	1,875	300	60	2,235
Other listing fees	**1,188**	**276**	**–**	**1,464**	1,630	734	–	2,364
Total	**253,563**	**22,655**	**197,996**	**474,214**	215,027	22,488	91,233	328,748
Costs of Listing Function								
Direct costs								
Staff costs and related expenses	**121,886**	**24,119**	**8,920**	**154,925**	87,483	22,938	4,555	114,976
Information technology and computer maintenance expenses	**1,605**	**397**	**7**	**2,009**	1,395	363	–	1,758
Premises expenses	**13,325**	**2,530**	**645**	**16,500**	10,836	2,787	613	14,236
Legal and professional fees	**3,877**	**55**	**–**	**3,932**	3,552	694	–	4,246
Depreciation	**1,922**	**388**	**101**	**2,411**	2,797	838	41	3,676
Other operating expenses	**3,690**	**1,389**	**292**	**5,371**	15,744	4,099	163	20,006
Total direct costs	**146,305**	**28,878**	**9,965**	**185,148**	121,807	31,719	5,372	158,898
Total indirect costs	**24,350**	**4,527**	**6,486**	**35,363**	19,612	4,214	3,278	27,104
Contribution to Cash Market Segment Results	**82,908**	**(10,750)**	**181,545**	**253,703**	73,608	(13,445)	82,583	142,746

5. Stock Exchange Listing Fees (continued)

	Three months ended 30 Sept 2007				Three months ended 30 Sept 2006			
	Equity				Equity			
	Main Board $'000	GEM $'000	Debt & Derivatives $'000	Total $'000	Main Board $'000	GEM $'000	Debt & Derivatives $'000	Total $'000
Stock Exchange Listing Fees								
Annual listing fees	**71,362**	**6,303**	**496**	**78,161**	62,228	6,281	475	68,984
Initial and subsequent issue listing fees	**16,198**	**1,410**	**83,005**	**100,613**	10,122	330	34,138	44,590
Prospectus vetting fees	**960**	**120**	**50**	**1,130**	645	60	–	705
Other listing fees	**264**	**46**	**–**	**310**	770	294	–	1,064
Total	**88,784**	**7,879**	**83,551**	**180,214**	73,765	6,965	34,613	115,343
Costs of Listing Function								
Direct costs								
Staff costs and related expenses	**45,272**	**9,575**	**3,253**	**58,100**	30,287	7,509	1,640	39,436
Information technology and computer maintenance expenses	**604**	**158**	**7**	**769**	452	115	–	567
Premises expenses	**4,496**	**909**	**209**	**5,614**	3,934	945	206	5,085
Legal and professional fees	**1,746**	**2**	**–**	**1,748**	534	202	–	736
Depreciation	**977**	**198**	**44**	**1,219**	704	202	12	918
Other operating expenses	**984**	**257**	**69**	**1,310**	5,336	1,492	31	6,859
Total direct costs	**54,079**	**11,099**	**3,582**	**68,760**	41,247	10,465	1,889	53,601
Total indirect costs	**8,682**	**1,803**	**2,644**	**13,129**	6,164	1,329	1,108	8,601
Contribution to Cash Market Segment Results	**26,023**	**(5,023)**	**77,325**	**98,325**	26,354	(4,829)	31,616	53,141

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

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

6. Net Investment Income

	Nine months ended 30 Sept 2007 $'000	Nine months ended 30 Sept 2006 $'000	**Three months ended 30 Sept 2007 $'000**	Three months ended 30 Sept 2006 $'000
Interest income				
– bank deposits	**582,815**	400,421	**283,639**	120,806
– listed available-for-sale financial assets	**20,334**	15,210	**5,263**	7,007
– unlisted available-for-sale financial assets	**473,149**	152,532	**163,455**	83,812
	1,076,298	568,163	**452,357**	211,625
Interest expenses	**(471,252)**	(322,326)	**(188,370)**	(115,665)
Net interest income	**605,046**	245,837	**263,987**	95,960
Net realised and unrealised gains/(losses) and interest income on financial assets and financial liabilities at fair value through profit or loss, held for trading				
– listed securities	**122,423**	86,706	**45,652**	47,886
– unlisted securities	**38,210**	40,318	**20,778**	22,689
– exchange differences	**2,738**	13,113	**(10,554)**	6,322
	163,371	140,137	**55,876**	76,897
Dividend income				
– listed financial assets at fair value through profit or loss	**5,790**	4,891	**1,778**	1,213
Other exchange differences on loans and receivables	**41**	235	**(133)**	108
Net investment income	**774,248**	391,100	**321,508**	174,178
Net investment income was derived from:				
Corporate Funds (note a)	**278,026**	197,620	**105,611**	98,088
Margin Funds	**443,695**	157,963	**192,819**	63,791
Clearing House Funds	**52,527**	35,517	**23,078**	12,299
	774,248	391,100	**321,508**	174,178

(a) Net investment income derived from Corporate Funds included net investment income of Compensation Fund Reserve Account of $1,687,000 (2006: $1,486,000) and $585,000 (2006: $514,000) for the nine months and three months ended 30 September 2007 respectively.

7. Other Income

	Nine months ended 30 Sept 2007 $'000	Nine months ended 30 Sept 2006 $'000	**Three months ended 30 Sept 2007 $'000**	Three months ended 30 Sept 2006 $'000
Network, terminal user, dataline and software sub-license fees	**204,351**	117,971	**96,490**	40,043
Participants' subscription and application fees	**25,574**	25,466	**8,523**	8,450
Brokerage on direct IPO allotments	**58,610**	25,013	**22,541**	7,909
Trading booth user fees	**7,216**	6,768	**2,428**	2,397
Fair value gain of an investment property (note 15)	**1,100**	1,400	**–**	400
Accommodation income on securities deposited by Participants as alternatives to cash deposits of the Margin Funds	**8,940**	1,589	**3,600**	769
Sale of Trading Rights	**2,000**	–	**2,000**	–
Miscellaneous income	**11,724**	8,278	**3,937**	2,550
	319,515	186,485	**139,519**	62,518

8. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Nine months ended 30 Sept 2007 $'000	Nine months ended 30 Sept 2006 $'000	**Three months ended 30 Sept 2007 $'000**	Three months ended 30 Sept 2006 $'000
Salaries and other short-term employee benefits	**547,185**	423,412	**199,593**	139,491
Employee share-based compensation benefits (note 28)	**17,970**	17,972	**5,830**	4,242
Termination benefits	**184**	1,183	**11**	1,023
Retirement benefit costs (note a):				
– ORSO Plan	**40,117**	38,699	**13,701**	12,765
– MPF Scheme	**345**	261	**118**	88
	605,801	481,527	**219,253**	157,609

(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 30 September 2007 and 31 December 2006.

9. Information Technology and Computer Maintenance Expenses

	Nine months ended 30 Sept 2007 $'000	Nine months ended 30 Sept 2006 $'000	**Three months ended 30 Sept 2007 $'000**	Three months ended 30 Sept 2006 $'000
Costs of services and goods:				
– consumed by the Group	**99,672**	98,532	**32,671**	33,062
– directly consumed by Participants	**51,588**	49,674	**17,892**	21,343
	151,260	148,206	**50,563**	54,405

10. Other Operating Expenses

	Nine months ended 30 Sept 2007 $'000	Nine months ended 30 Sept 2006 $'000	**Three months ended 30 Sept 2007 $'000**	Three months ended 30 Sept 2006 $'000
Provision for/(reversal of provision for) impairment losses of trade receivables	**62**	358	**(311)**	(54)
Insurance	**3,289**	11,508	**876**	3,452
Financial data subscription fees	**2,976**	3,308	**990**	1,071
Custodian and fund management fees	**6,899**	6,235	**2,439**	2,090
Bank charges	**15,870**	6,712	**6,244**	1,938
Repair and maintenance expenses	**6,424**	6,207	**2,085**	1,922
License fees	**10,277**	6,777	**3,624**	1,923
Communication expenses	**3,992**	3,621	**1,294**	1,169
Other miscellaneous expenses	**38,143**	39,337	**11,821**	12,699
	87,932	84,063	**29,062**	26,210

11. Taxation

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

	Nine months ended 30 Sept 2007 $'000	Nine months ended 30 Sept 2006 $'000	**Three months ended 30 Sept 2007 $'000**	Three months ended 30 Sept 2006 $'000
Provision for Hong Kong Profits Tax for the period (note a)	**658,713**	299,445	**285,436**	94,136
Overprovision in respect of prior years	**(1)**	(5)	**(1)**	(5)
	658,712	299,440	**285,435**	94,131
Deferred taxation	**7,837**	(7,451)	**8,217**	(1,843)
	666,549	291,989	**293,652**	92,288

(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. Dividends

	Nine months ended 30 Sept 2007 $'000	Nine months ended 30 Sept 2006 $'000	**Three months ended 30 Sept 2007 $'000**	Three months ended 30 Sept 2006 $'000
Interim dividend paid of $1.79 (2006: $0.94) per ordinary 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	**–**	–

13. Earnings Per Share

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

(a) Basic earnings per share

	Nine months ended 30 Sept 2007	Nine months ended 30 Sept 2006	**Three months ended 30 Sept 2007**	Three months ended 30 Sept 2006
Profit attributable to shareholders ($'000)	**4,012,380**	1,674,029	**1,682,079**	565,718
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme	**1,066,796,137**	1,063,218,919	**1,067,944,265**	1,063,985,564
Basic earnings per share	**$3.76**	$1.57	**$1.58**	$0.53

(b) Diluted earnings per share

	Nine months ended 30 Sept 2007	Nine months ended 30 Sept 2006	**Three months ended 30 Sept 2007**	Three months ended 30 Sept 2006
Profit attributable to shareholders ($'000)	**4,012,380**	1,674,029	**1,682,079**	565,718
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme	**1,066,796,137**	1,063,218,919	**1,067,944,265**	1,063,985,564
Effect of employee share options	**10,120,460**	11,320,981	**9,330,276**	11,106,171
Effect of Awarded Shares	**1,225,631**	956,466	**1,255,543**	954,560
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,078,142,228**	1,075,496,366	**1,078,530,084**	1,076,046,295
Diluted earnings per share	**$3.72**	$1.56	**$1.56**	$0.53

14. Fixed Assets

The total cost of additions to fixed assets of the Group during the nine months to 30 September 2007 was $128,620,000 (2006: $36,776,000), of which $124,507,000 or 97 per cent was on purchases of computer systems, hardware and software (2006: mainly represented costs incurred on the renovation of the Trading Hall and Exhibition Hall and purchases of computer systems, hardware and software). The total cost and net book value of disposals and write-offs of fixed assets during the nine months to 30 September 2007 were $4,260,000 and $Nil respectively (2006: $30,228,000 and $1,012,000 respectively).

On 19 September 2007, the Board of Directors ("Board") approved the disposal of one of the leasehold buildings used by the Group and the carrying value of the leasehold building of $7,524,000 was reclassified as a non-current asset held for sale (note 24).

15. Investment Property

	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 b)	**(20,400)**	–
At 30 Sept 2007/31 Dec 2006	**–**	19,300

(a) The Group's 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 management is of the view that the open market value as at 30 September 2007 was not materially different from that as at 30 June 2007. The fair value gain during the nine months ended 30 September 2007 of $1,100,000 (2006: $1,400,000) was credited to the condensed consolidated profit and loss account under other income (note 7).

(b) 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 24).

16. Lease Premiums for Land

	2007 $'000	2006 $'000
Net book value at 1 Jan	**94,123**	94,670
Amortisation	**(411)**	(547)
Transfer to non-current assets held for sale (note a)	**(32,368)**	–
Net book value at 30 Sept 2007/31 Dec 2006	**61,344**	94,123
Current portion of lease premiums for land	**(509)**	(548)
Non-current portion	**60,835**	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 24).

17. Investment in an Associate

	At 30 Sept 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
Disposal of an associate (note b)	**(50,207)**	–
At 30 Sept 2007/31 Dec 2006	–	50,207

	At 30 Sept 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) 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 Computershare Hong Kong Investor Services Limited ("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 profit and loss account during the nine months ended 30 September 2007.

18. Clearing House Funds

	At 30 Sept 2007 $'000	At 31 Dec 2006 $'000
Net assets of the Clearing House Funds were as follows:		
HKSCC Guarantee Fund	**356,345**	344,825
SEOCH Reserve Fund	**1,532,744**	578,407
HKCC Reserve Fund	**909,279**	1,347,299
	2,798,368	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	**344,491**	187,700
Cash and cash equivalents	**2,458,387**	1,957,229
	2,802,878	2,274,441
Less: Other liabilities	**(4,510)**	(3,910)
	2,798,368	2,270,531
The Clearing House Funds were funded by:		
Clearing Participants' cash contributions (note a)	**2,118,427**	1,642,495
Designated reserves (note 30):		
– 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	**271,397**	232,148
– Clearing houses' contributions	**86,713**	73,540
	680,238	627,816
Revaluation reserve (note 29(c))	**(297)**	220
	2,798,368	2,270,531
The maturity profile of the net assets of the Clearing House Funds was as follows:		
Amounts maturing within twelve months	**2,798,368**	2,270,531

(a) Amount included Participants' additional deposits of $1,741,377,000 (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.

19. Compensation Fund Reserve Account

	At 30 Sept 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	**43,962**	42,990
Other receivables	**450**	–
Cash and cash equivalents	**10,245**	8,653
	54,657	51,643
Less: Other liabilities	**(12,481)**	(11,108)
	42,176	40,535
The Fund represented:		
Accumulated net investment and other income net of expenses included in designated reserves (note 30)	**42,133**	40,446
Revaluation reserve (note 29(c))	**43**	89
	42,176	40,535
The maturity profile of the net assets of the Compensation Fund Reserve Account was as follows:		
Amounts maturing within twelve months	**42,176**	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 34(a).

20. Available-for-sale Financial Assets

	At 30 Sept 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	**1,699,160**	467,096
	1,699,160	539,132
Analysis of available-for-sale financial assets:		
Non-current portion maturing after twelve months	**25,099**	–
Current portion maturing within twelve months	**1,674,061**	539,132
	1,699,160	539,132

21. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits amounted to $19,414,573,000 (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.

22. Margin Funds on Derivatives Contracts

	At 30 Sept 2007 $'000	At 31 Dec 2006 $'000
The Margin Funds comprised:		
SEOCH Clearing Participants' Margin Funds	**13,795,539**	3,994,664
HKCC Clearing Participants' Margin Funds	**36,759,794**	17,671,810
	50,555,333	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	**240,586**	634,688
– unlisted	**11,727,639**	10,311,166
Time deposits with original maturities over three months	**–**	51,459
Cash and cash equivalents	**38,565,971**	10,664,404
Margin receivable from Clearing Participants	**21,137**	61,813
	50,555,333	21,860,721
Less: Other liabilities	**–**	(194,247)
	50,555,333	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	**50,555,333**	21,666,474
The maturity profile of the net assets of Margin Funds was as follows:		
Amounts maturing after more than twelve months	**402,868**	–
Amounts maturing within twelve months	**50,152,465**	21,666,474
	50,555,333	21,666,474

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

	At 30 Sept 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	**39,043**	186,658
– listed outside Hong Kong	**203,473**	194,267
	242,516	380,925
Held for trading		
Debt securities, at market value		
– listed in Hong Kong	**39,178**	70,539
– listed outside Hong Kong	**1,322,797**	1,255,022
– unlisted	**1,270,442**	1,169,592
	2,632,417	2,495,153
Held for trading		
Mutual funds, at market value		
– listed outside Hong Kong	**99,219**	–
Held for trading		
Derivative financial instruments, at market value		
– forward foreign exchange contracts	**4,854**	2,146
	2,979,006	2,878,224
Analysis of financial liabilities at fair value through profit or loss:		
Held for trading		
Derivative financial instruments, at market value		
– futures contracts, listed outside Hong Kong	**1,711**	–
– forward foreign exchange contracts	**9,464**	7,505
	11,175	7,505

24. Non-current Assets Held for Sale

	At 30 Sept 2007 $'000	At 31 Dec 2006 $'000
Leasehold building (note 14)	**7,524**	–
Investment property (note 15)	**20,400**	–
Lease premium for land of leasehold property (note 16)	**32,368**	–
	60,292	–
Reserves associated with assets held for sale recognised directly in equity (leasehold buildings revaluation reserve (note 29))	**2,603**	–

The leasehold building and the associated lease premium for land are stated at the lower of carrying amount and fair value less costs to sell as their carrying amounts are recovered principally through a sale transaction rather than continuing use. The investment property held for sale is stated at fair value.

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. The properties will be sold by public tender and the disposal is expected to be effected in 2008. No impairment losses were recognised on the reclassification of the properties as held for sale.

At 30 September 2007, the liabilities associated with the non-current assets held for sale, being operating expenses payable, were $57,000 and are not expected to be included in the sale.

25. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities amounted to $23,256,657,000 (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 78 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.

26. Provisions

	Reinstatement costs $'000	Employee benefit costs $'000	Total $'000
At 1 Jan 2007	**24,128**	**26,712**	**50,840**
Provision for the period	–	**28,131**	**28,131**
Amount used during the period	–	**(24,798)**	**(24,798)**
Amount paid during the period	–	**(889)**	**(889)**
At 30 Sept 2007	**24,128**	**29,156**	**53,284**

	At 30 Sept 2007 $'000	At 31 Dec 2006 $'000
Analysis of provisions:		
Current	**29,156**	26,712
Non-current	**24,128**	24,128
	53,284	50,840

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

	At 30 Sept 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 28)	–	–	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)	**4,110,000**	**4,110**	**52,897**	**–**	**57,007**
Transfer from employee share-based compensation reserve (note 28)	**–**	**–**	**16,278**	**–**	**16,278**
Shares purchased for Share Award Scheme (note b)	**(42,500)**	**–**	**–**	**(4,879)**	**(4,879)**
At 30 Sept 2007	**1,068,257,846**	**1,069,558**	**255,117**	**(56,176)**	**1,268,499**

(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 4,110,000 shares (year ended 31 December 2006: 2,693,500 shares) in HKEx at an average consideration of $13.87 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 period, The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust") acquired 42,500 HKEx shares (year ended 31 December 2006: 300,000 shares) through purchases on the open market for the Share Award Scheme (note 28(c)). The total amount paid to acquire the shares during the period was $4,879,000 (year ended 31 December 2006: $21,269,000) and had been deducted from shareholders' equity.

28. Employee Share-based Compensation Reserve

	2007 $'000	2006 $'000
At 1 Jan	**52,119**	34,980
Employee share-based compensation benefits (note a)	**17,970**	24,033
Transfer to share premium upon exercise of employee share options (note 27)	**(16,278)**	(7,335)
Share of reserve of an associate:		
– during the period	**47**	441
– eliminated through disposal of associate	**(560)**	–
At 30 Sept 2007/31 Dec 2006	**53,298**	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) 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.

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 28(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.

28. 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:

	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 30 Sept 2007/ 31 Dec 2006	**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	**14.64**	**(3,701,000)**	16.00	(1,355,500)
Forfeited	**12.82**	**(1,044,500)**	18.32	(625,000)
Outstanding at 30 Sept 2007/ 31 Dec 2006	**16.37**	**9,848,000**	15.68	14,593,500
Total	**16.02**	**10,227,000**	15.23	15,381,500

(iii) Had all the outstanding employee share options been fully exercised on 30 September 2007, the Group would have received $163,809,000 in proceeds. The market value of the shares issued based on the closing price of $237.60 per share on that date would have been $2,429,935,000. The theoretical gains made by the employees or Executive Director concerned would have been as follows:

	Number of shares issuable under options granted at 30 Sept 2007	**Exercise price $**	**Gain per share $**	**Aggregate gain $'000**
Pre-Listing Scheme				
– granted to employees on 20 Jun 2000	**379,000**	**6.88**	**230.72**	**87,443**
Post-Listing Scheme				
– granted to an Executive Director on 2 May 2003	**1,640,000**	**8.28**	**229.32**	**376,085**
– granted to an employee on 14 Aug 2003	**273,500**	**12.45**	**225.15**	**61,579**
– granted to an employee on 15 Jan 2004	**547,000**	**17.30**	**220.30**	**120,504**
– granted to employees on 31 Mar 2004	**3,073,000**	**16.96**	**220.64**	**678,027**
– granted to an employee on 17 May 2004	**125,000**	**15.91**	**221.69**	**27,711**
– granted to employees on 26 Jan 2005	**4,189,500**	**19.25**	**218.35**	**914,777**
Total	**10,227,000**			**2,266,126**

28. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares

(i) On 14 September 2005 ("Adoption Date"), the Board of HKEx approved the Employees' Share Award Scheme ("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. 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.

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.

28. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

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 (ie, average fair value of $72.28 per share), 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.

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.

Further, during the nine months ended 30 September 2007, 30,000 HKEx shares (year ended 31 December 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 (year ended 31 December 2006: $1,503,000), of which 17,502 shares were subsequently allocated to awardees prior to 30 September 2007 and 11,630 shares were subsequently allocated to awardees on 12 October 2007 (year ended 31 December 2006: 24,867 shares were subsequently allocated to awardees).

28. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(ii) Movements in the number of Awarded Shares awarded were as follows:

	2007	2006
	Number of Awarded Shares awarded	Number of Awarded Shares awarded
Outstanding at 1 Jan	**955,906**	960,000
Awarded (average fair value per share $73.08)*	**284,965**	–
Forfeited	**(1,800)**	(28,700)
Dividends reinvested:		
– allocated to awardees	**17,502**	24,867
– allocated to awardees but subsequently forfeited	**(73)**	(261)
Outstanding at 30 Sept 2007/31 Dec 2006	**1,256,500**	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.

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) As at 30 September 2007, 44,000 forfeited and unallocated shares were held by the HKEx Employee Share Trust. Out of these shares, 11,630 shares were allocated to awardees on 12 October 2007, and the remaining 32,370 shares 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 outstanding Awarded Shares been fully vested on 30 September 2007, the theoretical gains of the awardees based on the closing price of $237.60 per share on that date would have been $298,544,000.

29. Revaluation Reserves

	At 30 Sept 2007 $'000	At 31 Dec 2006 $'000
Leasehold buildings revaluation reserve (note b and note 24)	**2,603**	2,640
Investment revaluation reserve (note c and note d)	**16,648**	7,929
	19,251	10,569

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

(b) Leasehold buildings were revalued as at 30 June 2007.

(c) Included gross investment revaluation deficit of $297,000 and gross surplus of $43,000 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) Balance at 31 December 2006 included share of investment revaluation reserve of an associate of $58,000.

30. Designated Reserves

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

	At 30 Sept 2007 $'000	At 31 Dec 2006 $'000
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	**266,693**	256,514
– SEOCH Reserve Fund reserve	**96,221**	71,193
– HKCC Reserve Fund reserve	**317,324**	300,109
	680,238	627,816
Compensation Fund Reserve Account reserve	**42,133**	40,446
	722,371	668,262

31. 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)	**4,012,380**	2,518,569
Surplus of net investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves	**(52,422)**	(37,840)
Net investment income net of expenses of Compensation Fund Reserve Account for the period/year transferred to Compensation Fund Reserve Account reserve	**(1,687)**	(2,026)
Transfer from Development reserve (note b)	**–**	72,245
	(54,109)	32,379
Unclaimed dividend forfeited	**1,944**	686
Dividends:		
2006/2005 final dividend	**(1,266,387)**	(679,549)
Dividend on shares issued for employee share options exercised after 31 Dec 2006/31 Dec 2005	**(3,879)**	(1,039)
	(1,270,266)	(680,588)
2007/2006 interim dividend	**(1,911,131)**	(1,000,050)
Dividend on shares issued for employee share options exercised after 30 Jun 2007/30 Jun 2006	**(1,062)**	(257)
	(1,912,193)	(1,000,307)
At 30 Sept 2007/31 Dec 2006	**4,104,299**	3,326,543
Representing:		
Retained earnings	**4,104,299**	2,060,156
Proposed/declared dividends	**–**	1,266,387
At 30 Sept 2007/31 Dec 2006	**4,104,299**	3,326,543

(a) The Group's profit for the period/year included a net profit attributable to net investment income net of expenses of the Clearing House Funds and Compensation Fund Reserve Account for an aggregate amount of $54,109,000 (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.

32. Notes to the Condensed Consolidated Cash Flow Statement

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

	Nine months ended 30 Sept 2007 $'000	As restated Nine months ended 30 Sept 2006 $'000
Profit before taxation	**4,678,929**	1,966,018
Adjustments for:		
Net interest income	**(605,046)**	(245,837)
Net realised and unrealised gains and interest income on financial assets and financial liabilities at fair value through profit or loss	**(163,371)**	(140,137)
Dividend income from financial assets at fair value through profit or loss	**(5,790)**	(4,891)
Amortisation of lease premiums for land	**411**	410
Fair value gain of an investment property	**(1,100)**	(1,400)
Depreciation	**59,984**	75,149
Employee share-based compensation benefits	**17,970**	17,972
Reversal of impairment loss of a leasehold building	**(64)**	(62)
Provision for impairment losses of trade receivables	**62**	358
Changes in provisions	**2,444**	(228)
Share of profits of associates	**(5,587)**	(15,986)
Gain on disposal/liquidation of an associate	**(206,317)**	(6)
(Gain)/loss on disposal of fixed assets	**(260)**	668
Net increase in financial assets and financial liabilities at fair value through profit or loss	**(15,498)**	(69,511)
Fair value losses of hedging instruments deferred in hedging reserve	**–**	(91)
Settlement of amounts transferred from retained earnings to Clearing House Funds and Compensation Fund Reserve Account	**(54,109)**	(28,922)
Increase in accounts receivable, prepayments and deposits	**(9,184,620)**	(1,687,286)
Increase in other current liabilities	**11,839,544**	1,761,460
Net cash inflow from operations	**6,357,582**	1,627,678
Interest received from bank deposits	**582,815**	400,421
Dividends received from financial assets at fair value through profit or loss	**5,533**	4,909
Interest received from financial assets at fair value through profit or loss	**115,394**	70,064
Interest paid	**(475,031)**	(322,203)
Hong Kong Profits Tax paid	**(60,162)**	(53,881)
Net cash inflow from operating activities	**6,526,131**	1,726,988

(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.

33. Commitments

Commitments in respect of capital expenditures:

	At 30 Sept 2007 $'000	At 31 Dec 2006 $'000
Contracted but not provided for	**7,434**	9,144
Authorised but not contracted for	**71,028**	82,461
	78,462	91,605

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

34. 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.

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 30 September 2007, all the outstanding claims made to the Compensation Fund had been determined (31 December 2006: two claims outstanding).

34. Contingent Liabilities (continued)

(a) (continued)

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.

(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 433 trading Participants as at 30 September 2007 (31 December 2006: 425) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to $86,600,000 (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).

(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.

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

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

As at 30 September 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 for derivatives contracts were as follows:

	At 30 Sept 2007		As restated At 31 Dec 2006	
	Amount received $'000	**Amount utilised $'000**	Amount received $'000	Amount utilised $'000
Clearing House Funds				
Bank guarantees	**1,463,610**	**838,179**	699,130	491,866
Margin Funds for derivatives contracts				
Equity securities, listed in Hong Kong, at market value	**684,776**	**2,635***	604,276	–*
US Treasury Bills, at market value	**6,768,679**	**4,176,937**	1,516,506	1,090,589
Bank guarantees	**844,000**	**681,539**	269,000	181,111
	8,297,455	**4,861,111**	2,389,782	1,271,700
	9,761,065	**5,699,290**	3,088,912	1,763,566

* $354,483,000 (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.

36. 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, 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.

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

(a) Related companies with common directors

	Nine months ended 30 Sept 2007 $'000	Nine months ended 30 Sept 2006 $'000	**Three months ended 30 Sept 2007 $'000**	Three months ended 30 Sept 2006 $'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 nine months ended 30 September 2006 disclosed above represented expenses incurred up to 26 April 2006.

36. Material Related Party Transactions (continued)

(b) Transactions with associates

	Nine months ended 30 Sept 2007 $'000	Nine months ended 30 Sept 2006 $'000	**Three months ended 30 Sept 2007 $'000**	Three months ended 30 Sept 2006 $'000
Income received and receivable from/ (expenses paid and payable to) associates:				
CHIS				
– Dividend income	**9,660**	13,500	–	6,000
– Share registration service fees	**(396)**	(493)	–	(239)
ADP Wilco Processing Services Limited				
– Liquidation proceeds	–	1,312	–	–

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

(c) Key management personnel compensation

	Nine months ended 30 Sept 2007 $'000	Nine months ended 30 Sept 2006 $'000	**Three months ended 30 Sept 2007 $'000**	Three months ended 30 Sept 2006 $'000
Salaries and other short-term employee benefits	**54,292**	43,965	**19,759**	14,738
Employee share-based compensation benefits	**6,121**	4,522	**1,848**	(83)
Retirement benefit costs	**4,239**	4,163	**1,447**	1,387
	64,652	52,650	**23,054**	16,042

(d) Amounts due to related parties

	At 30 Sept 2007 $'000	At 31 Dec 2006 $'000
Amount due to an associate	–	162

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.

(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.

37. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, equity price risk and interest rate risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

(a) Market risk

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

Funds available for investment comprise three main categories: Corporate Funds (mainly share capital and retained earnings of the Group), Clearing House Funds and Margin Funds received (which exclude non-cash collateral and contributions receivable from Participants).

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

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

An Investment Advisory Committee, comprised of Non-executive Directors of HKEx and an external member from the financial community, advises the Board on portfolio management and monitors the risk and performance of HKEx's investments. A Treasury team in the Finance and Administration Division is dedicated to the day-to-day management and investment of the funds. External fund managers have also been appointed to manage part of the Corporate Funds since July 2001. The external fund managers are stable and financially strong financial institutions and each has a worldwide aggregate fund size of a minimum of US$10 billion under management.

37. Financial Risk Management (continued)

(a) Market risk (continued)

(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 30 September 2007, the aggregate net open foreign currency positions amounted to HK$2,164 million, of which HK$176 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$1,213 million (31 December 2006: HK$281 million). All forward foreign exchange contracts would mature within one month (31 December 2006: one month).

37. Financial Risk Management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The Group had entered into the following hedges as at 30 September 2007:

Cash flow hedges

Year	Hedged items	Hedging instruments	Hedged risk	Amount of hedging instruments remained At 30 Sept 2007	Amount of hedging instruments remained At 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	**SEK Nil**	SEK933,000
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	**SEK Nil**	SEK13,612,000
2007	Forecast information technology and computer maintenance expenses of SEK10,587,000 from January to May 2007	Bank deposits of SEK10,587,000	Foreign exchange risk	**SEK9,787,000**	N/A

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 credited to the profit and loss account during the period ended 30 September 2007.

As at 30 September 2007, the fair value of the bank deposits designated as cash flow hedges held by the Group was $11,753,000 (31 December 2006: $16,531,000).

37. Financial Risk Management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Cash flow hedges (continued)

The ineffectiveness of cash flow hedges (charged)/credited to the profit and loss account during the period was as follows:

	Nine months ended 30 Sept 2007 $'000	Nine months ended 30 Sept 2006 $'000	**Three months ended 30 Sept 2007 $'000**	Three months ended 30 Sept 2006 $'000
Ineffectiveness of cash flow hedges (charged)/credited to profit and loss account	**–**	(1)	**–**	2

Fair value hedges

Year	Hedged items	Hedging instruments	Hedged risk	Amount of hedging instruments remained At 30 Sept 2007	At 31 Dec 2006
2005	Financial liabilities of SEK11,000,000	Bank deposit of SEK11,000,000	Foreign exchange risk	**SEK195,000**	SEK3,444,000
2006	Financial liabilities of SEK9,100,000	Cash and bank deposits of SEK9,100,000	Foreign exchange risk	**SEK15,000**	SEK1,011,000
2007	Financial liabilities of SEK1,340,000	Bank deposit of SEK1,340,000	Foreign exchange risk	**SEK Nil**	N/A

As at 30 September 2007, the fair value of the bank deposits designated as fair value hedges was $252,000 (31 December 2006: $5,062,000).

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

	Nine months ended 30 Sept 2007 $'000	Nine months ended 30 Sept 2006 $'000	**Three months ended 30 Sept 2007 $'000**	Three months ended 30 Sept 2006 $'000
Fair value (losses)/gains on hedging instruments	**(13)**	607	**15**	(188)
Fair value gains/(losses) on hedged items	**13**	(607)	**(15)**	188

37. 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 but 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.

37. 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 during the period were as follows:

	Nine months ended 30 Sept 2007			Nine months ended 30 Sept 2006		
	Average $'000	**Highest $'000**	**Lowest $'000**	Average $'000	Highest $'000	Lowest $'000
Foreign exchange risk	**4,594**	**6,094**	**3,566**	6,070	7,422	4,949
Equity price risk	**12,389**	**15,636**	**7,922**	11,015	13,032	8,991
Interest rate risk	**16,509**	**18,724**	**13,703**	11,799	13,862	9,040
Total VaR	**22,558**	**27,446**	**16,966**	18,172	20,626	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.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. In addition, banking facilities have been put in place for contingency purposes. As at 30 September 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.

37. Financial Risk Management (continued)

(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 30 September 2007, the bonds held were of investment grade and had a weighted average credit rating of Aa1 (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.

37. Financial Risk Management (continued)

(c) Credit risk (continued)

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

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

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. As of 30 September 2007, bank guarantees of $3,642,200,000 (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 30 September 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 30 Sept 2007 $'000	At 31 Dec 2006 $'000
Up to 6 months	**118,200**	186,359
Over 6 months to 1 year	**1**	–
Over 1 year to 3 years	**1**	–
Over 3 years*	**8,651**	8,651
Total	**126,853**	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 $6,667,000 (31 December 2006: $6,088,000).

37. Financial Risk Management (continued)

(c) Credit risk (continued)

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

As at 30 September 2007, trade receivables of the Group amounting to $4,741,000 (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 30 September 2007, the amount of doubtful deferred revenue amounted to $42,756,000 (31 December 2006: $44,242,000).

38. Comparative Figures

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

OTHER INFORMATION

Organisation Structure

HKEx regularly evaluates its organisation structure and makes adjustments where appropriate to ensure that it is effective in meeting the business and market needs. In October 2007, the organisation structure of HKEx was further refined. In view of the increasing duties and workload of the Beijing Representative Office ("BRO") as well as the Shanghai and Guangzhou Special Representatives resulting from the Mainland's growing interest in the Hong Kong Cash and Derivatives Markets, the BRO, other than being responsible for liaison with Mainland officials, will also organise trainings and seminars and handle enquiries in relation to both the primary and secondary markets. The Head of the BRO reports directly to the Chief Executive of HKEx. The Business Development Division was renamed the "Issuer Marketing Division" in order to more appropriately reflect its role and responsibilities in promoting Hong Kong listing within and outside of Hong Kong. Meanwhile, as the planning function, such as formulation and coordination of the Strategic Plan and Annual Operating Plan, has been undertaken by the Chief Financial Officer since September 2006, the Research and Planning Department was renamed the "Research and Corporate Development Department" to align with its duties to gather market intelligence and conduct research and studies for new products/ initiatives.

Share Option Schemes

Details of the Share Option Schemes are set out in note 28(b) to the condensed consolidated accounts of this quarterly report. The share options granted and remained outstanding as at 30 September 2007 were as follows:

Pre-Listing Scheme

		Number of shares issuable under the options				
Date of grant	**Exercise price**	**As at 1 Jan 2007**	**Issued upon subscription during the nine months ended 30 Sept 2007** (note 1)	**Lapsed during the nine months ended 30 Sept 2007**	**As at 30 Sept 2007**	**Exercise period** (note 2)
Employees (note 3)						
20 Jun 2000	$6.88	788,000	409,000	–	379,000	6 Mar 2002 – 30 May 2010

No further options can be, or have been, granted under the Pre-Listing Scheme as from 27 June 2000, the date of listing of HKEx shares on the Stock Exchange.

Post-Listing Scheme

Date of grant	Exercise price	Number of shares issuable under the options: As at 1 Jan 2007	Issued upon subscription during the nine months ended 30 Sept 2007 (note 4)	Lapsed during the nine months ended 30 Sept 2007	As at 30 Sept 2007	Exercise period (note 5)
Executive Director (note 6)						
2 May 2003	$8.28	2,460,000	820,000	–	1,640,000	2 May 2005 – 1 May 2013
Employees (note 3)						
14 Aug 2003	$12.45	547,000	273,500	–	273,500	14 Aug 2005 – 13 Aug 2013
18 Aug 2003	$12.49	1,476,000	492,000	984,000	–	18 Aug 2005 – 17 Aug 2013
15 Jan 2004	$17.30	822,000	275,000	–	547,000	15 Jan 2006 – 14 Jan 2014
31 Mar 2004	$16.96	4,084,500	982,500	29,000	3,073,000	31 Mar 2006 – 30 Mar 2014
17 May 2004	$15.91	150,000	25,000	–	125,000	17 May 2006 – 16 May 2014
26 Jan 2005	$19.25	5,054,000	833,000	31,500	4,189,500	26 Jan 2007 – 25 Jan 2015

Since the adoption of the Share Award Scheme on 14 September 2005, no further options have been granted under the Post-Listing Scheme.

No options granted under the Share Option Schemes were cancelled during the nine months ended 30 September 2007.

Notes:

1. The weighted average closing price immediately before the dates on which the options were exercised was $81.14.
2. Options granted are subject to a vesting scale in tranches of 25 per cent each per annum reaching 100 per cent as from 6 March 2005.
3. Employees working under employment contracts that were regarded as "continuous contracts" for the purpose of the Employment Ordinance of Hong Kong.
4. The weighted average closing price immediately before the dates on which the options were exercised was $90.16.
5. 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.
6. The option was granted to Mr Chow Man Yiu, Paul, an Executive Director and the Chief Executive of HKEx.
7. The amortised fair value of the share options charged to the profit and loss account for the nine months ended 30 September 2007 was $7,692,000 (30 September 2006: $11,840,000).

Share Award Scheme

Details of the Share Award Scheme are set out in note 28(c) to the condensed consolidated accounts of this quarterly report.

During the nine months ended 30 September 2007, the Board approved grants of an aggregate amount of $1,200,000 for the purchase of Awarded Shares to two selected employees and a total of 12,500 HKEx shares were purchased according to the Share Award Scheme. The trustee of the Share Award Scheme allocated 7,000 shares and 5,500 shares to the two employees on 7 June and 17 July 2007 respectively.

Since the adoption of the Share Award Scheme, a total of 1,244,965 HKEx shares have been awarded to the selected employees. Among those, 11,528 shares were allocated and awarded to the Chief Executive of HKEx on 15 January 2007. Details of the awards are set out below:

Date of award	**Number of Awarded Shares**	**Average fair value per share** (note 1)	**Vesting period** (note 2)
19 Dec 2005	960,000	$31.20	19 Dec 2007 – 19 Dec 2010
15 Jan 2007	272,465	$72.28	13 Dec 2008 – 13 Dec 2011
7 Jun 2007	7,000	$81.33	16 Apr 2009 – 16 Apr 2012
17 Jul 2007	5,500	$102.29	18 Jun 2009 – 18 Jun 2012

Notes:

1. Prior to 16 August 2006, the fair value of the Awarded Shares was based on the market value at the date of award. With effect from 16 August 2006, as a result of the amendments to the rules of the Share Award Scheme, the fair value of the Awarded Shares was based on the average purchase cost per share.
2. Unless otherwise determined by the Board at its discretion, Awarded Shares 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 approval of the award by the Board, provided that the selected employee remains an employee of the Group at all times until the relevant vesting dates and satisfies the conditions specified under the Share Award Scheme.
3. The amortised fair value of the Awarded Shares charged to the profit and loss account for the nine months ended 30 September 2007 was $10,278,000 (30 September 2006: $6,132,000).

As at 30 September 2007, taking into account the further shares acquired by reinvesting the dividend income received in respect of the shares held under the trust, there were a total of 1,300,500 shares held in trust by the trustee under the Share Award Scheme, of which 1,256,500 shares were held for the benefit of the selected employees who remained under the employ by the Group, 12,000 unallocated shares and 32,000 shares as returned shares (ie, shares were not vested and/or forfeited and/or fractional shares which were not so allocated to selected employees in accordance with the terms of the Share Award Scheme). The trustee shall hold these returned shares and future related income for the benefit of one or more employees of the Group as it determines at its discretion, after taking into consideration the recommendations of the Board. During the period, 1,800 Awarded Shares lapsed and none were vested.

Directors' and Chief Executive's Interests and Short Positions

As at 30 September 2007, the interests of the Directors and the Chief Executive of HKEx in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Stock Exchange pursuant to the Model Code are set out below:

Long positions in shares and underlying shares of HKEx

	Number of shares/underlying shares held					
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**	**% of the issued share capital**
Chow Man Yiu, Paul	3,291,692 (note 1)	–	–	–	3,291,692	0.31
Lee Kwan Ho, Vincent Marshall	–	–	1,167,000 (note 2)	–	1,167,000	0.11
John Estmond Strickland	18,000 (note 3)	–	–	–	18,000	0.00
David Michael Webb	2 (note 4)	2 (note 5)	6 (note 6)	–	10	0.00

Notes:

1. The interests included Mr Chow's interests in 11,528 Awarded Shares and 164 further shares acquired by reinvesting the dividend received therefrom according to the Share Award Scheme, and 1,640,000 shares issuable under an option granted to him on 2 May 2003, of which 820,000 shares were vested. Details of the interests of Mr Chow in the share option and Awarded Shares are set out in the Share Option Schemes and Share Award Scheme stated above.
2. This represented Mr Lee's interests in the underlying shares through listed equity derivatives (physically settled options) held by Pacific Trust Company Limited, in which Mr Lee holds 33.33 per cent beneficial interests.
3. The shares were held by Mr Strickland as beneficial owner.
4. The shares were held by Mr Webb as beneficial owner.
5. The shares were owned by the spouse of Mr Webb.
6. The shares were owned by Fundamental Consultants Limited, Member One Limited and Member Two Limited which are under the control of Mr Webb.

Save for those disclosed above, as at 30 September 2007, none of the Directors or the Chief Executive of HKEx had any interest or short position in the shares, underlying shares or debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to HKEx and the Stock Exchange pursuant to the Model Code.

Apart from the Share Option Schemes and the Share Award Scheme, at no time during the period was HKEx or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, HKEx or any body corporate. Save for the disclosed, none of the Directors or the Chief Executive of HKEx (including their spouses and children under the age of 18) during the nine months ended 30 September 2007 held any interest in, or were granted any right to subscribe for, the securities of HKEx and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Interests and Short Positions of Other Persons

As at 30 September 2007, interests and short positions of other persons in the shares and underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Stock Exchange are set out below:

Long positions in shares and underlying shares of HKEx

Name	Capacity	Number of shares/ underlying shares held	Total	% of the issued share capital
JPMorgan Chase & Co	Beneficial owner	6,006,781	61,155,212 (note 1)	5.72
	Investment manager	22,098,810		
	Custodian corporation/ approved lending agent	33,049,621		
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund) (note 2)	Beneficial owner	62,919,500	62,919,500	5.88

Short positions in shares and underlying shares of HKEx

Name	Capacity	Number of shares/ underlying shares held	Total	% of the issued share capital
JPMorgan Chase & Co	Beneficial owner	139,453,556	139,453,556 (note 3)	13.04

Notes:

1. It included interests in 2,296,600 underlying shares held through certain unlisted physically settled equity derivatives. It also included 33,049,621 shares in the lending pool.
2. It was based on a voluntary disclosure of interests made by the Government filed on 10 September 2007 following its increase of shareholding to 5.88 per cent effective 7 September 2007.
3. It included interests in 138,894,056 underlying shares held through certain unlisted equity derivatives (physically settled – 4,601,056 underlying shares, and cash settled – 134,293,000 underlying shares).

Minority Controllers

Under Section 61 of the SFO, no person shall be or become a Minority Controller, ie, a person who, either alone or with any associated person or persons, is entitled to exercise, or control the exercise of, five per cent or more of the voting power at any general meeting of the recognised exchange controller, except with the approval in writing of the SFC after consultation with the Financial Secretary.

The SFC has only granted approval to five entities to be Minority Controllers of HKEx, on the basis that the shares are held by them in custody for their clients. According to the CCASS Participants Shareholding Report of HKEx as at 30 September 2007, the five approved Minority Controllers in aggregate held 62.56 per cent of the issued share capital of HKEx (30 September 2006: 57.45 per cent).

Effective 7 September 2007, the Government has increased its beneficial interests to 5.88 per cent of the issued share capital of HKEx and become a Minority Controller of HKEx. According to the Government, the provisions of Section 61 of the SFO do not expressly, or by necessary implication, bind the Government and accordingly by virtue of Section 66 of the Interpretation and General Clauses Ordinance the provisions of Section 61 of the SFO, requiring a person becoming a minority controller to obtain the approval of the SFC, do not affect the right of and are not binding on the Government.

Corporate Governance

The Government Appointed Directors and the Chief Executive of HKEx in his capacity as a Director are not subject to election or re-election by Shareholders as governed by Section 77 of the SFO and the Articles of Association of HKEx respectively. Save as disclosed in this paragraph, HKEx has complied with all the code provisions and, where appropriate, adopted the recommended best practices, as set out in the CG Code contained in Appendix 14 to the Main Board Listing Rules throughout the review period.

GovernanceMetrics International, a corporate governance research and ratings agency, continued to assign high ratings to HKEx in recognition of its high corporate governance standards. As of 31 August 2007, the Global Rating and Home Market Rating remained at 7.5 and 10.0 respectively out of the maximum of 10.0.

In September 2007, CLSA Asia-Pacific Markets in collaboration with the Asian Corporate Governance Association assessed the quality of corporate governance in 11 Asian markets and published a report “CG Watch 2007 – Corporate Governance in Asia”. Amongst the over 100 large-cap companies assessed, HKEx was ranked the third in terms of corporate governance.

Compliance with Model Code

HKEx has adopted the Model Code. All Directors have confirmed, following specific enquiry by HKEx, that they fully complied with the Model Code throughout the nine-month period ended on 30 September 2007.

Review of Accounts

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the nine months ended 30 September 2007 in conjunction with HKEx's external auditors.

Management has appointed the external auditors to carry out certain agreed-upon procedures in accordance with Hong Kong Standard on Related Services 4400 "Engagements to perform agreed upon procedures regarding financial information" issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated financial statements for the nine months ended 30 September 2007.

Purchase, Sale or Redemption of HKEx's Listed Securities

During the nine months ended 30 September 2007, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold, any of HKEx's listed securities, except that the trustee of the Share Award Scheme had, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 12,500 HKEx shares being the Awarded Shares, and a further 30,000 HKEx shares with the dividend income received during the period in respect of the shares held under the trust. The total amount paid to acquire these 42,500 shares during the period was about $4,879,000.

By Order of the Board
Hong Kong Exchanges and Clearing Limited
Ronald Joseph ARCULLI
Chairman

Hong Kong, 14 November 2007

GLOSSARY

AMS/3	The Third Generation Automatic Order Matching and Execution System
Awarded Shares	Shares awarded under the Share Award Scheme
Board	Board of HKEx
CBBC(s)	Callable Bull/Bear Contract(s)
CCASS	The Central Clearing and Settlement System
CCASS/3	The Latest Generation of Central Clearing and Settlement System
CG Code	Code on Corporate Governance Practices as set out in the Listing Rules
CHIS	Computershare Hong Kong Investor Services Limited
DCASS	The Derivatives Clearing and Settlement System
Director(s)	Director(s) of HKEx
EP(s) or Participant(s)	Exchange Participant(s)
ETF(s)	Exchange Traded Fund(s)
Exchange or Stock Exchange	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of the Government
Futures Exchange	Hong Kong Futures Exchange Limited
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
Government	The Government of the Hong Kong Special Administrative Region of the People's Republic of China
Government Appointed Directors	Directors appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx	Hong Kong Exchanges and Clearing Limited
HKSCC	Hong Kong Securities Clearing Company Limited
H-shares Index	Hang Seng China Enterprises Index
HSI	Hang Seng Index
IPO(s)	Initial Public Offering(s)
JP	Justice of the Peace
Listing Rules	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
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDF	Market Datafeed
MH	Medal of Honour
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
Post-Listing Scheme	Post-Listing Share Option Scheme approved by the Shareholders on 31 May 2000 which was subsequently amended by the Shareholders on 17 April 2002

Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by the Shareholders on 31 May 2000
PRS	Price Reporting System
QDII	Qualified Domestic Institutional Investor
REIT(s)	Real Estate Investment Trust(s)
SBS	Silver Bauhinia Star
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	Shareholders of HKEx
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended by the Board on 16 August 2006
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
SSA(s)	Stock Segregated Account(s)
TPC	Third Party Clearing
$/HKD	Hong Kong Dollar

This page is intentionally left blank

Hong Kong Exchanges and Clearing Limited
12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong

Tel: +852 2522 1122 Fax: +852 2295 3106
Website: www.hkex.com.hk Email: info@hkex.com.hk