



# 2007 Annual Report





We live in times of continual change. New creations, new perspectives and new environments are shaped every day. The universal search for quality, however, is constant. That is why while we embrace innovation, we remain steadfast in our standards and values. HKEx works not just to secure a market of success for today, but to create a market of lasting value for many years to come.

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

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# FINANCIAL HIGHLIGHTS

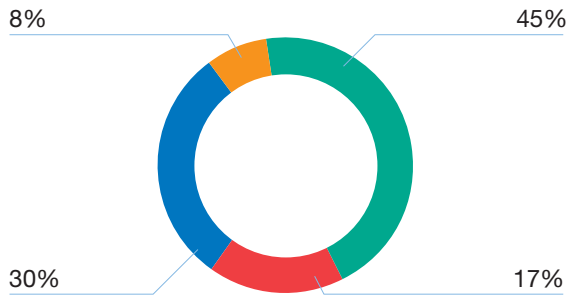
	2007	2006	Change
<b>KEY MARKET STATISTICS</b>			
Average daily turnover value on the Stock Exchange	<b>\$88.1 billion</b>	\$33.9 billion	160%
Average daily number of derivatives contracts traded on the Futures Exchange	<b>171,440</b>	100,318	71%
Average daily number of stock options contracts traded on the Stock Exchange	<b>187,686</b>	73,390	156%
	<b>2007</b>	2006	
	<b>\$'000</b>	<b>\$'000</b>	<b>Change</b>
<b>RESULTS</b>			
Income	<b>8,390,470</b>	4,146,916	102%
Operating expenses	<b>1,411,565</b>	1,210,573	17%
Operating profit	<b>6,978,905</b>	2,936,343	138%
Gain on disposal of an associate	<b>206,317</b>	–	N/A
Share of profits of associates	<b>5,587</b>	27,124	(79%)
Profit before taxation	<b>7,190,809</b>	2,963,467	143%
Taxation	<b>(1,021,531)</b>	(444,898)	130%
Profit attributable to shareholders	<b>6,169,278</b>	2,518,569	145%
Basic earnings per share	<b>\$5.78</b>	\$2.37	144%
Diluted earnings per share	<b>\$5.72</b>	\$2.34	144%
Interim dividend per share	<b>\$1.79</b>	\$0.94	90%
Final dividend per share	<b>\$3.40</b>	\$1.19	186%
	<b>\$5.19</b>	\$2.13	144%
Dividend payout ratio	<b>90%</b>	90%	N/A
	<b>2007</b>	2006	Change
<b>KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>			
Shareholders' funds (\$'000)	<b>8,377,348</b>	5,257,586	59%
Total assets* (\$'000)	<b>87,944,189</b>	40,464,406	117%
Net assets per share <sup>#</sup>	<b>\$7.83</b>	\$4.94	59%

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

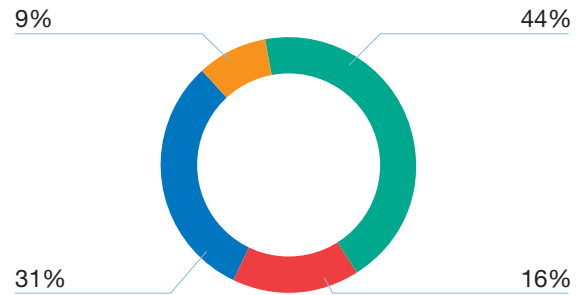
# Based on 1,069,228,714 shares as at 31 December 2007, being 1,070,285,346 shares issued and fully paid less 1,056,632 shares held for the Share Award Scheme (2006: 1,064,190,346 shares, being 1,065,448,346 shares issued and fully paid less 1,258,000 shares held for the Share Award Scheme)

BY BUSINESS SEGMENT\*

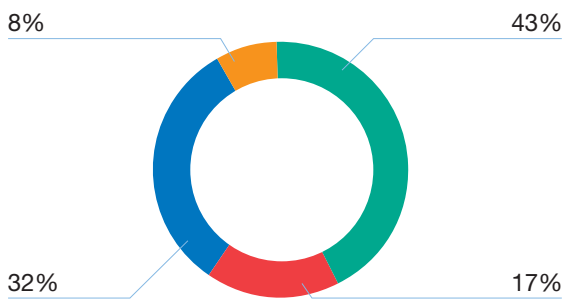
2007 Income



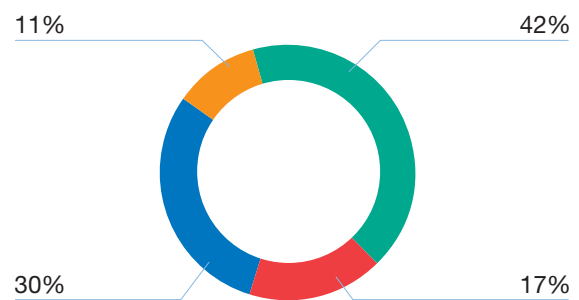
2006 Income



2007 Reportable segment profit before tax



2006 Reportable segment profit before tax



● Cash Market     
 ● Derivatives Market     
 ● Clearing Business     
 ● Information Services

\* Details are set out in note 3 to the consolidated accounts on pages 149 to 153.

# HIGHLIGHTS OF THE YEAR



## Regulatory Framework

### 12 January

Signed an MOU on funding for the FRC

### 7 March

Issued a joint policy statement with the SFC regarding the listing of overseas companies

### 11 May

Issued a joint statement with The Hong Kong Institute of Directors on disclosure regarding resignations of listed issuers' directors

### 22 June

Published a statement on settlement of cases involving Listing Rules breaches

### 25 June

Implemented the EDP

### 27 July

Published a consultation paper on GEM

### 31 August

Published a consultation paper on periodic financial reporting ①

### 5 November

Published a joint policy statement with the SFC on a pilot scheme for posting a WPIP on the HKEx website prior to the issue of an IPO prospectus

### 27 December

Signed an MOU with the FRC on working arrangements between the two parties

## Hong Kong Markets Promotion

### 11 May

Co-organised the Kazakhstan-Hong Kong Conference – IPO in Hong Kong in Almaty with the Agency of the Republic of Kazakhstan on Regulation of Activities of the Regional Financial Centre of Almaty City and The Consulate General of the Republic of Kazakhstan (HKSAR/Macau SAR) ②



### 31 May

Hosted a discussion forum on strengthening Hong Kong as China's international capital formation centre at the Exchange Auditorium <sup>3</sup>

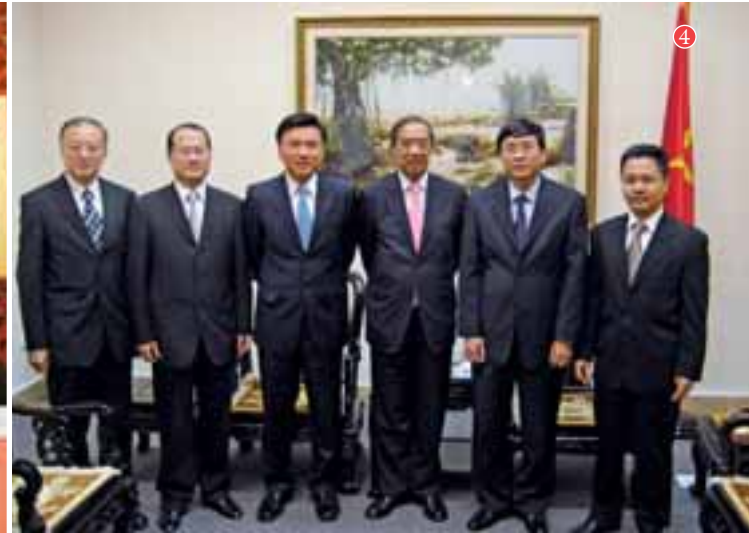
### 23 Nov

Co-organised the IPO in Hong Kong Conference in Ho Chi Minh City with the State Securities Commission of Vietnam <sup>4</sup>

## Market Infrastructure

### 27 January

Increased the daily processing capacity of AMS/3 from 1.2 million trades to 1.5 million



### 26 March

Increased the maximum order in AMS/3 from 600 board lots to 3,000

### 2 April

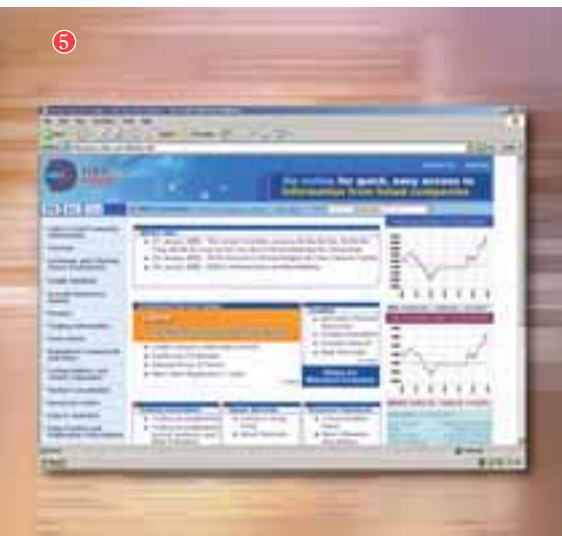
Introduced a new market maker regime for stock options and stock futures

### 9 July

Increased the capacity of HKATS, DCASS and PRS

### 17 December

Upgraded the CCASS mainframe system



## Service Enhancements

### 1 January

Extended special offer for Mainland users of real-time market data

### 2 January

Introduced new features to the SSA with Statement Service and improved CCASS nominee services

### 28 February

Introduced a service for relinquishment of transferable trading rights

### 19 March

Posted GEM Listing Rules in Simplified Chinese on the HKEx and GEM websites

### 2 April

Shortened the delay for free securities and derivatives market data to 15 minutes<sup>5</sup>

### 1 June

Reduced the standard IIS fee by more than 50 per cent

### 9 July

Introduced further improvements to the SSA with Statement Service

### 3 December

Introduced a TPC framework in the securities market

## Product and Market

### 21 March

Published a consultation paper on the introduction of a closing auction session

### 2 April

Introduced a third calendar quarter expiry month in more stock option classes

### 16 April

Introduced HFI Futures<sup>6</sup>

### 18 and 26 April

Expanded the ETF market with the listing of the market's first global and regional equity ETFs and the first ETFs on US equities<sup>6</sup>

### 19 July

Published consultation conclusions on the introduction of a closing auction session

### 3 October

Achieved record high securities market turnover value of \$210.5 billion





### 8 October

Announced plans to introduce five-digit stock codes on 7 April 2008

### 30 October

Achieved record high market capitalisation of \$23.2 trillion and HSI close of 31638.22

### 11 December

Announced the adoption of the Hang Seng Industry Classification System for the classification of all Hong Kong-listed companies

### 20 December

Announced measures to facilitate the listing of a wider range of MAPs

### 21 December

Introduced flexibility in position limits for HSI and H-shares Index Futures and Options

## Corporate

### April

Named one of the best companies in Hong Kong in terms of corporate governance by The Asset Magazine 7

### 7 September

The Government, for the account of the Exchange Fund, became a minority controller by increasing its shareholding in HKEx to 5.88 per cent

### October

Named the Derivatives Exchange of the Year 2007 by Asia Risk Magazine

### November

Received “2007 HKMA Best Annual Reports Awards”: 2006 Annual Report – Gold Award and the Citation for Achievement in Corporate Governance Disclosure (General Category) from HKMA 8

Received “Best Corporate Governance Disclosure Awards 2007”: 2006 Annual Report – Gold Award (Hang Seng Index Category) from HKICPA 9

Other achievements of HKEx in 2007 are set out in the Major Achievements and Key Initiatives under the Business Review of this Annual Report.

# CHAIRMAN'S STATEMENT

I am delighted to report that 2007 was a record year for HKEx. The strong results achieved for our Shareholders were due to a robust market and staunch support from our wide institutional and retail investor base.

During the year, HKEx, pursuant to the strategy articulated last year, concentrated on its core competencies and advancing as a leading international marketplace for securities and derivatives products focused not only on Hong Kong and the Mainland, but also the rest of Asia. This strategy proved to be rewarding evidenced by the strong increase in trading activities on our platforms.

In 2007, the Group attained the highest income and profit attributable to shareholders since its listing in 2000. Income rose 102 per cent to \$8,390 million while profit attributable to shareholders was up 145 per cent to \$6,169 million. As an indication of HKEx's operational strength, its return on equity was 48 per cent in 2006 outstripping the industry average of 22.7 per cent, according to the WFE.

HKEx was the best-performing blue chip in 2007 in respect of its increase in share price according to news reports. Its share price soared from \$85.5 at the end of 2006 to a high of \$265.6 on 2 November 2007 and closed at \$221.2 on 31 December 2007. As of 31 December 2007, HKEx's market capitalisation stood at \$236.7 billion against \$91.1 billion at the end of 2006.

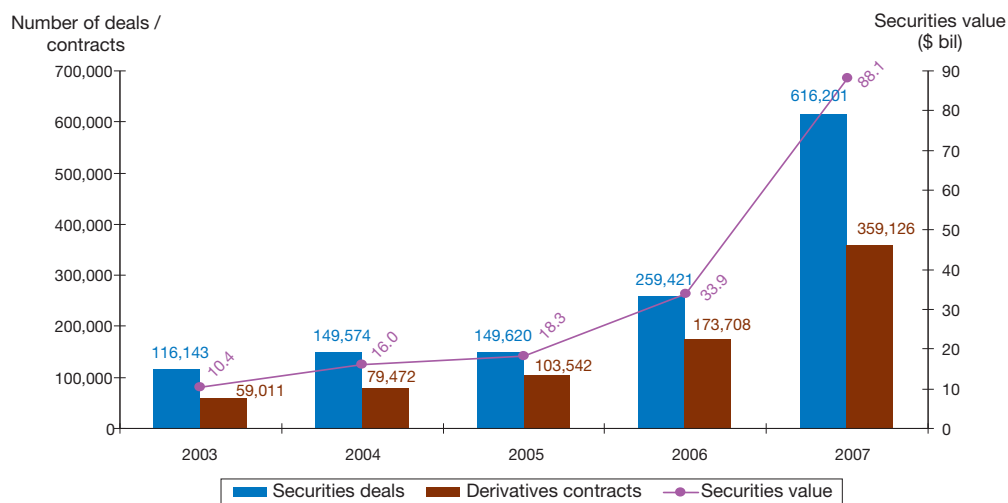
The Board has proposed a final dividend of \$3.40 per share for Shareholders' approval, which including the interim dividend of \$1.79 per share, amount to a total of \$5.19 per share for the year, an increase of 144 per cent over the previous year.

## Expansion of Cash and Derivatives Markets

Despite volatility in the fourth quarter, both the Cash and Derivatives Markets thrived in 2007 on the back of the positive performance of listed companies and a significant inflow of funds.



## Average Daily Market Turnover for 2007



The stellar performance is summarised below:

- Total turnover in the Cash Market amounted to \$21,665.5 billion, with average daily turnover of \$88.1 billion, about 2.6 times that of 2006.
- Both the HSI and H-shares Index surpassed the 30000-point and 20000-point levels respectively for the first time on 26 October 2007 and 29 October 2007.
- The total market capitalisation of the companies listed on the Stock Exchange as at year-end increased by 55 per cent from 2006 to \$20.7 trillion.
- Total equity funds raised exceeded the amount in 2006 by 13 per cent, reaching \$590.4 billion.
- The total number of futures and options contracts traded in 2007 was about 88 million. The average daily number of derivatives contracts and stock options contracts were 171,440 and 187,686 respectively.

Globally, our results in 2007 lifted us to overtake Deutsche Borse to rank first in terms of derivative warrants turnover. HKEx also surpassed the Australian Securities Exchange to become the largest stock options market in Asia.

## HKEx's Position Among World Exchanges in 2007

	Value/Volume	Ranking
Securitised Derivatives Turnover	USD611,507 million	1st
Stock Options Market	45,982,968 contracts	1st in Asia
ETF Market	USD20,592 million	2nd in Asia
Capital Funds Raised	USD70,178 million	5th
Market Capitalisation	USD2,654,416 million	7th
Share Trading Value	USD2,138,699 million	10th

Source of Information: WFE

As in previous years, the role of Mainland enterprises in our Cash and Derivatives Markets continued to gain in significance with China's rising economic performance. As of the end of 2007, 35 per cent (2006: 31 per cent) of listed issuers and 65 per cent (2006: 63 per cent) of the newly listed companies in the year were Mainland enterprises, which accounted for 58 per cent of the total market capitalisation, compared to 50 per cent in 2006. In addition, 69 per cent of the average daily equity turnover was attributable to Mainland enterprises, compared to 60 per cent in 2006.

### **Commitment to Market Quality and Sustainable Development**

HKEx, as the exchange operator, is focused on building not only a profitable company but also sustainable financial markets in Hong Kong. We believe maintaining a quality and reliable marketplace is key to reinforcing investor confidence and achieving sustainable market development. Accordingly, HKEx is committed to fostering high corporate governance standards and enhancing market transparency. The following are some of the initiatives that the Group has been working on.

In August 2007, HKEx released a public consultation on the subject of periodic financial reporting. HKEx is considering the responses and will publish the conclusions in due course.

A pilot scheme was started on 1 January 2008 requiring a listing applicant to post a WPIP on the HKEx website before providing the information to institutional investors. After the pilot period, the relevant requirements will be codified in the Listing Rules.

In January 2008, HKEx also released a combined consultation on various policies pertaining to corporate governance, such as pre-vetting, general mandates, electronic communication, a review of the Model Code and the public float. These issues have important implications on our longer term development and HKEx will carefully assess responses.

Apart from corporate governance matters, HKEx also works to ensure that it acts in an ethical and socially responsible manner. Although the Group's operations do not have a direct impact on the environment, we believe that everyone can play a part in creating a sustainable future. HKEx is also committed to contributing towards building a caring community spirit and cultivating good corporate citizenship. We are proud to have been recognised as a Caring Company by The Hong Kong Council of Social Service since 2005.

Thus in 2007, in addition to other measures, to conserve valuable natural resources and discourage wastage, the Board approved making annual charitable donations of up to \$100,000 to encourage Shareholders to receive corporate communications pertaining to HKEx via electronic means. I invite Shareholders to make use of this option and to help us not only reduce costs, but also the consumption of paper in order to preserve our environment.



## Worldwide Recognition

We are grateful that HKEx's efforts continue to be recognised by a number of local and overseas professional institutions. According to the "CG Watch 2007 – Corporate Governance in Asia" report published by CLSA Asia-Pacific Markets and the Asian Corporate Governance Association, HKEx was ranked third in terms of corporate governance among over 100 large-cap companies in Asia.

I am also delighted that our work in conjunction with that of the overall financial community have reinforced Hong Kong's standing as a leading international financial centre, as evidenced by the following accolades for our city:

Hong Kong's Scorecard		
Measure	Published By	Hong Kong's Rank
Global Financial Centres Index	The City of London Corporation	3rd
Index of Economic Freedom	The Heritage Foundation	1st for 14 consecutive years
Economic Freedom of the World	The Fraser Institute	1st for 11 consecutive years
Potential Competitiveness Ranking	Japan Centre for Economic Research	1st for two consecutive years
CG Watch 2007 – Corporate Governance in Asia	CLSA Asia-Pacific Markets and Asian Corporate Governance Association	1st in Asia
Most preferred destination for foreign investment in Asia	The United Nations World Investment Report	2nd for five consecutive years

## National Policies and International Opportunities

During the year, the Central Government announced a number of policies to further liberalise the Mainland financial market. With the closer integration of the Mainland and Hong Kong economies, these policies had a considerable impact on the local investing climate, presenting new opportunities for growth and fuelling trading activity.

One such move was in May 2007 when the QDII programme, which was first launched in September 2006 to allow domestic banks, fund houses, securities institutions and insurance companies to invest in fixed-income securities abroad, was relaxed to allow investment in a wider range of financial products including foreign equities.

Another was the Pilot Programme for Direct Foreign Portfolio Investments by Domestic Individuals announced by the State Administration of Foreign Exchange in August 2007, which proposes to allow Mainland Chinese nationals to buy equities in Hong Kong. As the programme would have profound implication on both the Mainland and Hong Kong financial markets, thorough and detailed studies are being undertaken by the Mainland before its possible implementation.

Beyond Hong Kong and the Mainland, we see tremendous opportunities all over the world. As HKEx wants to extend our reach, in particular to countries in the region, intensive marketing is being undertaken to attract investors to and the listings of more overseas companies in Hong Kong. In addition, HKEx frequently joins other high-level delegations promoting Hong Kong overseas.

## Local and Global Outlook

Hong Kong recorded brisk economic growth in 2007 with the Gross Domestic Product grew by 6.3 per cent, higher than the trend growth for the past 10 years, and the latest unemployment rate fell to 3.4 per cent, the lowest since the first quarter of 1998. Amid this backdrop, with rising asset prices and improved household financial positions, consumption spending and investment have been robust. Meanwhile, in the Mainland, the growth momentum remained intact in 2007, despite banks being required to increase reserve ratios on 10 occasions and six hikes in interest rates.

However, Hong Kong's financial markets are not free from challenges. The US sub-prime loan crisis evolving since mid-2007 has brought uncertainties to the global financial markets, particularly the concern over a possible economic recession in the US. Closer to home, the Mainland stock markets, measured by the Shanghai Composite Index which reached a closing high of 6092 on 16 October 2007, a gain of over 450 per cent in less than two years, have since fallen over 29 per cent, a movement which has affected Hong Kong. These concerns are still unfolding and it is difficult to assess the extent of its impact on Hong Kong's markets.

Thus, while the economic fundamentals in Hong Kong and the Mainland have been strong, investors should be vigilant about adverse factors which could hamper growth, such as rising inflationary pressures under a negative interest environment, tightening measures in the Mainland to forestall its overheating economy, and the possible adjustments in the global investment environment.

To be able to withstand changes and achieve long-term growth, HKEx will continue to seek improvements to the quality and foundation of Hong Kong's financial markets as we pursue our Strategic Plan 2007-2009, and to position ourselves to effectively and efficiently capture potential opportunities.

### Appreciation

I take this opportunity to thank my fellow Directors for their continued support and immeasurable contribution to HKEx. I particularly acknowledge the dedication of members of HKEx's various Board Committees and Consultative Panels. On behalf of all Directors, I would also like to pay tribute to the outstanding efforts of HKEx's management and employees which secured for us the strong results of 2007. They are our most valuable asset and I look forward to their continued dedication and hard work. My deep gratitude also goes to our Shareholders and stakeholders for their ongoing invaluable support.

**Ronald Joseph ARCULLI**

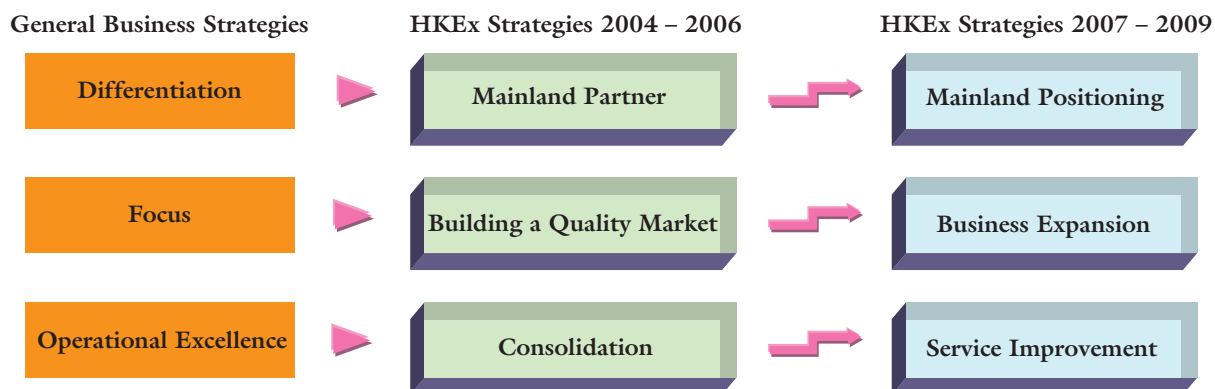
Chairman

Hong Kong, 5 March 2008

# CHIEF EXECUTIVE'S REVIEW

Last year we adopted the new 2007-2009 Strategic Plan which is focused on (i) reinforcing HKEx's position vis-à-vis the Mainland; (ii) expanding our business further; and (iii) improving our service delivery and quality.

In this review, I set out our accomplishments on these fronts in 2007 and highlight other initiatives ahead.



## Mainland Positioning

HKEx as China's international exchange plays a complementary role to the Mainland exchanges in promoting our country's overall economic development.

Through listing in Hong Kong, Mainland enterprises gain exposure to international standards and best practices. This helps strengthen their corporate governance and management practices to the advantage of the companies' stakeholders and the market environment. Since the listing of the first Mainland company in 1993, the majority of Mainland companies listed on HKEx have demonstrated significant improvements in corporate governance practices, and they set excellent examples to those which are yet to be listed.

Marketing activities on the Mainland to promote Hong Kong as a preferred listing venue have never been relaxed. During 2007, HKEx continued to organise training programmes on Hong Kong's listing requirements and issuers' ongoing obligations for potential issuers as well as interested parties on the Mainland.

From the secondary market perspective, we have stepped up cooperation and coordination with the Mainland authorities and intermediaries, and five Mainland brokers were admitted as HKEx's Participants in 2007.

In line with our strategy of broadening our range of products, HKEx has expanded the range of options and futures on Mainland-related stocks and indices. The HFI Futures was introduced in April 2007, and the Mini H-shares Index Futures will be launched in March this





year. In view of the growing popularity of Mainland-related derivative products, we will continue to build on the strengths of our Derivatives Market to explore the introduction of more of these products.

## Business Expansion

### Opening Listing Regime

A key initiative in our Strategic Plan is to open the equity listing regime further to issuers from overseas jurisdictions. The policy statement published jointly with the SFC on 7 March 2007 has provided clearer guidance on requirements of listing in Hong Kong for potential issuers.

Our relentless marketing effort paid off in 2007. Companies from Taiwan, Vietnam, Malaysia and Australia had, in total, raised \$15 billion in 2007 on our platform. We have also signed MOUs with the Abu Dhabi Securities Market, Moscow Interbank Currency Exchange, the Hochiminh Stock Exchange and the Mongolian Stock Exchange to facilitate mutual cooperation and information exchange.

HKEx will continue to coordinate our activities with initiatives undertaken by the Government, market practitioners, industry groups and trade associations in exploring business opportunities in overseas markets.

In addition, HKEx is working with the SFC to enable listing of overseas companies in Hong Kong in the form of depository receipts, and reviewing the listing regime with the objectives to streamline procedures, reduce bureaucracy, shorten the listing application process and increase transparency of disclosure so as to make our market more appealing to issuers and investors locally and globally.

A market consultation was conducted in the third quarter of 2007 on the proposal to reframe GEM as a second board. The consultation conclusion will be published soon and the enhanced GEM will be launched by the third quarter of 2008.

### Reducing Market Barriers

To increase our competitiveness, we have been working closely with the SFC on removing or reducing market growth hurdles such as lifting the position limits of H-shares Index Futures and Options effective 30 March 2007 and further relaxing those of H-shares Index and HSI Futures and Options in the Derivatives Market effective 21 December 2007. The proposal to suspend the tick rule for short selling in the Cash Market is still being considered by the SFC, and we believe that the proposal, when implemented, should enhance the efficiency of the price discovery process.

We will also review our fees and continue to discuss with the Government on a complete abolition of stamp duty either in one go, or in successive phases in future years and broadening of stamp duty exemptions for certain transactions.

### Introducing New Products

In April 2007, HKEx listed Hong Kong's first ETFs on global equities, US equities and commodities. Total number of ETFs stands at 17 at the end of 2007. According to the WFE, the ETF market in Hong Kong has become the largest in Asia-Pacific (ex-Japan) in terms of turnover value. We will continue to facilitate the launch of a wider range of ETFs to further strengthen Hong Kong's position as a major ETF centre.

Since the launch of the CBBC market in June 2006, the issuance of and trading in CBBCs have increased steadily. There were 391 new CBBC listings throughout 2007 with an average daily turnover of \$290 million, representing a year-on-year increase of 261 per cent. Effective 1 November 2007, the CBBC listing fee was permanently reduced by 70 per cent to attract more interested parties to issue the product.

In 2007, trading in DW increased by over 160 per cent from the previous year, with an average daily turnover of \$19 billion. Hong Kong is now the largest DW market in the world by trading value. We will closely monitor the development of the warrant market and will ensure that our rules and infrastructure are effective in maintaining market quality.

In order to encourage financial innovation and expand the diversity of the Hong Kong securities market, we are facilitating issuers to launch various MAPs which refer to structured products with non-Hong Kong underlying assets. MAPs can now be issued on many different underlying assets such as individual securities, single market, regional, thematic, proprietary and Islamic indices, commodities and various financial derivatives. The diversified product offerings will continue to provide investors with more choices and reinforce Hong Kong's position as an international financial centre.

The feasibility studies of the introduction of commodities derivatives and emissions-related products by external consultants have been fully completed. HKEx will explore the listing of emissions-related and gold-related structured products and ETFs on its securities market, and the introduction of derivatives linked to such products. We are also planning for the re-launch of cash-settled gold futures and will submit a proposal to the SFC for its approval in due course.

In addition, HKEx is prepared to discuss with interested parties to form a partnership to build a trading platform in emissions-related products with the anticipation of reaching some sort of arrangement before the end of 2008.

## Service Improvement

We believe that market quality is the key to our sustainable growth. A quality market increases investor confidence, which in turn generates order flow, hence improving the depth and liquidity of the market. Liquidity, in turn, attracts more quality companies to list and more investors from around the world to invest in the market, and the virtuous cycle continues. Accordingly, we strive to improve our market quality and services through enhancing our capacity, efficiency and transparency, and reducing the operating costs of HKEx and our stakeholders.

### Market Systems

The surge in activities of the Cash and Derivatives Markets has brought both benefits and challenges. Increased liquidity is inevitably accompanied by greater demand on our trading, clearing and settlement, and information dissemination systems. HKEx has constantly evaluated our market systems and invested substantial resources to ensure that they readily satisfy the growing needs of the market.

In the Cash Market, a number of trading parameters in AMS/3 were scaled up in 2007 to boost EPs' trading efficiency. In addition, HKEx invested \$101 million to upgrade the capacity and technology of AMS/3 to a new HP/Itanium platform, increasing the daily processing capacity of AMS/3 more than threefold, from 1.5 million trades to 5 million in January 2008. We have received positive market feedback about the changes, and we will continue to improve and fine-tune our trading systems. In March 2008, HKEx will also increase the capacity of CCASS/3 to support five million trades a day in alignment with the AMS/3 upgrade.

In the Derivatives Market, the HKATS and DCASS have been upgraded to Release 19.1 with additional functionalities and product features to support our business initiatives.

We have also strengthened our information dissemination systems for the Cash and Derivatives Markets, namely MDF and PRS, and the market surveillance system, SMARTS, in 2007 and will perform further upgrades in 2008 to support the growth in trading volume.

The migration of all Cash and Derivatives Markets circuits to a single integrated network, SDNet, which offers a more reliable network on Optical Ethernet technology, was successfully completed in the middle of last year. The SDNet offers the benefits of system scalability, more streamlined network management and substantial reduction in network cost to HKEx, its Participants and information vendors. This, together with the precise planning and upgrade of trading/clearing system capacity and technology, has enabled us to handle peak trading volume seamlessly. This is evidenced by the stable system performance on the day when we recorded the highest market turnover ever – with single-day trading turnover reaching \$210.5 billion on 3 October 2007 from some 1.2 million trades, involving 110 billion shares.



Our market systems have won high acclaims from the industry professionals. HKEx was named the Derivatives Exchange of the Year at the Asia Risk Awards 2007, and commended for “strong turnover, product innovation, robust technology and a sound derivatives platform”.

Our EDS, which allows straight-through submission and dissemination of issuer announcements and information, has earned us the accolade of the Hong Kong ICT Awards 2007: Best Business Grand Award in January 2008. The EDS has been commended for enabling “immediate access by everyone in the market to the same first hand information which has further strengthened Hong Kong’s enviable reputation as a regional financial hub offering fairness and transparency”.

### Trading Infrastructure

While maximising order processing efficiency is one of our top priorities, we have also worked with market practitioners to identify other potential improvement needs of the trading infrastructure.

In March last year, we commenced a Trading Rights tender programme for the relinquishment and acquisition of Trading Rights. In view of the growing number of new listings and structured products, HKEx will introduce five-digit stock codes on 7 April 2008. A closing auction session for the Cash Market will commence on 26 May 2008 to improve the price discovery process for determining closing prices and to facilitate trading at market close.

For the Derivatives Market, HKEx has introduced a pre-market opening period for H-shares Index Futures to support orderly market opening. HKEx has also offered a third calendar quarter expiry month in 10 stock option classes, and will consider offering longer-dated expiry months in more selected stock options classes should demand warrant.

In addition, HKEx has revised the market making obligations in the stock options and stock futures markets to enable market makers to better manage their market making risks, underlining HKEx’s commitment to quality market making services.

HKEx is also working closely with the SFC on the launch of Remote Exchange Participantship which will enable overseas players to participate in our market without the need to establish a physical presence here. This will facilitate sustainable growth and development of our markets.

### Clearing Infrastructure

In 2007, the three clearing houses implemented changes to improve their operations and services to better meet the needs of their Participants.

For the Cash Market, new features were introduced to the SSA with Statement service to provide a more user-friendly customer interface and timely information to account users, and enhancements were made to help streamline the operations of CCASS Participants during IPOs. TPC was introduced in

December 2007 to provide EPs with added flexibility in their business operation and easier access to the Hong Kong market. Since the introduction, three clearing service providers have been admitted as GCPs of CCASS. On the Derivatives Market side, DCASS cut-off time for the input of post-trade transactions has been extended by 30 minutes to 6:45pm and the Client Offset Claim Account has been introduced for SEOCH Participants to claim margin offset in respect of their eligible clients' positions. In addition, a number of improvements have been made for the provision of better CCASS nominee services.

In 2008, the Shareholding Disclosure Service will be introduced to enhance transparency of CCASS shareholding information. At the same time, HKEx is exploring with the SFC on possible approaches to increase the uptake and usage of the IP Accounts to enhance investor protection. We will also continue to review and strengthen our risk management measures for the Cash and Derivatives Markets clearing operations.

### Issuer and Market Information

On 25 June 2007, the Hong Kong Cash Market entered into a new era of electronic disclosure with the successful rollout of the EDP. Both Main Board and GEM listed issuers are required to submit their disclosures to HKEx electronically through the e-submission system. The EDP brings the issuer information dissemination regime in Hong Kong in line with those in other major international financial centres. It also improves the speed at which information from issuers is disseminated to investors, thus enabling us to, in a longer term, reduce unnecessary trade suspensions.

As part of the EDP, HKEx recently established a DIW ([www.hkexnews.hk](http://www.hkexnews.hk)), with infrastructure independent of the corporate HKEx website, to provide better searching, archiving and backup functions for issuer information and regulatory news.

HKEx opened a public viewing room adjacent to the Exchange's Trading Hall in February 2007 to facilitate general public access to issuer news through the HKEx websites.

HKEx introduced a new version of its IIS in 2007 to cater for the increasing volume of issuer news and to provide efficient delivery of large issuer documents via the system. With the support of information vendors, the rollout was a success. To promote wider use of the enhanced service, we have substantially reduced the standard IIS fee by more than 50 per cent. We have also upgraded the ISC News Alert Service to help keep investors abreast of disclosures submitted by or related to their selected issuers.

On the market information side, HKEx has made available more timely trading information in respect of the Cash and Derivatives Markets on the HKEx website. Separately, a new market data package was added to HKEx's services for information vendors to offer news and commentary on our markets. Local and international information vendors have found the package useful. We will continue to review our market data policies for the development of the market and our information services business.

### Investor Education

In 2007, we have cooperated with the SFC, professional bodies and EPs to organise educational programmes, including general investment courses and product seminars, for market participants of all levels to increase their knowledge of the various investment products and their awareness of investment risks. We have also worked with retail brokers and business partners on promotional activities to educate investors about the products and operations of the Hong Kong securities market.

### Organisational Development

In line with our Strategic Plan 2007-2009, we have made some important changes to HKEx's organisational structure to better serve our customers in the primary and secondary markets, and enhance operational efficiency.

Following the appointment of Mr Gerald Greiner as the Chief Operating Officer in February 2007, the cash market, derivatives market, clearing and risk management functions have come under his direct supervision. Separately, HKEx's business and operational functions were re-classified into three

major segments: primary market, secondary market and support services. The organisational changes have helped to enhance focus of various business units, increase cross-functional collaboration and streamline reporting processes.

The Listing Operations Department has been established in the Listing Division to support the implementation of listing operation-related initiatives and work with the Mainland exchanges. Two senior executives were also appointed to lead the IPO Transactions Department and the Listing Policy and Mainland China Affairs Department.

For better coordination and control, the risk management functions of cash clearing and derivatives clearing, market and participant surveillance, and enterprise risk management were integrated into a new Risk Management Division in July 2007. The Head of Risk Management has recently been appointed and will be on board in April 2008.

We have strengthened the capability of the Beijing Representative Office to provide better services and liaise more closely with the Mainland regulatory authorities and exchanges. The Business Development Division, which is mainly responsible for promoting Hong Kong listings to local and overseas issuers, was renamed as the "Issuer Marketing Division". At the same time, the Research and Planning Department was renamed as the "Research and Corporate Development Department" to align its duties of gathering market intelligence and conducting studies on new products/initiatives to facilitate market and product development.

Another initiative in the Strategic Plan 2007-09 is the consolidation of HKEx's various offices and data centres. We are currently planning the consolidation of some of our offices and data centres, an exercise which is expected to be completed in 2009. The office premises at V-Heun Building and Hong Kong Plaza were disposed of in February 2008.

## Appreciation

I am grateful for the support of all the HKEx employees, without whom we would not have achieved such remarkable results in the past year. Their diligence, dedication and commitment are deeply appreciated.

Our Participants also play a key role in the development of our markets. We highly value their cooperation, support and advice rendered to HKEx throughout the year. Under the Participant Relationship Programme, we meet Participants regularly to exchange views on market developments, and we will work even more closely with them in the coming year.

Last but not least, I would like to thank HKEx's Board and the Listing Committees for their guidance and continued contribution to the Group and the capital markets of Hong Kong.

## Approach Ahead

Due to favourable market conditions in 2007, our markets have set many records – as highlighted in the Chairman's Statement. Our people have also made great strides – as testified in the Business Review section. 2007 has laid strong foundation to many initiatives under the Strategic Plan 2007-2009, many of which we will implement and embark on in the coming years. We will continue to focus on our core businesses and strive to attain a higher level of performance. In all our efforts, we remain steadfast to our belief in quality, integrity, service and innovation. These values will keep us well-poised for opportunities as well as challenges ahead.

**CHOW Man Yiu, Paul**  
Director and Chief Executive

Hong Kong, 5 March 2008

# CORPORATE INFORMATION

## Board of Directors

### Independent Non-executive Chairman

1. ARCULLI, Ronald Joseph\* GBS, JP

### Executive Director, Chief Executive

2. CHOW Man Yiu, Paul SBS, JP

### Independent Non-executive Directors

3. CHA May-Lung, Laura\* SBS, JP
4. CHENG Mo Chi, Moses\* GBS, JP
5. CHEUNG Kin Tung, Marvin\* SBS, JP  
(re-appointment effective 26 April 2007)
6. FAN Hung Ling, Henry\* SBS, JP  
(re-appointment effective 26 April 2007)
7. FONG Hup\* MH  
(re-appointment effective 26 April 2007)
8. KWOK Chi Piu, Bill
9. LEE Kwan Ho, Vincent Marshall
10. LOH Kung Wai, Christine
11. STRICKLAND, John Estmond GBS, JP  
(re-elected on 26 April 2007)
12. WEBB, David Michael
13. 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\*\*  
(appointment ended on 19 January 2008)

HUNG Pi Cheng, Benjamin\*\*  
(appointment effective 20 January 2008)

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

### Auditor

PricewaterhouseCoopers

### Legal Advisers

Allen & Overy



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# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## Board of Directors



**ARCULLI, Ronald Joseph**  
GBS, JP

Independent Non-executive Chairman  
Aged 69

Director since 26 April 2006  
Chairman since 28 April 2006  
Term of office: 26 April 2006 to  
2008 AGM

Committee/panel memberships in  
HKEx group:  
HKEx – Chairman of **Executive  
Committee, Nomination  
Committee, Remuneration  
Committee and Risk Management  
Committee**  
SEHK – **Disciplinary Appeals  
Committee, Listing Appeals  
Committee** (chairman), and **Listing  
Nominating Committee**

### Other major offices

**Arculli Fong & Ng** – partner/senior partner (2005~)  
**Hang Lung Properties Limited** – non-executive director (1980~)  
**HKR International Limited** – non-executive director (1989~)  
**Hongkong Electric Holdings Limited** – non-executive director (1997~)  
**Hutchison Harbour Ring Limited** – non-executive director (2001~)  
**SCMP Group Limited** – non-executive director (1996~)  
**Shanghai Century Acquisition Corporation** (listed on the American Stock Exchange) – non-executive director (2005~)  
**Sino Hotels (Holdings) Limited** – non-executive director (1994~)  
**Sino Land Company Limited** – non-executive director (1981~)  
**Tsim Sha Tsui Properties Limited** – non-executive director (1994~)

### Past offices

**AIA Capital Corp (Holdings) Limited** – non-executive director (1984-2004)  
**Arculli and Associates** – senior partner (2000-2005)  
**Hong Kong Equestrian Federation** – president (1991-2006)  
**SHK Unit Trust Managers Limited** – non-executive director (1988-1996)  
**Sun Hung Kai Securities Limited** – non-executive director (1988-1996) and executive director (1974-1975)  
**The Hong Kong Jockey Club** – chairman (2002-2006)  
**Woo Kwan Lee & Lo** – partner (retired in 2000)

### Public service

**Air Transport Licensing Authority** – member (1984-1994)  
**Consultative Committee on the Core Arts and Cultural Facilities of the West Kowloon Cultural District** – member, and convenor of Financial Matters Advisory Group (2006-2007)  
**Deposit-Taking Companies Advisory Committee** – member (1981-1993)  
**Executive Council of the Government of the HKSAR** – non-official member (2005~)  
**Health and Medical Development Advisory Committee** – vice-chairman (2005~)  
**ICAC** – member of Advisory Committee on Corruption (1989-1996) and Complaints Committee (1989-1993)  
**Judicial Service Commission** – member (1978-1981)  
**Legislative Council** – appointed member (1988-1991)  
**Legislative Council** – elected member for the Real Estate and Construction Functional Constituency (1991-2000)  
**Non-official Justices of the Peace Selection Committee** – member (2007~)  
**Ocean Park Corporation** – board member (1983-1996)  
**Provisional Legislative Council** – member (1997-1998)  
**SFC** – non-executive director (1997-2000), and member of Advisory Committee (1989-1993)  
**Standing Committee on Disciplined Services Salaries and Conditions of Service** – member (1987-1999)  
**The Hong Kong Mortgage Corporation Limited** – non-executive director (1997~)

### Community activities and others

**Asia Art Archive Limited** – non-executive director (2001~)  
**Lingnan College** – member of Board of Governors (1988-1991)  
**Sir Edward Youde Memorial Fund** – chairman of Council (1988-1999)  
**The Community Chest of Hong Kong** – board member (2007~)  
**The Duke of Edinburgh Award International Foundation, UK** – chairman (1996-2007)  
**The University of Hong Kong** – member of Court (1988-1991)  
**University of Colorado Denver's Institute of International Business** – global adviser (1997~)

### Professional qualification and experience

**Barrister** (Hong Kong and England & Wales)  
**Barrister and Solicitor** (Victoria, Australia)  
**Solicitor** (Hong Kong)  
**Honorary Doctor of Social Science** (City University of Hong Kong)





**CHOW Man Yiu, Paul**  
SBS, JP

Executive Director, Chief Executive  
Aged 61

Director since 1 May 2003  
Ex-officio member of the Board

Committee/panel memberships in  
HKEx group:

HKEx – **Executive Committee**  
SEHK – **Listing Committee** and  
**GEM Listing Committee**

**Other major offices**

**HKCC, HKFE, HKSCC, SEHK and SEOCH** – chairman (2003~)  
**World Federation of Exchanges** – director (2003~), and chairman of Working Committee (2006~)

**Past offices**

**HKSCC** – director (1990-1997) and chief executive (1990-1991)  
**HSBC Asset Management (Hong Kong) Limited** – chief executive, Asia Pacific ex-Japan Region (1997-2003)  
**SEHK** – chief executive (1991-1997)

**Public service**

**Digital 21 Strategy Advisory Committee** – member (2004~)  
**Hong Kong Cyberport Management Company Limited** – director (2003-2007)  
**SFC** – member of Advisory Committee (2001-2007)  
**Standing Committee on Company Law Reform** – member (2003~)

**Community activities and others**

**HKICPA** – appointed member of Council (Dec 2004-Dec 2006)  
**Hong Kong Investment Fund Association** – chairman (2000-2001)  
**The Community Chest of Hong Kong** – board member and member of Executive Committee (2003~)  
**The University of Hong Kong** – member of Council (2004~) and Court (2000~)

**Professional qualification and experience**

**Distinguished fellow** (Hong Kong Computer Society)  
**Bachelor of Science in Mechanical Engineering, Diploma in Management Studies and MBA** (The University of Hong Kong)  
**Diploma in Finance (Distinction)** (The Chinese University of Hong Kong)  
**Honorary university fellowship** (The University of Hong Kong)  
**University fellowship** (The Hong Kong Polytechnic University)  
**Fellow** (HKMA, HKICS, and The Institute of Chartered Secretaries and Administrators)  
**Ordinary member** (Hong Kong Securities Institute)

Mr Chow has over 35 years of business and management experience in a wide range of industries from information technology, securities, banking to fund management.

Mr Chow also acts as director of various subsidiaries of HKEx.



**CHA May-Lung, Laura**  
SBS, JP

INED  
Aged 58

Director since 26 April 2006  
Term of office: 26 April 2006 to  
2008 AGM

Committee/panel memberships in  
HKEx group:

HKEx – **Panel Member Nomination Committee** (chairman), **Investment Advisory Committee** and **Remuneration Committee**

**Other major offices**

**Bank of Communications Co Ltd** – non-executive director (2006~)  
**Baoshan Iron & Steel Co Ltd** (listed on the Shanghai Stock Exchange) – non-executive director (2006~)  
**Johnson Electric Holdings Limited** – non-executive director (2004~)  
**Marsh & McLennan Companies, Inc** (listed on the New York, Chicago and London stock exchanges) – member of International Advisory Board (2007~)  
**Tata Consultancy Services Limited** – non-executive director (2006~)  
**The Hongkong and Shanghai Banking Corporation Limited** – non-executive director (2004~) and non-executive deputy chairman (2007~)

**Past offices**

**HSBC Investment Asia Holdings Limited** – non-executive chairman (2005-2007)  
**SFC** – deputy chairman (1998-2001), executive director (1994-2001), senior director (1993-1994) and assistant director (1991-1993)

**Public service**

**CSRC** – vice-chairman of International Advisory Council (2004~) and vice-chairman (2001-2004)  
**Executive Council of the Government of the HKSAR** – non-official member (2004~)  
**ICAC** – chairman of Advisory Committee on Corruption (2007~)  
**The 11th National People's Congress of the People's Republic of China** – HKSAR deputy (2008~)  
**The Chinese People's Political Consultative Conference Shanghai Committee** – member of Standing Committee (2008~)  
**University Grants Committee** – chairman (2007~)

**Community activities and others**

**Hong Kong Sinfonietta Limited** – governor (2005~)  
**The Cross Straits Youths Exchange Foundation Limited** – vice-chairman of Supervisory Board (2006~)  
**The Hong Kong University of Science and Technology** – honorary member of Court (2006-2007) and member of Council (1998-2006)

**Professional qualification and experience**

**Bachelor of Arts** (University of Wisconsin, USA)  
**Juris Doctor** (Santa Clara University, USA)  
**State Bar of California** (USA)



**CHENG Mo Chi, Moses**  
GBS, JP

INED  
Aged 58

Director since 26 April 2006  
Term of office: 26 April 2006 to  
2008 AGM

Committee/panel memberships in  
HKEx group:  
HKEx – **Audit Committee** and  
**Remuneration Committee**

**Other major  
offices**

**Beijing Capital International Airport Company Limited** – non-executive director (1999~)  
**China COSCO Holdings Company Limited** – non-executive director (2005~)  
**China Mobile Limited** – non-executive director (2003~)  
**China Resources Enterprise, Limited** – non-executive director (2005~)  
**City Telecom (H.K.) Limited** – non-executive director (1997~)  
**Galaxy Entertainment Group Limited** – non-executive director (1996~)  
**Guangdong Investment Limited** – non-executive director (1999~)  
**Kader Holdings Company Limited** – non-executive director (1999~)  
**Liu Chong Hing Investment Limited** – non-executive director (1999~)  
**P. C. Woo & Co** – senior partner (1994~)  
**Shui On Construction and Materials Limited** – non-executive director (2004~)  
**Tian An China Investments Company Limited** – non-executive director (1997~)  
**Towngas China Company Limited** – non-executive director (2007~)

**Past offices**

**COL Capital Limited** – non-executive director (1999-2004)  
**Kingway Brewery Holdings Limited** – non-executive director (1997-2004)  
**Pokfulam Development Company Limited** – non-executive director (1994-2004)  
**Quality HealthCare Asia Limited** – non-executive director (1997-2004)  
**SEHK** – chairman (2005-2006) and deputy chairman (2003-2005) of Listing Committee and GEM Listing Committee, member of Council (1997-2000) and convener of Disciplinary Committee (1997-2000)  
**Stockmartnet Holdings Ltd** – non-executive director (2001-2003)

**Public service**

**Aviation Development Advisory Committee** – member (2005~)  
**Betting and Lotteries Commission** – chairman (2003~)  
**Commission on Strategic Development** – member (2007~), and member of Executive Committee (2005-2007)  
**Consultative Committee on the Core Arts and Cultural Facilities of the West Kowloon Cultural District** – member of Financial Matters Advisory Group (2006-2007)  
**Education Commission** – member (1996-2006)  
**FRC** – member (2006~)  
**ICAC** – chairman of Citizens Advisory Committee on Community Relations and member of Advisory Committee on Corruption (2004~)  
**Legislative Council** – appointed member (1991-1995)

**Community  
activities  
and others**

**Association of China-Appointed Attesting Officers Limited** – member of Council (2002~)  
**Hong Kong Baptist University** – chairman of Council and Court (1997-2006)  
**Hong Kong Sheng Kung Hui** (Anglican Church of Hong Kong) – chancellor (1998~)  
**Opera Hong Kong Limited** – chairman (2003-2007)  
**The Hong Kong Academy for Performing Arts** – deputy chairman of Council (2007)  
**The Hong Kong Institute of Directors** – honorary president (2003~), founder chairman (1997~) and director (1997-2007)

**Professional  
qualification  
and experience**

**Solicitor** (Hong Kong, England, Victoria of Australia, Singapore)  
**Notary Public**  
**China-Appointed Attesting Officer**  
**Fellow** (CPA Australia)



**CHEUNG Kin Tung, Marvin**  
SBS, JP

INED  
Aged 60

Director since 12 April 2005  
Term of office: 26 April 2007  
(re-appointed) to 2009 AGM

Committee/panel memberships in  
HKEx group:  
HKEx – **Audit Committee**  
(chairman), **Risk Management**  
**Committee**, and **Cash Market**  
**Consultative Panel** (deputy  
chairman)

**Other major  
offices**

**Hang Seng Bank Limited** – non-executive director (2004~)  
**HKR International Limited** – non-executive director (2004~)  
**Sun Hung Kai Properties Limited** – non-executive director (2007~)  
**Tracker Fund of Hong Kong** – chairman of Supervisory Committee (2000~)

**Past offices**

**KPMG Hong Kong** (1969-2003: chairman and chief executive officer  
(1996-2003), partner (1974-2003))  
**SEHK** – chairman of Listing Committee and GEM Listing Committee  
(2003-2005)  
**Shui On Construction and Materials Limited** – non-executive director  
(2004-2005)

**Public service**

**Airport Authority Hong Kong** – board member (2003~)  
**Barristers Disciplinary Tribunal Panel** – member (1998~)  
**Exchange Fund Advisory Committee** – member (1991~)  
**Executive Council of the Government of the HKSAR** – non-official member  
(2005~)  
**Greater Pearl River Delta Business Council** – member (2004~)  
**ICAC** – member of Operations Review Committee (2004~)  
**Legislative Council** – appointed member (1991-1995)  
**Panel of the Witness Protection Review Board** – member (2004~)  
**Urban Council** – appointed member (1985-1995)

**Community  
activities  
and others**

**HKICPA** – president (1990)  
**International Accounting Standards Committee Foundation** – trustee  
(2006~)  
**The Hong Kong University of Science and Technology** – vice-chairman of  
Council (2004~)  
**The Open University of Hong Kong** – member of Council (2003~)

**Professional  
qualification  
and experience**

**Fellow** (HKICPA and Institute of Chartered Accountants in England & Wales)  
**Honorary Doctorate in Business Administration**  
(Hong Kong Baptist University)



**FAN Hung Ling, Henry**  
SBS, JP

INED  
Aged 59

Director since 15 November 2003  
Term of office: 26 April 2007  
(re-appointed) to 2009 AGM

Committee/panel membership in  
HKEx group:  
HKEx – **Nomination Committee**

**Other major  
offices**

**Cathay Pacific Airways Limited** – deputy chairman (1997~)  
**CITIC Pacific Limited** – managing director (1992~)

**Public service**

**Advisory Committee on Admission of Quality Migrants and Professionals**  
– chairman (2006~)  
**Advisory Committee on Post-office Employment for Former Chief**  
**Executives and Politically Appointed Officials** – member (2005~)  
**Exchange Fund Advisory Committee** – member (2004~)  
**Executive Council of the Government of the HKSAR** – non-official member  
(2005~)  
**Health and Medical Development Advisory Committee** – member (2005~)  
**Mandatory Provident Fund Schemes Authority** – chairman (2007~)  
**SFC** – deputy chairman of Takeovers and Mergers Panel (2001~) and member  
of Takeovers Appeal Committee (2003~)  
**Standing Committee on Directorate Salaries and Conditions of Service**  
– member (2005-2007)  
**Standing Committee on Disciplined Services Salaries and Conditions of**  
**Service** – chairman (2007~)  
**Standing Committee on Judicial Salaries and Conditions of Service**  
– member (2004~)  
**Zhejiang Province Committee of the Chinese People's Political**  
**Consultative Conference** – member (2003~)

**Community  
activities  
and others**

**HKMA** – deputy chairman of Council (2006~)  
**Hong Kong-United States Business Council** – member (2000~)  
**The University of Hong Kong** – treasurer, and chairman of Finance  
Committee (2002~)  
**Zhejiang Association of Enterprises with Overseas Chinese Investment**  
– deputy chairman (2006~)

**Professional  
qualification  
and experience**

**Barrister-at-Law** (Hong Kong and England & Wales)  
**Attorney and counsellor at Law** (California, USA)  
**Honours degree in Economics and Business Management**  
(The University of Hong Kong)  
**Bachelor of Laws** (University of Beijing, China)



**FONG Hup**  
MH

INED  
Aged 63

Director since 16 April 2003  
Term of office: 26 April 2007  
(re-appointed) to 2009 AGM

Committee/panel memberships in  
HKEx group:

HKEx – **Audit Committee** (deputy chairman), **Executive Committee**, **Panel Member Nomination Committee**, **Risk Management Committee**, and **Clearing Consultative Panel** (chairman)

HKSCC – **Disciplinary Appeals Panel** (chairman)

SEHK – **Disciplinary Committee**

**Other major offices**

**Deloitte Touche Tohmatsu** – senior adviser (2002~)  
**Tracker Fund of Hong Kong** – member of Supervisory Committee (1999~)

**Past offices**

**Deloitte Touche Tohmatsu** – senior assurance and advisory partner (1997-2002)  
**HKSCC** – director (1997-2000)  
**Kwan Wong Tan & Fong** – senior partner (1976-1997)  
**SEHK** – member of Listing Committee (2000-2003 and 1993-1996) and Council (1997-2000)  
**SEOCH** – director (1997-2000)

**Public service**

**Process Review Panel for SFC** – member (2000-2006)  
**Securities and Futures Appeals Tribunal** – member (2003-2007)

**Professional qualification and experience**

**Fellow** (HKICPA and Institute of Chartered Accountants in England & Wales)  
**Bachelor of Business Administration** (Boston University, USA)

Mr Fong has over 35 years of experience in the accounting profession and in the securities industry.



**KWOK Chi Piu, Bill**

INED  
Aged 55

Director since 3 April 2000  
Term of office: 12 April 2005  
(re-elected) to 2008 AGM

Committee/panel memberships in  
HKEx group:

HKEx – **Executive Committee**, **Panel Member Nomination Committee**, **Risk Management Committee**, and **Derivatives Market Consultative Panel** (chairman)

HKFE – **Disciplinary Appeals Committee**

**Other major offices**

**Bloomberg L.P.** – member of Asia Pacific Advisory Board (2006~)  
**HSBC Gyuertzeller Bank AG** – non-executive director (2006~)  
**HSBC Private Bank (Suisse) SA** – non-executive director (2006~)  
**Wing On Company International Limited** – non-executive director (1992~)  
**Wing On International Holdings Limited** – executive director (1991~)  
**Wocom Holdings Limited** – managing director (1992~)

**Past offices**

**HKFE** – director (1991-2000) and vice-chairman (1997-2000)

**Public service**

**Investor Compensation Company Limited** – director (2003-2006)  
**Securities and Futures Appeals Tribunal** – member (2003~)  
**SFC** – member of Takeovers and Mergers Panel (2005~), Takeovers Appeal Committee (2005~) and Investor Education Advisory Committee (2005-2006)  
**Tourism Commission** – member of Tourism Strategy Group (2006~)

**Community activities and others**

**Asian Securities Analysts Federation Inc** – chairman of Executive Committee (2005~)  
**China Mergers & Acquisitions Association** – member of Council (2004~)  
**HKICPA** – member of Investigation Panel A (2005~)  
**Hong Kong Securities Institute** – director (1997-2003 and 2005~) and chairman (1999-2001)

**Professional qualification and experience**

**Bachelor of Science (Chemistry)** and **Bachelor of Arts (Economics)** (Stanford University, USA)  
**Doctor of Philosophy (Biochemistry)** (University of Chicago, USA)

Dr Kwok has over 25 years of experience in the securities and futures industry.



**LEE Kwan Ho, Vincent Marshall**  
Officer of the Order of the Crown  
(Belgium)

INED  
Aged 52

Director since 3 April 2000  
Term of office: 12 April 2005  
(re-elected) to 2008 AGM

Committee/panel memberships in  
HKEx group:  
HKEx – Audit Committee, Executive  
Committee, Nomination  
Committee, Panel Member  
Nomination Committee,  
Remuneration Committee, and  
Cash Market Consultative Panel  
(chairman)  
SEHK – Disciplinary Committee

**Other major  
office**

**Tung Tai Group of Companies** – managing director (1990~)

**Past offices**

**Coopers and Lybrand, Los Angeles & Boston** – certified public accountant  
(1978-1981)  
**HSBC group, Hong Kong & Vancouver** – senior banker (1981-1990)

**Public service**

**Brewin Trust Fund Committee** – member (2006~)  
**Central Policy Unit of the Government of the HKSAR** – part-time member  
(2007~)  
**Correctional Services Children’s Education Trust** – member of Investment  
Advisory Board (2006~)  
**Securities and Futures Appeals Tribunal** – member (2003~)  
**SFC** – member of Academic and Accreditation Advisory Committee  
(2002-2006)

**Community  
activities  
and others**

**Canadian International School of Hong Kong Limited** – chairman (2006~)  
and founding member (1990~)  
**The Institute of Securities Dealers Limited** – chairman (2005~)

**Professional  
qualification  
and experience**

**Fellow** (HKICPA and The Hong Kong Institute of Directors)  
**Graduated Magna Cum Laude in Accounting and International Finance**  
(University of Southern California, USA)  
**Master of Economics** (London School of Economics and Political Science, UK)  
**Certified Public Accountant** (State of California, USA)

Mr Lee has over 25 years of experience in the securities and futures industry and  
has extensive experience in banking, corporate finance and investment.



**LOH Kung Wai, Christine**

INED  
Aged 52

Director since 26 April 2006  
Term of office: 26 April 2006 to  
2009 AGM

Committee/panel memberships in  
HKEx group:  
HKEx – Remuneration Committee,  
and Derivatives Market  
Consultative Panel (deputy  
chairman)

**Other major  
offices**

**Civic Exchange** – chief executive officer and co-founder (2000~)

**Past offices**

**CIM Co Limited** – director (strategic development) (1992-1994)  
**Phibro Energy Hong Kong Limited** – managing director (1990-1991)  
**Philipp Brothers Hongkong Limited** – managing director (1980-1990)

**Public service**

**G8+5 Climate Change Dialogue** – international advisory member (2006~)  
**Legislative Council** – member (1998-2000 and 1992-1997)  
**SFC** – member of Advisory Committee (2001-2007)

**Community  
activities  
and others**

**Asia Society (USA)** – member of International Council (2001~)  
**Association for Sustainable and Responsible Investment in Asia**  
– non-executive director (2002~)  
**Community Business Limited** – non-executive director (2002~)  
**The Hong Kong University of Science and Technology** – member of  
Court (2006~) and Council (1999-2006)

**Professional  
qualification  
and experience**

**Bachelor of Law** (University of Hull, UK)  
**Master of Law, Chinese and Comparative Law**  
(City University of Hong Kong)  
**Doctor of Law, honoris causa** (University of Hull, UK)  
**Named as “Global Leader for Tomorrow”** (World Economic Forum, 1994)  
**Named as “Star of Asia”** (BusinessWeek magazine, 1998 and 2000)  
**Named as “Entrepreneur of the Year”** (Women of Influence, AmCham Hong  
Kong, 2003)  
**Named as “Woman of the Year”** (Hong Kong Business, 2006)  
**Awarded the Peter Bryce award for civic work** (Pacific Circle Consortium, 2004)

Dr Loh has over 25 years of experience in a wide range of industries from  
commodities trading, strategic planning and politics.



**STRICKLAND, John Estmond**  
GBS, JP

INED  
Aged 68

Director since 3 April 2000\*  
Term of office: 26 April 2007  
(re-elected) to 2010 AGM

Committee/panel memberships in  
HKEx group:

HKEx – **Investment Advisory  
Committee** (chairman), and  
**Nomination Committee**

SEHK – **Listing Appeals Committee**  
(deputy chairman), and **Listing  
Nominating Committee**

**Other major  
offices**

**Esquel Holdings Inc** – non-executive director (2001~)  
**Integrated Distribution Services Group Limited** – non-executive director  
(2004~)  
**Yoma Strategic Holdings Ltd** (listed on the Singapore Exchange)  
– non-executive director (2006~)

**Past offices**

**Airport Authority Hong Kong** – board member (1999-2005)  
**HSBC Hong Kong & London** (1971-1998 and 1966-1969)  
**Mass Transit Railway Corporation** – board member (1989-1992)  
**The Hongkong and Shanghai Banking Corporation Limited** – chairman  
(1996-1998)

**Public service**

**Hong Kong Cyberport Management Company Limited** – chairman (2003~)  
**ICAC** – member of Operations Review Committee (2003~)

**Community  
activities  
and others**

**Asia Society** – member of International Council (1996~)  
**Hong Kong Adventure Corps** – member of Council (2000~)  
**Hong Kong Youth Hostels Association** – member of Committee (1999~)  
**Salvation Army** – member of Advisory Board (1980~)  
**The Boys’ and Girls’ Clubs Association of Hong Kong** – member of  
Committee (1980~)  
**The Community Chest of Hong Kong** – board member (2000-2007 and  
1996-1998)  
**The Outward Bound Trust of Hong Kong Limited** – president (1999~)  
**The University of Hong Kong** – member of Council (1996~)

**Professional  
qualification  
and experience**

**Degree in Physics** (Jesus College, University of Cambridge, UK)  
**Honorary Doctorate in Business Administration**  
(City University of Hong Kong)  
**Honorary Doctorate in Technology** (The Hong Kong Polytechnic University)  
**Honorary fellow** (HKMA, Hong Kong Computer Society, The Hong Kong  
Institute of Banker and The University of Hong Kong)

\* Prior to his appointment as Director on 3 April 2000 by the Financial Secretary under the Exchanges and Clearing Houses (Merger) Ordinance (repealed), Mr Strickland was also a member of the Preparatory Board since 8 July 1999. Mr Strickland is currently an Elected Director.



**WEBB, David Michael**

INED  
Aged 42

Director since 15 April 2003  
Term of office: 26 April 2006  
(re-elected) to 2009 AGM

Committee/panel memberships in  
HKEx group:

HKEx – **Audit Committee**,  
**Investment Advisory Committee**  
and **Nomination Committee**

SEHK – **Listing Nominating  
Committee**

**Other major  
office**

**Webb-site.com** – editor (1998~)

**Past offices**

**BZW Asia Limited** – director (1993-1994)  
**Wheelock Capital Limited** – director (1994-1998)

**Public service**

**SFC** – member of Takeovers and Mergers Panel (2001~), Takeovers Appeal  
Committee (2001~) and Public Shareholders Group (2001-2007)

**Community  
activity  
and others**

**Hong Kong Mensa** – chairman (1998-2000)

**Professional  
qualification  
and experience**

**Honours degree in Mathematics** (University of Oxford, UK)  
**Ordinary member** (Hong Kong Securities Institute)  
**Established and funded “Project Poll”** which successfully required blue chip  
companies to count their votes on a poll and stop using the show-of-hands  
system (2003)  
**Established “Project Vampire”** (Vote Against Mandate for Placings,  
Issues by Rights Excepted) (2003)  
**Named as “Star of Asia” in the “Opinion Shapers” category**  
(BusinessWeek magazine, 2000)  
**Named as “Global Leader for Tomorrow”** (World Economic Forum, 2001)  
**Named as one of the “Global 100” who shape finance** (CFO Magazine, 2002)  
**Named as a member of the “Young Global Leaders”**  
(World Economic Forum, 2005)

From 1986 to 1991, Mr Webb was a corporate financier in London. Prior to  
1986, he was a best-selling author of games and books for the first generation  
of home computers. He has published wide-ranging articles on the regulatory  
framework of Hong Kong’s securities markets.



### WONG Sai Hung, Oscar

INED  
Aged 52

Director since 15 April 2003  
Term of office: 26 April 2007  
(re-elected) to 2010 AGM

Committee/panel memberships in  
HKEx group:

HKEx – **Investment Advisory  
Committee** (deputy chairman),  
**Panel Member Nomination  
Committee**, and **Clearing  
Consultative Panel** (deputy  
chairman)

HKSCC – **Disciplinary Appeals Panel**

#### Other major offices

**ARN Asian Enterprise Fund Limited** (listed on the Irish Stock Exchange)  
– non-executive director (2006~)  
**China Enterprise Fund Management Limited** – non-executive director (2007~)  
and executive director (2006-2007)  
**One Asset Management Limited** (Thailand) – non-executive director  
(2001-2005 and 2007~) and executive director (2006)  
**Worldsec Asset Management Limited** – executive director (2008~)

#### Past offices

**BOCI-Prudential Asset Management Limited** – chief executive officer  
(2001-2005)  
**INVESCO Asia Limited** – deputy chief executive (1998)  
**LGT Asset Management Limited** (1977-1998), including LGT, Hong Kong  
(1977-1986), involved in managing equity portfolios with investments in  
the Japanese and other Asia Pacific markets; seconded to run an investment  
management joint venture in Taipei and assisted in starting other similar  
investment management joint ventures of LGT in Thailand, Indonesia and the  
Mainland China (1987-1990); deputy managing director of LGT  
(1990-1994); responsible for LGT's mutual fund marketing operations in  
Canada, a business which he helped to establish in 1994 (1994-1997);  
head of LGT's Asian operations (1998)  
**Prudential Portfolio Managers Asia** – regional managing director  
(1999-2000)

#### Community activity and others

**HKICPA** – member of Investigation Panel A (2005~)

#### Professional qualification and experience

**Higher Diploma in Business Studies (Marketing)**  
(The Hong Kong Polytechnic University)

Mr Wong has over 30 years of experience in the fund management industry.

## Senior Management



**GREINER, Gerald Dale**

Chief Operating Officer  
Aged 51

Joined in May 2004

**Other major offices**

**SEHK** – chief executive  
**HKFE** – chief executive

**Past offices**

**HKEx** – Deputy Chief Operating Officer and Head of Exchange Division (2004-2007)  
**SFC** – senior director of the supervision of markets division (1989-2004)  
**US Securities and Exchange Commission** – various senior executive positions (1984-1989)

**Professional qualification and experience**

**Bachelor of Science in Economics** (Allegheny College, USA)  
**Juris Doctor** (University of Toledo College of Law, USA)



**FOK Kwong Man, Lawrence**

Head of Issuer Marketing  
Aged 58

Joined in February 1992

**Past offices**

**SEHK** – senior executive director of regulatory affairs group (1998); executive director of the listing division (1997); director of the listing division (1994-1997); assistant director of the listing division (1992-1994)  
**SFC** – assistant director of corporate finance (1989-1992)

**Professional qualification and experience**

**Bachelor of Science in Engineering** (The University of Hong Kong)  
**Master of Business Administration** (Columbia University, USA)  
**Master of Arts (Economics) and Master of Science (Statistics)** (Stanford University, USA)

Mr Fok has over 20 years of experience in financial services and securities regulatory work. Before joining SEHK and SFC, he also worked for the Office of the Commissioner for Securities and Commodities Trading of the Government (1983-1985) and other private organisations in areas of corporate finance advisory work, securities dealing, venture capital investment, Mainland China trade and investment management.



**KAO May Loy, Mary**

Chief Counsel and  
Head of Legal Services  
Aged 58

Joined in July 1990

**Past offices**

**International Bank of Asia Limited** – general counsel, head of the legal affairs group (1985-1990)  
**Sun Hung Kai Group** – general counsel, head of the legal and secretarial department (1981-1985)  
**American International Assurance Company, Limited** – assistant general counsel, assistant vice president and secretary (1978-1981)  
In private practice as a barrister (1975-1978)

**Professional qualification and experience**

**Bachelor of Laws** (The University of Hong Kong)  
**Bachelor of Civil Law** (University of Oxford, UK)  
**Diploma in Chinese Law** (University of East Asia, Macau)  
**Barrister-at-Law** (Hong Kong and England & Wales)  
**Barrister and solicitor** (the Australian Capital Territory)

Ms Kao has about 30 years' legal experience in the financial services industry and significant experience in corporate regulatory matters.





### LAW Man Wai, Henry

Head of Corporate Communications  
Aged 53

Joined in January 1988

#### Past offices

**Ogilvy and Mather Public Relations (Hong Kong) Limited**  
– senior consultant and group head of the public relations section for financial institutions and listed companies (1982-1988)  
**Michael Stevenson Limited** – advertising and public relations executive (1974-1982)

#### Professional qualification and experience

Mr Law worked in advertising, marketing and corporate communications profession for over 30 years and has extensive experience in communications in financial institutions and utilities.



### SHING Shin Cheung, Stewart

Head of Clearing and  
Acting Head of Risk Management  
Aged 60

Joined in December 2003

#### Other major office

**HKSCC** – chief executive

#### Past offices

**South China Brokerage Company Limited** – executive director and chief executive (2001-2003)  
**HKEx** – first head of clearing business unit (2000)  
**HKSCC** – chief executive (1996-2000); director of planning and development and deputy chief executive (1991-1996)

#### Community activities and others

**Asia-Pacific Central Securities Depository Group** – founding member (1997)  
**Examinations Committee of Hong Kong Securities Institute** – member  
**Professional Education Committee of Hong Kong Securities Institute** – member (2005)  
**The Hong Kong Association of Online Brokers representing South China Brokerage Company Limited** – chairman (2002-2003)  
**The International Securities Services Association** – board member (1999)

#### Professional qualification and experience

**Fellow (HKICPA)**  
**Master of Business Administration** (University of New South Wales, Australia)

Mr Shing has more than 30 years of securities operations and business management experience. He has worked in several major international and local financial institutions where he has been responsible for planning and development, securities operations, system development and auditing.

Mr Shing has served as a member of working groups for various regulatory bodies and stockbroking associations in Hong Kong.



Past offices

**The Hong Kong and Shanghai Banking Corporation Limited**  
– managing director for corporate finance and advisory, Asia-Pacific  
(1997-2004)  
**SEHK** – deputy head of corporate finance in the listing division (1992-1997)

Professional qualification and experience

**Fellow** (HKICPA and Association of Chartered Certified Accountants)  
**Bachelor of Science in Management Sciences** (University of Manchester, UK)

Mr Tsim has more than 15 years' experience in corporate finance.

**TSIM Tak Chee, Archie**

Chief Financial Officer and  
Head of Finance and Administration  
Aged 49

Joined in October 2004



Past offices

**Financial Services Authority, UK** – head of listing policy and compliance  
(2000-2002)  
**London Stock Exchange (“LSE”)** – head of listing policy (1999-2000)

Professional qualification and experience

**Fellow** (Institute of Chartered Accountants in England & Wales)  
**Bachelor of Arts in Economics and Economic History**  
(University of Warwick, UK)

Before moving to the LSE, Mr Williams was with PricewaterhouseCoopers.

**WILLIAMS, Richard George**

Head of Listing  
Aged 45

Joined in October 2002



### WONG Kwok Kuen, Alfred

Chief Technology Officer and  
Head of Information Technology  
Aged 51

Joined in November 1992

#### Past offices

**Australia's Westpac Banking Corp** – consultant application engineer  
(1988-1992)

**Australian Stock Exchange** – project leader (1987-1988)

**SEHK** – computer development manager (1985-1987)

#### Professional qualification and experience

**Full member** (Hong Kong Computer Society)

**Ordinary member** (Hong Kong Securities Institute)

**Bachelor of Science in Computer Science and Chemistry**  
(The University of Hong Kong)

**Graduate Management Qualification**  
(University of New South Wales, Australia)

**Executive Master of Business Administration**  
(The Chinese University of Hong Kong)

## Company Secretary



### MAU Kam Shing, Joseph

Company Secretary and  
Head of Secretarial Services  
Aged 49

Joined in June 2000

#### Past office

**Hysan Development Company Limited** – company secretary (1988-2000)

#### Community activities and others

**Appeal Tribunal of HKICS** – member

**Company Secretaries Panel of HKICS** – member

**CPD Points Panel of HKICS** – member

**Professional Development Committee of HKICS** – member

#### Professional qualification and experience

**Fellow** (HKICS, The Institute of Chartered Secretaries and Administrators, and  
Association of Chartered Certified Accountants)

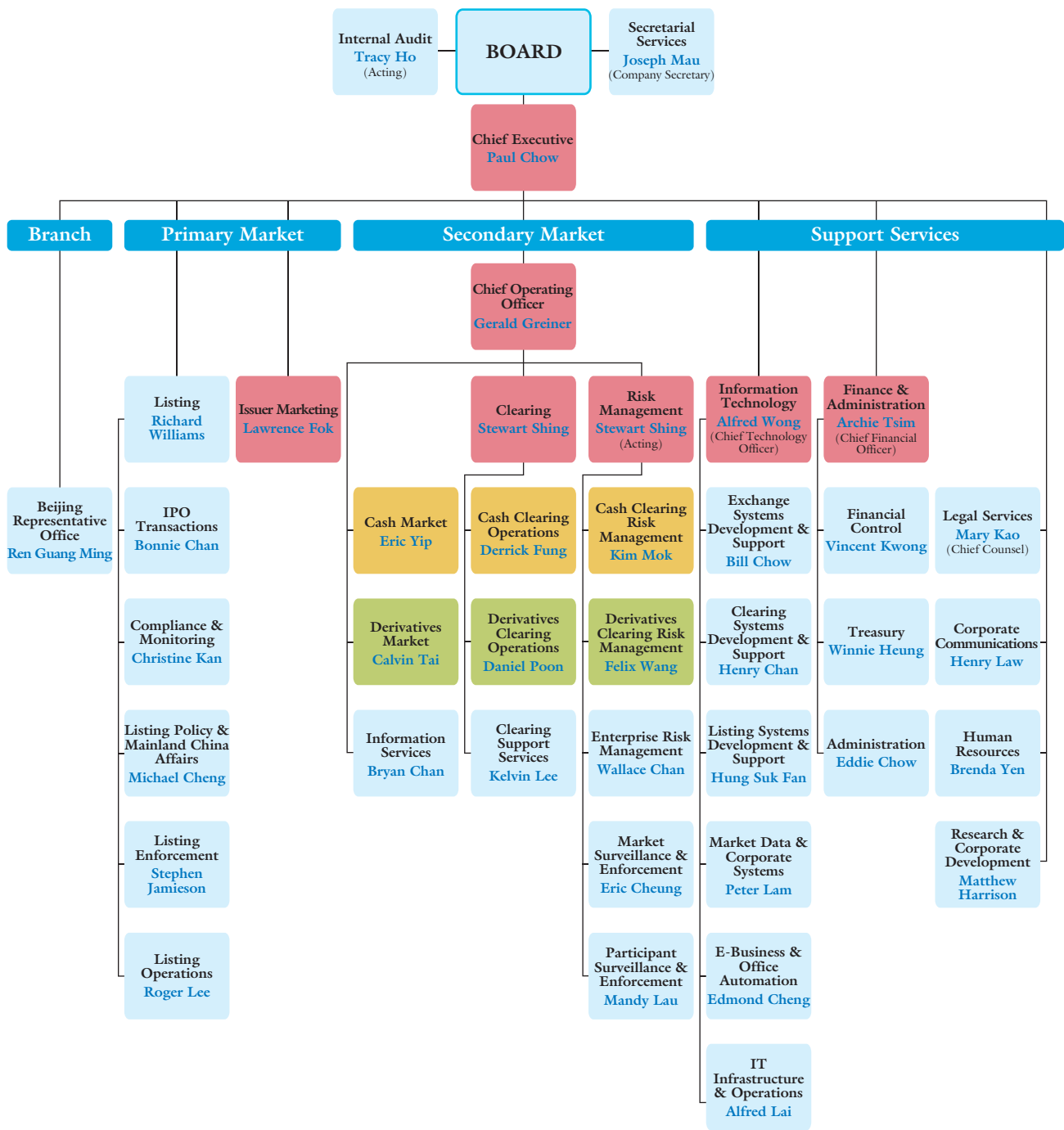
**Associate** (HKICPA, Institute of Chartered Accountants in England & Wales)

**Master of Science (Business Administration)** (University of Bath, UK)

**Master of Laws in Corporate and Financial Laws**  
(The University of Hong Kong)

Messrs Gerald D Greiner, Lawrence K M Fok, Stewart S C Shing, Archie T C Tsim and Ms Mary M L Kao also hold position as a director in one or more of the Group's subsidiaries.

# ORGANISATION CHART



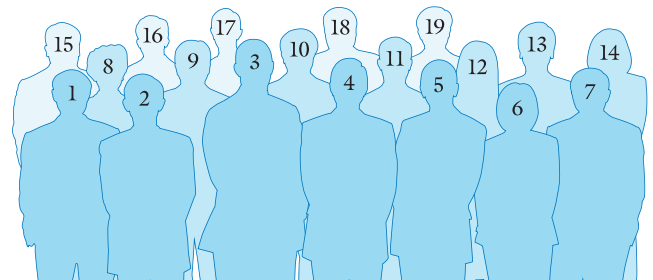
■ Members of HKEx Senior Management Committee

■ Cash Market business development, operations and risk management functions

■ Derivatives Market business development, operations and risk management functions



- |                     |                      |
|---------------------|----------------------|
| 1. Eric Yip         | 11. Bryan Chan       |
| 2. Stewart Shing    | 12. Bonnie Chan      |
| 3. Richard Williams | 13. Joseph Mau       |
| 4. Paul Chow        | 14. Christine Kan    |
| 5. Archie Tsim      | 15. Henry Law        |
| 6. Mary Kao         | 16. Eddie Chow       |
| 7. Lawrence Fok     | 17. Matthew Harrison |
| 8. Brenda Yen       | 18. Gerald Greiner   |
| 9. Alfred Wong      | 19. Calvin Tai       |
| 10. Ren Guang Ming  |                      |



# BUSINESS REVIEW

## Listing

### Opening of Listing Regime

On 7 March 2007, SEHK and the SFC published a Joint Policy Statement Regarding the Listing of Overseas Companies. The policy statement is aimed at facilitating the listing of overseas companies on the Main Board or GEM by clarifying the listing requirements governing the listing of companies incorporated outside Hong Kong or the recognised/approved jurisdictions (Mainland China, Bermuda, the Cayman Islands, Australia and Canada (British Columbia)) and providing guidance for overseas companies to seek a listing in Hong Kong.

As an extension of this initiative, HKEx is studying the possible introduction of a mechanism that would allow issuers to list depository receipts on the Exchange within the existing Listing Rules framework subject to modification, if necessary.

### Enhanced Transparency in Listing Enforcement Settlement Policy

As part of the Exchange's efforts to improve the transparency and efficiency of its enforcement actions, SEHK published a statement on 22 June 2007 outlining the Exchange's approach towards, and criteria for, settlement of disciplinary matters involving breaches of the Listing Rules, and the settlement procedures.

### Implementation of EDP

Phase I of the initiative for straight-through electronic disclosure commenced successfully on 25 June 2007. During Phase I, which ended on 24 December 2007, Main Board issuers were required to publish a notification of an announcement in newspapers in addition to making the announcement available to investors on the HKEx website.

Phase II commenced on 25 December 2007 during which Main Board issuers with their own websites are no longer required to publish notifications in newspapers, but a Main Board issuer without its own website is still required to publish the full announcement in newspapers as well as on the HKExnews website. From 25 June 2008, every issuer must have its own website through which the public is able to access published announcements free of charge.

The electronic disclosure regime provides the foundation for further potential developments such as real time electronic disclosure during trading hours. As a first step, the Exchange announced on 1 February 2008 transitional arrangements that allow issuers to publish all types of announcements, not only financial results announcements, during the lunchtime publication window between 12:30pm to 2:00pm. Consequently, investors will have at least half an hour to evaluate the contents of announcements published during the lunchtime window prior to the beginning of the afternoon trading session at 2:30pm. Furthermore, an issuer's securities would not be subject to suspension if that issuer publishes an announcement containing price sensitive information between 6:00am and 9:00am or during the lunchtime publication window.

To strengthen Hong Kong's market infrastructure for issuer disclosure, the Exchange launched the HKExnews website ([www.hkexnews.hk](http://www.hkexnews.hk)), a new website designated for regulatory filings of Hong Kong listed issuers on 4 February 2008. The bilingual website with separate Internet infrastructure from the HKEx website provides latest regulatory announcements and documents published by listed issuers in accordance with the Listing Rules or Part XV-DI of the SFO. It also maintains a depository of archived regulatory filings made by Hong Kong listed issuers since 1999 for public retrieval free of charge.

### **GEM Review**

On 27 July 2007, SEHK released a consultation paper on GEM to invite comments on the proposals to further develop GEM as a second board. A total of 11 submissions had been received, which were posted on the HKEx website in November 2007. The consultation conclusions and the rule amendments will be published in 2008.

### **Survey of Corporate Governance Practices**

At the end of July 2007, SEHK sent a questionnaire to all listed issuers as part of its review of compliance with the CG Code of the Listing Rules. A report on implementation of corporate governance practices was published on 29 February 2008, following which the Exchange shall conduct a review of the CG Code to identify areas for enhancement.

### **Consultation Paper on Periodic Financial Reporting**

SEHK released a consultation paper on Periodic Financial Reporting on 31 August 2007. The paper sets out SEHK'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 conclusions will be published in due course.

### **WPIP**

On 5 November 2007, SEHK and the SFC published a joint policy statement on a pilot scheme for posting a WPIP. The posting of WPIPs principally seeks to address the apparent inequality of information between institutional and retail investors by providing members of the public information about a listing applicant and its business at an earlier stage in the listing process. Effective 1 January 2008, a WPIP is required to be submitted to the Exchange for posting on the HKEx website before information about the listing applicant is first provided to institutional investors. The requirement will be codified in the Listing Rules following completion of the pilot scheme.

### **Facilitating Listing of Structured Products**

In December 2007, SEHK announced measures to facilitate the listing of a wider range of MAPs. Generally, MAPs are structured products issued over a security listed on an overseas exchange, a commodity asset or a derivative contract, or an index based on any of the foregoing.

The list of overseas exchanges recognised for the purposes of issuing structured products was expanded from 33 to 66, covering all members of the WFE and certain other exchanges. The duration of MAPs can range from three months to perpetual through a rollover mechanism every five years subject to maintaining the required credit rating. If the issuer does not meet the requirement, the structured product will expire and investors will be paid out in accordance with a pre-determined settlement formula.

### **Combined Consultation Paper**

In an effort to maximise the efficiency with which the Exchange consults the market, SEHK published on 11 January 2008 a Combined Consultation Paper which sets out 18 substantive corporate governance and other policy issues that the Exchange would wish to seek market input. The consultation period will end on 7 April 2008.

## IPO Processing

In 2007, a total of 154 listing applications were vetted, of which 125 were new applications and 29 applications were brought forward from 2006. A total of 106 first comment letters were issued to new listing applicants. The average time between receipt of an application and the issuance of the first comment letter and the median both were 21 calendar days (2006: 20 calendar days), and 99 per cent (2006: 95 per cent) of the listing applicants received the first comment letter within 31 calendar days.

In 2007, a total of 105 applications (2006: 75 applications) were brought to the Listing Committees (or their delegates) for decisions, of which 80 cases (76 per cent) (2006: 75 per cent) were reviewed by the respective Listing Committees (or their delegates) within 120 calendar days, while eight cases (8 per cent) (2006: 12 per cent) were reviewed in more than 180 calendar days.

Seventy-nine requests for guidance from listing applicants or their advisers seeking clarifications of the Listing Rules relevant to new listing applications were responded to in 2007. Written responses were made within 60 calendar days with 97 per cent (2006: 90 per cent) were responded within 25 calendar days.

To cultivate a more effective and flexible regulatory environment, the Listing Committees, at the July 2006 policy meeting, endorsed proposals giving the Listing Division additional flexibility in presenting listing applications to the Listing Committees after such cases have been reviewed by the Listing Division for at least 50 business days and upon satisfaction of certain conditions set out in the Listing Committee Annual Report 2006. In 2007, seven cases were presented to the Listing Committees for consideration under these circumstances.

## IPO Transactions

	2003	2004	2005	2006	2007
Number of New Listing Applications Accepted	101	130	111	88	125
Number of Applicants Listed on Main Board	46	49	57	56*	82*
Number of Applicants Listed on GEM	27	21	10	6	2
Number of New Listing Applications Rejected	7	15	5	7	0
Number of Applications in Process as at Year-end	51	44	32	29	42
Number of Applicants with Approval Granted but Not Yet Listed at Year-end	8	7	6	6	9

\* Excluding investment vehicles listed under Chapter 20 of the Main Board Listing Rules and including two and four companies delisted from GEM which were subsequently listed on Main Board in 2006 and 2007 respectively

## Number of Listed Companies (as at year-end)

	2003	2004	2005	2006	2007
Main Board	852	892	934	975	1,048*
GEM	185	204	201	198	193#
Total	1,037	1,096	1,135	1,173	1,241

\* Nine companies delisted from Main Board and including four companies delisted from GEM which were subsequently listed on Main Board

# Seven companies delisted from GEM



**Main Board – Number of Listed Companies\* (as at year-end)**

	2005	2006	2007
Energy	17	19	26
Materials	53	60	73
Industrial Goods	80	88	102
Consumer Goods	269	279	288
Services	135	139	157
Telecommunications	15	14	16
Utilities	18	18	17
Financials	94	96	96
Properties & Construction	148	155	162
Information Technology	78	82	85
Conglomerates	26	25	26
<b>Total</b>	<b>933<sup>#</sup></b>	<b>975</b>	<b>1,048</b>

\* The classification was made according to the Hang Seng Industry Classification System provided by Hang Seng Indexes Company Limited.

# Excluding the Participating Preference Shares of The Thai Asset Fund Ltd

**Compliance and Monitoring**

Year 2007 witnessed significant increases in listed company activities and SEHK has continued to target its monitoring resources in areas which pose the greatest risks to the maintenance of a fair, orderly and informed market, for instance, disclosure of price sensitive information and corporate governance issues.

**Compliance and Monitoring Actions (as at year-end)**

	2003	2004	2005	2006	2007
Number of Announcements of Listed Companies Vetted	8,938	9,092	11,092	11,579	19,025
Number of Circulars of Listed Companies Vetted	1,773	1,919	2,409	2,488	3,048
Number of Share Price and Trading Volume Monitoring Actions Undertaken	8,305	6,116	6,200	7,716	10,083
Number of Clarification Announcements Published by Listed Companies in Response to Share Price and/or Trading Volume Movements in their Securities	3,801	3,383	3,172	3,556	5,597
Number of Complaints Handled	170	213	262	252	512
Number of Cases (including Complaint Cases) referred to the Listing Enforcement Department for Investigation	21	57	88	141	90

In 2007, out of the approximately 19,000 announcements vetted, more than 8,200 announcements or 43 per cent were post-vetted (2006: more than 4,100 announcements or 36 per cent). Additionally, announcements issued pursuant to enquiries on unusual share price and volume movements in the trading of securities (2007: 5,600, 2006: 3,500) are subject to post-vetting. In order to focus its regulatory resources on matters that pose a higher risk to Listing Rules compliance, SEHK is consulting the market on proposed amendments to the Listing Rules to cease pre-vetting of all announcements, with the objective of shifting its regulatory focus from pre-vetting towards post-vetting monitoring and enforcement.

In 2007, a total of more than 10,000 share price and trading volume monitoring actions were taken (2006: 7,700), and over 58,000 press articles on listed companies were reviewed (2006: 5,000).

As part of an ongoing process to improve efficiency and the effective use of resources, modified benchmarks applied to determine the appropriate cases referred to the Listing Enforcement Department were put in place during 2007.

Where the facts of a case of possible breach rest upon conduct, which gives rise to potentially serious implications for shareholders and the market, referrals to the Listing Enforcement Department were and will continue to be made for investigation. The Listing Enforcement Department may then initiate appropriate formal disciplinary proceedings before the Listing Committees and take other regulatory action as may be considered appropriate. The Compliance and Monitoring Department has and will continue to resolve cases of non-compliance where the facts do not have significant regulatory impact. The Compliance and Monitoring Department has provided guidance to listed companies on Listing Rules compliance by way of the issuance of 250 written guidance letters to listed companies in 2007. As a result of this change in practice, the number of cases referred from the Compliance and Monitoring Department to the Listing Enforcement Department for more formal and detailed investigation has decreased from 141 in 2006 to 90 in 2007.

### Status of Long Suspended Companies (as at year-end)

	Main Board		GEM	
	2007	2006	2007	2006
Resumption of Trading of Company Securities	16	12	7	4
Cancellation of Listing of Companies	2	2	2	4
Number of Companies under Third Stage of Delisting	7	2	N/A	N/A
Number of Companies being Notified of Exchange's Intention to Cancel their Listing	1	0	2	7
Number of Companies being Suspended for Three Months or More	30	37	15	20

### Listing Enforcement

In 2007, a number of investigations arising from serious breaches of the Listing Rules were completed leading to the imposition of public and private sanctions by the Listing Committees. The relevant public criticisms, statements and censures can be found on the HKEx website.

Continuing a theme established in earlier years, recommendations have been made to the Listing Committees in appropriate cases to direct the correction of breaches and to improve corporate governance. Such directions covered, for example, the obligation to retain external assistance in the creation or revision of compliance structures. In some cases, the Listing Committees also required directors to undergo training to improve their knowledge of, and performance in, compliance matters, or required the listed issuers to take remedial action to rectify breaches of the rules.

### Disciplinary Actions (as at year-end)

	2003	2004	2005	2006	2007
Number of Investigations	178	201	232	216	167*
Number of Public Censures	4	5	10	9	9
Number of Public Statements/Criticisms	8	14	8	11	7
Number of Private Reprimands	3	3	3	2	0
Number of Warning/Caution Letters	134	161	109	96	63

\* Including cases investigated and concluded in 2007 and those initiated in 2007 but yet to be concluded

In 2007, 11 cases were referred to the Listing Enforcement Department originating from a complaint, which might give rise, after investigation, to disciplinary proceedings. Of the 11 cases investigated, two were discontinued with no further action taken.

## Listing Operations

The Listing Operations Department was established on 14 February 2007 to support the implementation of listing-related initiatives such as issuer regulatory filings and dissemination, automation of the IPO process, development and on-going regulation of debt and structured products and collaboration with the Shanghai and Shenzhen Stock Exchanges on projects concerning primary and secondary market regulation and operations.

During the year, a total of 7,025 DW listing applications were processed (2006: 3,094), of these 6,312 were new issues (2006: 2,823) and 713 were further issues (2006: 271). The Listing Operations Department also processed 391 listing applications for CBBCs during the year, compared to 83 for 2006. A total of 26 new debt securities, including issues of Exchange Fund Notes, were listed in 2007.

### Listing of DWs (as at year-end)

	2003	2004	2005	2006	2007
Number of Newly Listed DWs	678	1,259	1,682	2,823	6,312
Number of Further Issues of DWs	68	129	144	271	713
Number of Delisted DWs	495	926	1,241	2,168	3,788
Number of DWs Listed as at Year End	530	863	1,304	1,959	4,483
Percentage increase in Number of Listed DWs	53%	63%	51%	50%	129%

### Listing of CBBCs\* (as at year-end)

	2006	2007
Number of Newly Listed CBBCs	83	391
Number of CBBC knockouts	48	250
Number of Delisted CBBCs	11	34
Number of CBBCs Listed as at Year End	24	131
Percentage increase in Number of Listed CBBCs	N/A	446%

\* The first CBBC was listed on 12 June 2006.

### Primary Market Information\* (as at year-end)

	2003	2004	2005	2006	2007
Number of Issuer News Filings Processed	62,301	75,620	81,692	94,666	120,622
Percentage Increase in Issuer News Filings	19%	21%	8%	16%	27%
Hit Rates for Issuer News (in millions)	22.2	35.7	58.7	94.1	151.4
Number of DI Filings Processed by the Exchange	29,753	32,396	32,315	38,809	62,211
Percentage Increase in DI Filings	109%	9%	0%	20%	60%
Hit Rates for DI Filings (in millions)	5.4	9.2	9.2	13.3	31.1

\* Primary Market Information statistics cover Main Board and GEM Board issuers. Due to technical setup and recording, hit rates for issuer news between 2003 and 2005 included those of Main Board only. For reference, hit rates for GEM issuer news in 2006 and 2007 were 8.62 and 8.57 million respectively.

During the year, the Latest Listed Company Information section remained one of the most popular sections on the HKEx website. A total of 120,622 issuer news items were submitted and published on this section of the HKEx website, including 102,153 disclosures issued by Main Board listed issuers and 18,469 disclosures by GEM listed issuers. The majority of issuer submissions were uploaded within two seconds. During the year, the HKEx website recorded over 150.7 million page views for Latest Listed Company Information (excluding visitors accessing IPO allotment results announcements).

Up to the end of 2007, the HKEx website housed a total of 560,490 archived issuer documents for public access free of charge. During the year, it recorded approximately 25 million searches for these issuer documents. Since 25 June 2007 when HKEx started to capture statistics on response times to search requests, 80 per cent of searches conducted generated the search results within 0.37 second (excluding the Internet transmission time which is beyond HKEx's control).

HKEx also administers the filing and publication of DI notices through the HKEx website in accordance with the SFC requirements and specifications under Part XV of the SFO. During the year, a total of 62,211 DI filings were submitted and published on the HKEx website. Over 31 million page views for these notices were recorded in 2007.

## Issuer Marketing

### Overseas and local promotional activities

In 2007, intensive efforts were made to promote Hong Kong listings beyond Hong Kong and the Mainland. During the year, about 30 trips were arranged to other parts of Asia, including Japan, Malaysia, Singapore, South Korea, Taiwan, Thailand and Vietnam, and other countries namely India, Kazakhstan, Russia, Mongolia and the US.

Moreover, six conferences were co-organised in Hong Kong and overseas to promote listing in Hong Kong. The former Secretary for Financial Services and the Treasury of the Government, Mr Frederick Ma, and the Secretary for Financial Services and the Treasury of the Government, Professor KC Chan respectively gave keynote speeches at the Almaty conference and the Ho Chi Minh City conference. In each of these two conferences, about 50 representatives from Hong Kong financial services firms were invited to share their experiences in conducting IPOs.

Date	Place	Event/Joint Organiser(s)	Number of Attendees
17 Apr	Hong Kong	Listing in Hong Kong Seminar for Korean Companies/ Korean Chamber of Commerce	40
3 May	Hong Kong	Listing in Hong Kong Seminar/ City University of Hong Kong, Hong Kong Baptist University, Hong Kong Science & Technology Parks, The Chinese University of Hong Kong, The Hong Kong Polytechnic University, The Hong Kong University of Science and Technology, and The University of Hong Kong	120
11 May	Almaty, Kazakhstan	Kazakhstan-Hong Kong Conference – IPO in Hong Kong/ Agency of the Republic of Kazakhstan on Regulation of Activities of the Regional Financial Centre of Almaty City and The Consulate General of the Republic of Kazakhstan (HKSAR/Macau SAR)	200
13 Jun	Hong Kong	Listing in Hong Kong Conference for Japanese Companies/ An accountancy firm	54
14 Sep	Hong Kong	Listing in Hong Kong Conference for Taiwanese Companies/ Taiwan Business Association of Hong Kong	180
23 Nov	Ho Chi Minh City, Vietnam	IPO in Hong Kong Conference/ State Securities Commission of Vietnam	320

HKEx also strengthened ties with financial authorities and stock exchanges in more places by entering into a number of MOUs on cooperation and exchange of information. These included the MOUs with the Abu Dhabi Securities Market, the Moscow Interbank Currency Exchange, the Hochiminh Stock Exchange and the Mongolian Stock Exchange.

### Translation of “Listing in Hong Kong” Brochure

To facilitate marketing efforts, HKEx translated its listing information booklet “Listing in Hong Kong” into Japanese, Korean, Russian as well as Vietnamese. By providing listing information in more languages, HKEx aims to acquaint potential companies from more jurisdictions with the listing requirements for the Main Board and GEM.

### Training Programmes on Listing Requirements

During the year, HKEx organised three training programmes in Hong Kong with The Hong Kong Polytechnic University and the Hong Kong & Macau Research Centre of the State Council Hong Kong and Macau office. The training programmes targeted accounting and finance senior management of H-share companies, and covered corporate governance areas and the latest rules and regulations relating to listing in Hong Kong.

## Beijing Representative Office

### Promotional Activities in the Mainland

As noted in our business strategies, to partner with the Mainland is always our principal focus. In 2007, HKEx continued its efforts to attract both state-owned and privately owned enterprises in the Mainland to list in Hong Kong. During the year, HKEx organised five major seminars and roundtable meetings in various provinces in the Mainland.

Date	Place	Event/Joint Organiser(s)	Number of Attendees
25 Apr	Guangzhou, Guangdong Province	Listing in Hong Kong Conference & Roundtable Meeting in Guangzhou (粵企赴港上市融資洽談會及圓桌會議) / Various Guangdong Provincial Government departments	320
9 Jun	Changsha, Hunan Province	Pan PRD Financial Services Forum-Listing Conference (泛珠三角區域金融合作論壇 – 企業境內外上市推介會) / Governments of Pan PRD Provinces	260
2 Sep	Changchun, Jilin Province	Fund-raising and Listing in Hong Kong Conference (創業融資及香港上市研討會) / Secretariat of the Executive Committee for the China Jilin-Northeast Asia Investment and Trade Expo	180
4 Sep	Hohhot, Inner Mongolia	Fund-raising and Listing in Hong Kong Conference & Roundtable Meeting (創業融資及香港上市研討會) / Inner Mongolia Autonomous Region People’s Government Financial Office	210
9 Nov	Dongguan, Guangdong Province	Listing in Hong Kong Roundtable Meeting (香港上市圓桌會議) / China Council for the Promotion of International Trade Dongguan Branch	80

The marketing trips to promote Hong Kong listings in Changchun and Hohhot in September 2007 were led by our Chairman with over 50 representatives from 27 Hong Kong intermediaries participating. They included senior executives from investment banks, accountants, lawyers and venture capitalists.

To attract more quality companies to list in Hong Kong, over 70 marketing trips were made to different parts of the Mainland, including Beijing, Changsha, Chengdu, Foshan, Guangzhou, Hefei, Nanchang, Shanghai, Taicang, Xi'an, and Zhenjiang. One-on-one meetings were arranged with potential issuers. In addition, HKEx has been working to build a closer relationship with the regulators and local government officials in the Mainland.

### Training Programmes to Mainland issuers

During the year, HKEx conducted four training programmes in Beijing and Shanghai for the senior management of Hong Kong-listed Mainland issuers to familiarise them with their on-going listing obligations and the importance of good corporate governance.

## Cash Market

### Market Performance

In 2007, 82 companies were newly listed on the Main Board and two companies on GEM. Total capital raised, including post-listing funds, reached \$590.4 billion. As at 31 December 2007, 1,048 and 193 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about \$20,697.5 billion. In addition, there were 4,483 DWs, seven REITs, 17 ETFs, 131 CBBs and 175 debt securities listed as at the end of 2007. Average daily turnover in 2007 was about \$87.4 billion on the Main Board and about \$647 million on GEM.

### New Records Set in 2007

	2007		Pre-2007 Record	
Market Capitalisation*	\$23,197.0 bil	30 Oct	\$13,339.9 bil	28 Dec 2006
HSI	31638.22	30 Oct	20001.91	28 Dec 2006
H-shares Index	20400.07	30 Oct	10363.28	28 Dec 2006
S&P/HKEx LargeCap Index	38585.09	30 Oct	24446.59	28 Dec 2006
	2007		Pre-2007 Record	
Total Market Turnover	\$21,665.5 bil		\$8,376.3 bil	Year 2006
Average Daily Turnover	\$88.1 bil		\$33.9 bil	Year 2006
Single Day Turnover	\$210.5 bil	3 Oct	\$79.0 bil	28 Aug 1998
Single Month Turnover	\$3,487.3 bil	Oct	\$1,082.1 bil	Nov 2006
Trading Turnover of H-shares	\$7,772.5 bil		\$2,536.6 bil	Year 2006
Trading Turnover of DWs	\$4,693.9 bil		\$1,790.1 bil	Year 2006
Total Equity Capital Raised #	\$590.4 bil		\$524.5 bil	Year 2006
Number of Newly Listed DWs	6,312		2,823	Year 2006

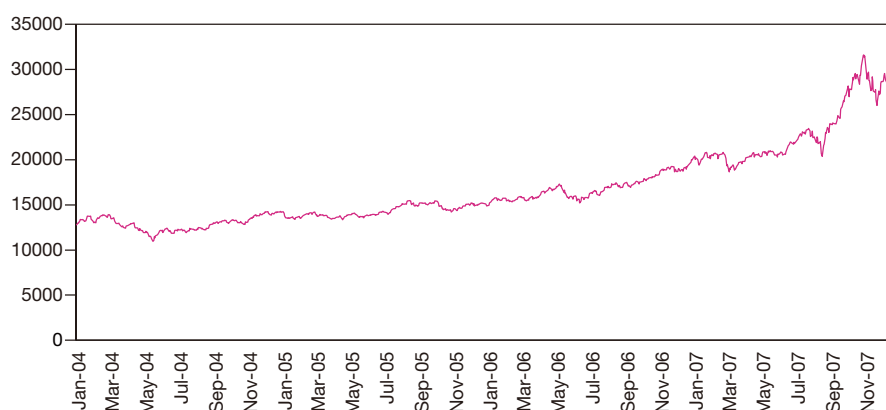
\* Representing the total market capitalisation of all equity securities listed on Main Board and GEM and excluding other listed securities such as REITs, government bonds and trading only stocks under pilot programmes

# Excluding funds raised by REITs, which are classified as Unit Trusts

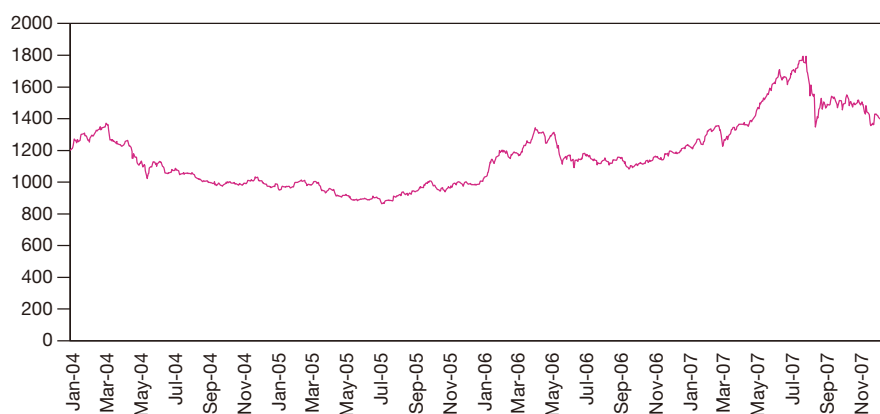
## Closing Indices (as at year end)

	2007	2006	Change
S&P/HKEx LargeCap Index	33708.99	24378.76	38%
HSI	27812.65	19964.72	39%
Hang Seng Composite Index	3935.37	2802.68	40%
H-shares Index	16124.72	10340.36	56%
Hang Seng China-affiliated Corporations Index	6111.20	3330.06	84%
S&P/HKEx GEM Index	1349.64	1224.67	10%

HSI (01/2004 – 12/2007)



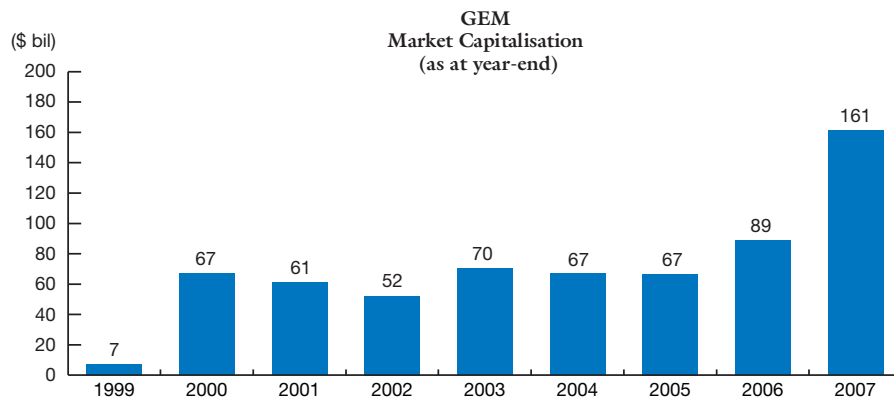
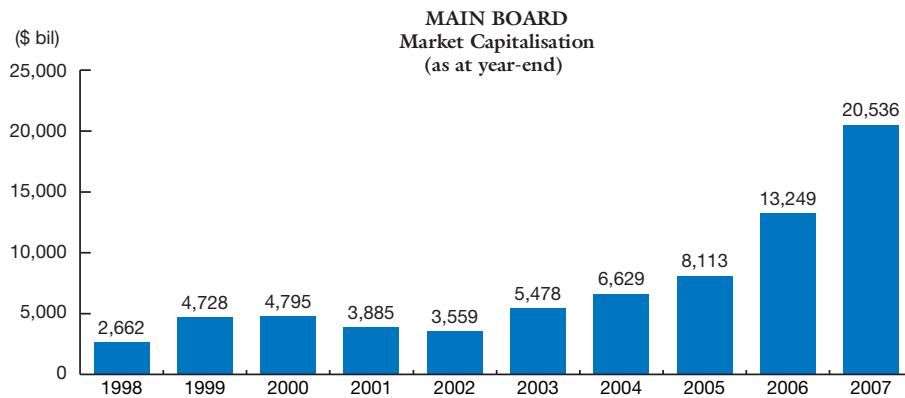
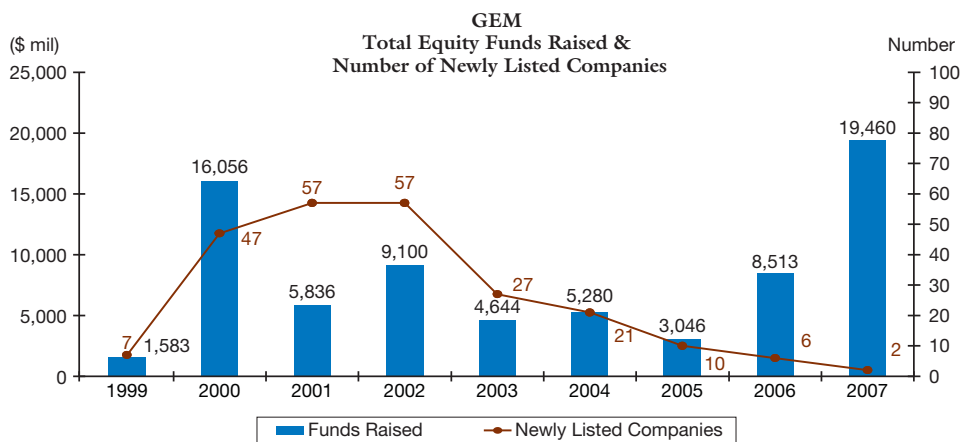
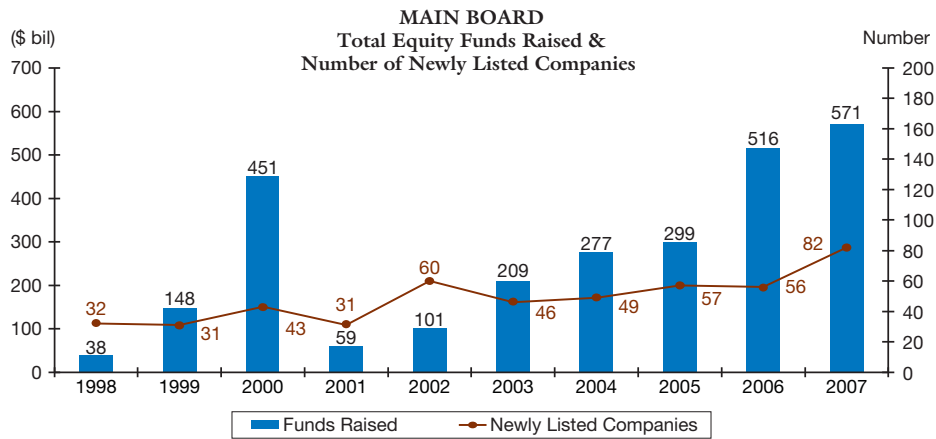
S&amp;P/HKEx GEM Index (01/2004 – 12/2007)



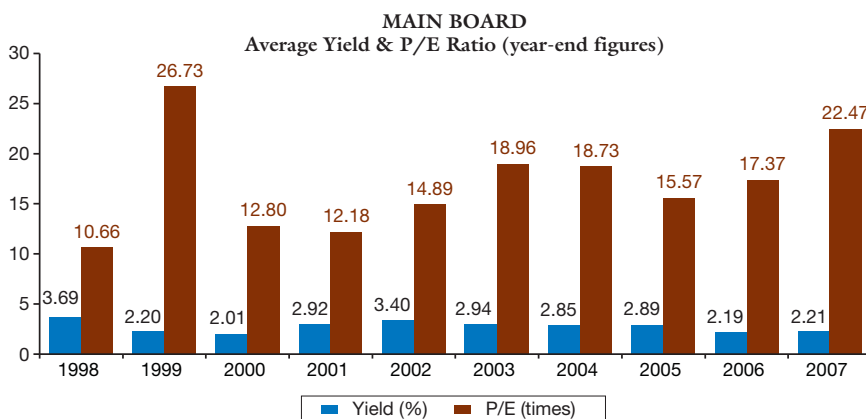
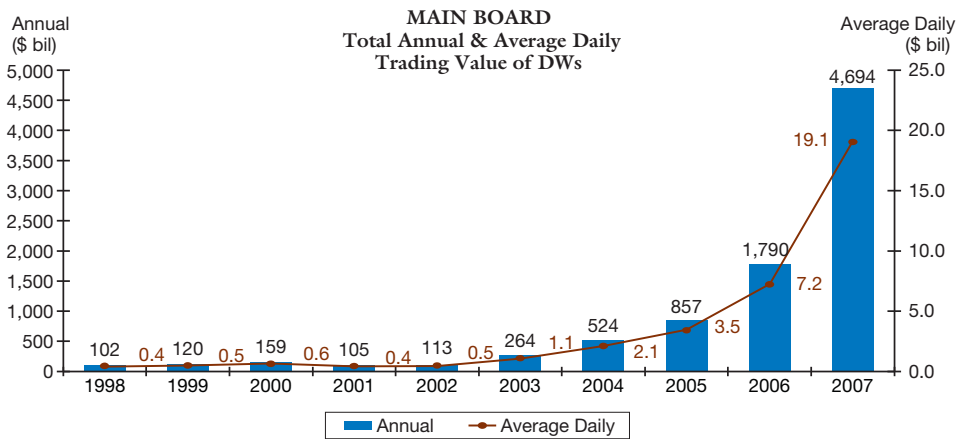
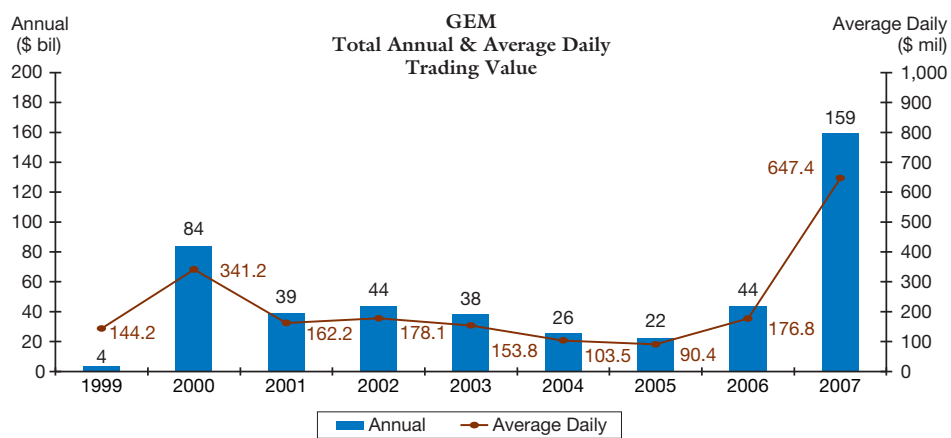
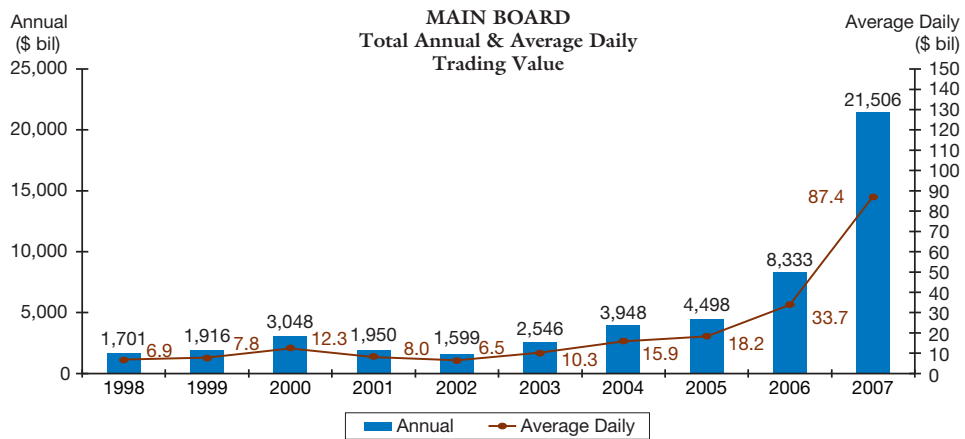
## Market Performance of Main Board and GEM (as at year-end)

	Main Board			GEM		
	2007	2006	Change	2007	2006	Change
IPO Funds Raised in 2007 (\$bil)	290	332	-13%	2	2	0%
Market Capitalisation (\$bil)	20,536	13,249	55%	161	89	81%
Number of Listed Companies	1,048	975	7%	193	198	-3%
Number of Listed Securities	5,896	3,184	85%	196	199	-2%
Total Turnover in 2007 (\$bil)	21,506	8,333	158%	159	44	261%
Average Daily Turnover in 2007 (\$mil)	87,424	33,735	159%	647	177	266%

Note: Figures have been rounded







## Main Board-New Listings

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Listed Companies	32	31	43	31	60	46	49	57	56	82
Preference Shares	0	0	0	0	0	0	0	0	1	0
Warrants	188	213	325	212	671	688	1,273	1,694	2,835	6,329
Equity Warrants	31	51	46	31	27	10	14	12	12	17
DWs	157	162	279	181	644	678	1,259	1,682	2,823	6,312
CBBCs *	–	–	–	–	–	–	–	–	83	391
ELI #	–	–	–	–	25	16	46	0	0	0
Debt Securities	21	87	20	21	18	20	49	32	46	26
Unit Trusts and Mutual Funds	0	1	0	1	1	1	2	6	3	11

\* Commenced trading on 12 June 2006

# Commenced trading on 5 August 2002

## Number of EPs and Trading Right Holders of SEHK (as at year-end)

	EPs and Trading Right Holders	Number of Trading Rights Held
EPs	477	880
Trading	439	835
Non-trading	38	45
Trading Right Holders	40	40

## Product Development

As at the end of 2007, 4,483 DWs were listed on the Exchange. In 2007, the average daily turnover of the DWs reached \$19.1 billion, accounting for 22 per cent of the total market turnover.

The number of CBBC issues has been growing rapidly. In 2007, 391 CBBCs were newly listed on the securities market, compared with 83 in 2006. When the CBBC market was launched in 2006, a temporary listing fee rebate of 70 per cent was given as an incentive to issuers. After considering the listing fees for similar products overseas, the fee rebate for CBBCs was replaced by an equivalent 70 per cent listing fee reduction on a permanent basis. In 2007, the CBBC market performed satisfactorily with total turnover of \$71.4 billion.

Eight additional ETFs were launched in 2007. Seven of them track the performance of shares listed in the Mainland, as well as regional and overseas markets. The other ETF offers exposure to a commodity index, the first of its kind listed in Hong Kong. As at the end of 2007, there were 17 ETFs listed on HKEx with total turnover of \$160.6 billion for the year.

## Introduction of Five-Digit Stock Codes

HKEx announced plans to expand the stock code usage beyond the existing range to 99999. Due to market momentum and strong investor demand for product variety, there has been strong growth in the listed structured product arena. HKEx believes that the expansion of the stock code range beyond four digits will add to investment choice, and plans to rollout five-digit stock codes in the second quarter of 2008, subject to market readiness.

## Introduction of Closing Auction Session

HKEx published a consultation conclusion report on the proposed introduction of a closing auction session for its securities market on 19 July 2007. HKEx received 23 sets of market comments. The majority of the respondents were supportive of the proposal. HKEx will implement the closing auction session in the second quarter of 2008, subject to market readiness and the completion of market rehearsals.

## Derivatives Market

### Market Performance

Almost all futures and options contracts set records in 2007. The total turnover increased 105 per cent to 87,985,686 contracts (2006: 42,905,915 contracts).

### Record High Daily Volume and Open Interest Achieved in 2007

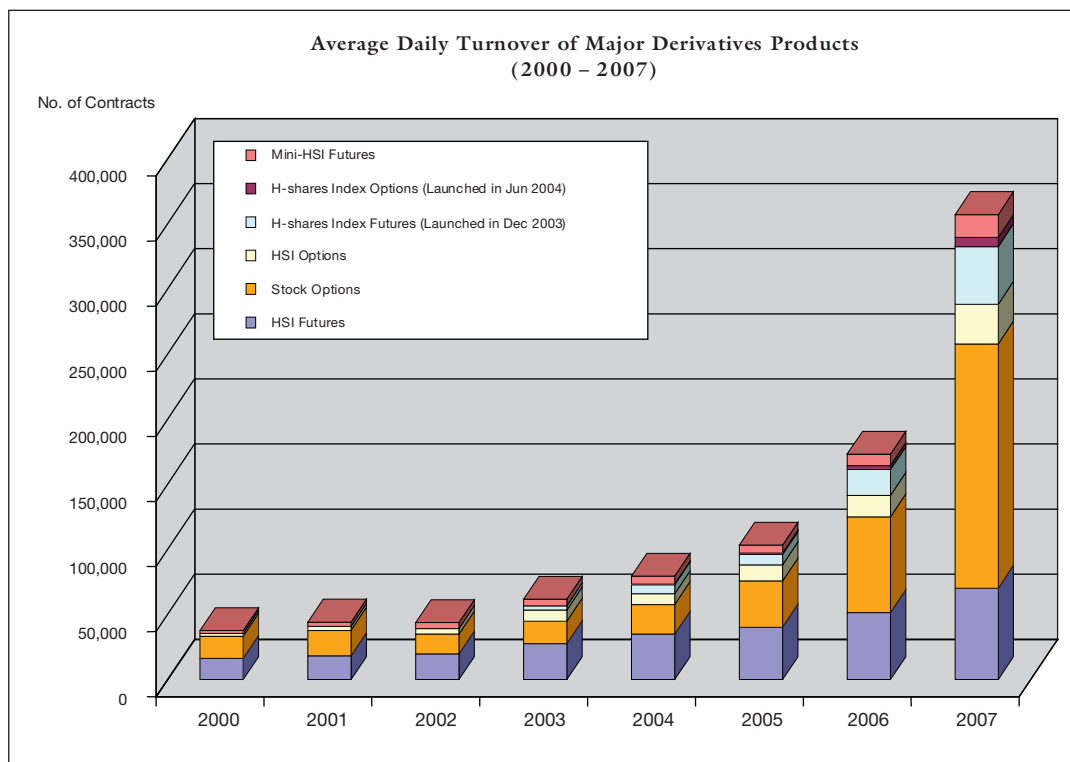
Products	Daily Volume		Open Interest	
	Date	Number of Contracts	Date	Number of Contracts
HSI Futures	25 Sep	201,717	27 Jun	198,789
HSI Options	28 Nov	85,981	29 Aug	476,682
Mini-HSI Futures	27 Nov	42,757	–	–
Mini-HSI Options	09 Feb	2,403	27 Mar	4,513
H-shares Index Futures	29 Aug	152,692	25 Sep	149,201
H-shares Index Options	06 Mar	33,126	25 Sep	268,769
HFI Futures	20 Apr	503	26 Apr	385
Stock Futures	28 Mar	27,966	14 Mar	25,956
Stock Options	17 Aug	431,494	28 Nov	8,302,290

The turnover of stock options rose by 154 per cent from the previous year to 45,982,968 contracts (2006: 18,127,353 contracts). There was also strong growth in H-shares Index products, with the volume of H-shares Index Futures and H-shares Index Options up by 122 per cent to 10,846,277 contracts (2006: 4,880,470 contracts) and 128 per cent to 1,727,847 contracts (2006: 758,247 contracts) respectively.

### Derivatives Market Statistics (as at year-end)

	2007		2006	
	Volume (Contracts)	Period-end Open Interest (Contracts)	Volume (Contracts)	Period-end Open Interest (Contracts)
<b>Futures</b>				
HSI Futures	17,160,964	111,513	12,718,380	119,836
Mini-HSI Futures	4,325,977	3,457	2,140,242	5,974
H-shares Index Futures	10,846,277	91,786	4,880,470	59,345
FTSE/Xinhua China 25 Index Futures	3,244	0	8,154	107
HFI Futures *	3,220	0	N/A	N/A
Stock Futures	351,514	5,954	102,010	4,260
1-Month HIBOR Futures	574	140	155	0
3-Month HIBOR Futures	31,678	1,992	13,888	1,532
3-Year Exchange Fund Note Futures	150	0	0	0
<b>Total</b>	<b>32,723,598</b>	<b>214,842</b>	<b>19,863,299</b>	<b>191,054</b>
<b>Options</b>				
HSI Options	7,480,183	174,368	4,095,679	227,946
Mini-HSI Options	69,512	443	53,456	781
H-shares Index Options	1,727,847	76,326	758,247	74,903
FTSE/Xinhua China 25 Index Options	1,578	1	7,881	358
Stock Options	45,982,968	5,314,918	18,127,353	2,533,807
<b>Total</b>	<b>55,262,088</b>	<b>5,566,056</b>	<b>23,042,616</b>	<b>2,837,795</b>
<b>Total Futures and Options</b>	<b>87,985,686</b>	<b>5,780,898</b>	<b>42,905,915</b>	<b>3,028,849</b>

\* Launched on 16 April 2007



**Number of EPs and Trading Right Holders of HKFE (as at year-end)**

	EPs and Trading Right Holders	Number of Trading Rights Held
EPs	140	168
Trading	140	168
Non-trading	0	0
Trading Right Holders	54	56

**Product Development**

On 16 April 2007, HKEx introduced a new investment and hedging tool specific to Mainland banking and insurance stocks – HFI Futures – for investors to better manage their market exposure to the Mainland financial sector.

With the introduction of six new stock option classes and three stock futures contracts in 2007, there were a total of 47 stock option classes for trading and hedging as at the end of the year. In addition, a third calendar quarter month was introduced for 10 selected stock option classes (five stock option classes in April and five in July) to meet trading demand for a longer term maturity.

**Relaxation of Position Limits**

On 30 March 2007, HKEx introduced a higher delta-based position limit for H-shares Index Futures and Options to meet the increasing need for hedging among market users. On 21 December 2007, the SFC implemented the arrangement to allow EPs and their affiliates to apply for excess limits (up to 50 per cent of the original limit) for HSI and H-shares Index Futures and Options should the applicant be able to demonstrate that there is a business need, adequate financial capability and effective internal control procedures and risk management systems to manage the potential risks arising from such excess.

### **Improvements to Market Making Services**

A new market maker regime for HKFE products was introduced on 1 February 2007. Under the new arrangement, only EPs are registered as market makers while other qualified entities which are either regulated entities or have proven financial strength may be able to perform market making through the EPs. The exchange fee incentive scheme for market makers of stock index futures or options trading in other stock index products was also refined during the year to enhance its effectiveness.

On 2 April 2007, HKEx revised the market making obligations in terms of maximum bid/offer spread and minimum quote size requirements in stock options and stock futures to reflect the actual market condition in the underlying stocks and to balance the market risks faced by market makers. Improvements in the market making services for stock futures were made at the same time, which included a shortening of the response time to quote requests from one minute to 10 seconds; an increase in the quote display time from five seconds to 20 and an increase in the quote size for providing continuous quote from five contracts to 10.

### **Extension of Pre-market Opening Arrangement**

The pre-market opening arrangement is considered useful in establishing an orderly market open and enhancing market efficiency. On 8 January 2007, the arrangement was extended to the H-shares Index Futures market, and it has been widely used by market participants.

### **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 to facilitate the execution of block trades by EPs effective 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.

### **Feasibility Study of Trading Commodities Derivatives and Emissions-related Products**

The consultants completed their respective feasibility studies of trading commodities derivatives and emissions-related products at HKEx in December 2007. After considering the consultants' recommendations, HKEx will, as a start, work to facilitate the listing of emissions-related structured products and ETFs and the listing of gold-related structured products and ETFs on its securities market. Meanwhile, HKEx will seek to partner with an overseas exchange to build a trading/clearing platform for trading in carbon (eg, greenhouse gases allowances and credits) and/or other emissions-related products in Hong Kong, and will explore establishing an auction in Hong Kong for Certified Emissions Reduction units. In addition, HKEx will prepare a proposal on trading cash-settled gold futures and options on its markets for submission to the SFC.

### Education for EPs and Investors

In 2007, more than 100 training courses and seminars on futures and options were conducted for EPs' staff and investors. In the second half of 2007, HKEx provided sponsorship to eight EPs to conduct public investor seminars on stock options. To further promote the popularity of stock options, HKEx also sponsored an Online Promotional Programme launched by EPs who offered Q&A games on their websites, posted banner advertisements and sent electronic promotional materials to their clients. In November 2007, HKEx participated in a 10-week programme organised by EPs to promote China-related futures and options.

### Overseas and Mainland Marketing

In June 2007, HKEx participated in the "FIA/FOW Derivatives Exhibition" held in London to promote HKEx as an international marketplace for trading China-related futures and options. In October 2007, HKEx also participated in the "FIA Asia Derivatives Conference" in Taipei as an exhibitor, and delivered a speech on the Derivatives Market development at HKEx.

To promote the Hong Kong financial markets to Mainland brokers and to invite them to become EPs under the Closer Economic Partnership Arrangement III (CEPA III), HKEx organised a seminar in Shanghai in May 2007. During the year, three Mainland securities brokers and two Mainland futures brokers were successfully accepted as Participants of SEHK and HKFE respectively.

## Clearing

### CCASS Statistics (up to year-end)

	2007	2006
<b>Average Daily Exchange Trades Handled by CCASS</b>		
– Number of Trades	616,195	259,417
– Value of Trades	<b>\$88.1 billion</b>	\$33.9 billion
– Share Quantity Involved	<b>94.2 billion</b>	38.4 billion
<b>Average Daily SIs Settled by CCASS</b>		
– Number of SIs	<b>66,818</b>	36,259
– Value of SIs	<b>\$205.4 billion</b>	\$87.1 billion
– Share Quantity Involved	<b>48.5 billion</b>	21.7 billion
<b>Average Daily ISIs Settled by CCASS</b>		
– Number of ISIs	<b>945</b>	586
– Value of ISIs	<b>\$351.5 million</b>	\$220.2 million
– Share Quantity Involved	<b>252.7 million</b>	77.2 million
<b>Average Daily Settlement Efficiency of CNS Stock Positions on Due Day (T+2)</b>	<b>99.70%</b>	99.72%
<b>Average Daily Settlement Efficiency of CNS Stock Positions on the Day following the Due Day (T+3)</b>	<b>99.97%</b>	99.97%
<b>Average Daily Buy-ins Executed on T+3</b>		
– Number of Brokers Involved	<b>20</b>	12
– Number of Buy-ins	<b>24</b>	13
– Value of Buy-ins	<b>\$15.0 million</b>	\$6.6 million
<b>Shares Deposited in the CCASS Depository</b>		
– Number of Shares	<b>3,570.4 billion</b>	1,657.6 billion
– Percentage of Total Issued Share Capital of the Admitted Securities	<b>74.95%</b>	58.79%
– Value of Shares	<b>\$10,438.9 billion</b>	\$5,754.9 billion
– Percentage of the Total Market Capitalisation of the Admitted Securities	<b>47.02%</b>	40.23%

## Number of CCASS Participants (as at year-end)

	HKSCC
Clearing Agency Participant	1
Custodian Participants	39
DCPs *	442
GCPs *	2
IPs	19,081
Stock Lender Participants	0
Stock Pledgee Participants	6

\* Since the launch of the TPC on 3 December 2007, the category of Broker Participant was removed and replaced with DCP and GCP.

### Enhancements to SSA with Statement Service

During the year, HKSCC introduced new features to its SSA with Statement Service.

As of 2 January 2007, CCASS Broker and Custodian Participants are provided with online functions to open SSAs and to maintain detailed profiles. SSA users can choose to receive physical statements in either English or Chinese, and enquire about their stock balances and movements in the accounts electronically through the CCASS Internet System and CCASS Phone System. SSA users can also opt to receive alerts via SMS and/or by email when there is any movement in the SSA.

Effective 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 has been lifted.

### Improvements to CCASS Nominee Services

Since 2 January 2007, Broker and Custodian Participants have been provided with an additional option to have certain CCASS payments effected intra-day through the Real Time Gross Settlement payment mechanism. These CCASS payments include the return of overpaid cash prepayments in respect of securities being settled on a CNS basis and corporate action-related payments.

In addition, issuer announcements published on the HKEx website have been automated for broadcast by CCASS to Participants since 3 December 2007.

In mid-2007, HKSCC conducted a feasibility study of extending the CCASS electronic voting service to the clients of Broker and Custodian Participants who are not SSA users. After considering various models and alternatives, and taking into account the general view of market participants that extension of the service might be premature under the current infrastructure, HKEx decided not to proceed with the proposal. Any shareholders who want to use the CCASS electronic voting service are encouraged to open SSAs through their brokers or custodians or IP accounts directly with HKSCC.

### **IP Account Service Fee Waiver**

The waiver of the SMS fee and the dormant account fee for CCASS IP account services has been extended upon its expiry on 30 June 2007 until further notice.

### **Enhancements to IPO Related Service**

In July 2007, HKSCC introduced two enhancements to help streamline IPO procedures for its 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.

In December 2007, CCASS was also enhanced to allow listed issuers to appoint more than one receiving bank to collect application monies for applications submitted through the CCASS eIPO service. Under this arrangement, application monies in respect of eIPO applications submitted by a Participant can be collected by its designated bank if it also acts as a sub-receiving bank (though not the nominee bank) under the eIPO service.

### **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 6:15pm to 6:45pm with the support of advanced backup technology to handle DCASS day-end batch processing.

### **TPC and Remote Exchange Participantship**

HKSCC introduced TPC to the securities market on 3 December 2007. Under the new clearing framework, GCP and DCP are the two categories of HKSCC Clearing Participantship. An EP can now trade on the Exchange without becoming a CCASS Clearing Participant by outsourcing all its CCASS-related clearing functions to a GCP which will assume all the EP's trade settlement obligations in CCASS.

HKEx is now working on the proposal to launch 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 be admitted as a Remote EP by obtaining a trading right from HKEx, installing the necessary trading facilities and appointing a GCP who can clear all its trades in Hong Kong on its behalf.

### **Increase in CCASS Shareholding Transparency**

HKEx plans to introduce a new CCASS shareholding disclosure service to the public. At present, listed issuers can request from the HKSCC reports on the shareholdings of all CCASS Participants on a specified date. It is expected that the shareholding information of CCASS Participants, except those IPs who have not consented to the disclosure, will be made available free of charge to the public via a dedicated HKEx website after the launch of the service, tentatively, in the second quarter of 2008.



## Risk Management

### Risk Management Measures

The three clearing houses have harmonised their stress testing methodologies, which are applied to assess the adequacy of financial resources for risk management, to follow the standards set by the International Organisation of Securities Commissions. In addition, amendments have been made to the rules of the three clearing houses to enhance the legal protection of their respective Guarantee/Reserve Funds.

To enhance the quality of the daily settlement price (“DSP”), HKCC and SEOCH aligned their methodologies for determining the DSP on 7 May 2007. The aligned methodologies require the use of available market prices in lieu of theoretical prices when determining the DSP. Theoretical prices would only be used for reference when a market price is not available. The clearing houses will conduct reasonableness checks on the DSP and make adjustments where appropriate.

To reduce exposure to settlement bank (“SB”) default risk, and to harmonise with HKSCC’s practice, HKCC and SEOCH announced the tightening of financial criteria for accepting SBs effective 18 June 2007 whereby a SB must have a minimum credit rating of A3 by Moody’s or its equivalent, or be a HKD note-issuing bank. In addition, HKCC and SEOCH adopted a two-tier banking structure under which Participants may have their designated banks accepted by the clearing houses for money settlement operations.

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 effective 3 July 2007.

The alignment of SEOCH with HKCC on the treatment of interest on Variable Contributions (“VC”) to the Reserve Fund (“RF”) and the use of non-cash collateral to meet the demand for VC to the RF took effect on 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 a 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.

On 12 November 2007, HKSCC declared Great Honest Investment Company Limited (“Great Honest”) a defaulter and closed out the unsettled positions of Great Honest in CCASS following the issuance of a restriction notice by the SFC. HKSCC did not suffer any loss in the default case.

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.

## Information Services

### Market Performance

As at the end of 2007, there were 92 real-time information vendor licences for Cash Market data (2006:75) and 41 real-time licences for Derivatives Market data (2006:37). Licensed information vendors together offered a total of 555 types of real-time market data services to the market (2006: 490).

### New Policy on Delayed Market Data

Commencing 2 April 2007, HKEx adopted a new delayed market data policy. Delayed market data vendors are now allowed to redistribute delayed securities and futures data to their subscribers with a delay of only 15 minutes.

As at the end of 2007, the number of delayed market data vendors was 42 (2006: 42). Information vendors licensed for the redistribution of delayed securities market data were subject to a fixed monthly flat fee of \$5,000 starting January 2008. More than 20 new delayed data licence applications are currently being processed.

### Extension of Mainland Discount Programme

HKEx has extended its discount programme for real-time securities trading information for the Mainland China region, under which authorised information vendors can offer real-time securities information to Mainland subscribers at a discounted price of \$80 per month (the regular per device fee is \$200 per month). The programme has been extended to 2008 and has been well-received with the number of devices subscribed under the programme increasing more than threefold. As at the end of 2007, there were 22 authorised information vendors registered under the programme. The fee for corporate clients was revised from \$80 per month to \$120 with effect from 1 January 2008.

### Editorial Package for Real-time Information Vendors

HKEx introduced a new editorial package on 1 July 2007 for all real-time information vendors who have in-house news and editorial teams to provide news, analysis or commentary services to complement real-time market data services.

Under the package, the data fee for a certain number of real-time devices used by the editorial team will be waived. Data fees for additional devices used by the editorial team will be provided at discounted prices. The package is aimed at encouraging information vendors to increase coverage of the Hong Kong securities and derivatives markets.

### Enhancements to Information Systems

For the rollout of EDP, HKEx has redeveloped IIS, the information feed used to provide issuer announcements and financial reports. IIS is now equipped with a higher capacity, a resilient disaster recovery site and a FTP file retrieval function capable of delivering announcements with multiple headlines. In addition, the delivery speed has been significantly enhanced. HKEx also lowered the standard fee for IIS information vendors on 1 June 2007. The number of IIS information vendors increased from three to five in 2007.

In parallel, MDF, the information feed used for securities market data, was also enhanced to provide alerts whenever a disclosure made by the selected issuers is posted on the HKEx website. With increased market activities, the allocated bandwidth for MDF was increased from 384kbps to 470kbps and the message throughput for PRS (with price depth) was increased from 500mps to 900mps in August 2007.

### **Retirement of RDDS**

HKEx retired the aging RDDS at the end of 2007. RDDS, first introduced in 1986, was an information feed providing real-time securities price updates on a snapshot basis. Some incumbent RDDS vendors migrated to MDF. The retirement of the RDDS allows HKEx to focus its resources on its premium datafeed service and to render high quality services to the market.

### **Review of Technical Requirements for Information Vendors**

As a result of the review exercise at the end of 2006 of the service recovery requirements for information vendors, HKEx has made automatic system failover capability a pre-requisite for information vendors connecting directly to HKEx market data systems. The new policy is to ensure that HKEx information vendors have adequate recovery arrangements and resilience to minimise service disruption to the market and investors. HKEx arranged a number of market rehearsals for existing information vendors to test their system capability on automatic system failover arrangements in 2007, and will continue to offer similar arrangements in 2008. In 2007, we also made it a mandatory requirement for feed-providing information vendors to have dual live connections with our market data systems in order to enhance the overall resilience of the market and to ensure more stable services for investors.

### **Derivatives Market Data on HKEx Website**

To improve the transparency of the Derivatives Market, additional information has been made available on the HKEx website since February 2007, including delayed intra-day prices and turnover of all futures and options contracts traded on the HKEx Derivatives Market, a chart showing the real-time index level and intra-day movement of the H-shares Index, and the latest turnover of HSI Futures and H-shares Index Futures contracts.

### **Enhancements to Issuer News Alert Service**

In April 2007, the Issuer News Alert Service under the ISC was enhanced to provide better service to investors. HKEx has upgraded the email/SMS news alert service by doubling the maximum number of companies per subscription from 10 to 20 and shortening the interval between alerts from one hour to 30 minutes. Subscribers of the service will receive alerts from HKEx by email and/or SMS whenever there is publication on the HKEx website of a document from or a DI notice relating to one of their designated listed companies. As at the end of 2007, there were 38,035 ISC registered users and, on average, over 50,000 emails/SMS alerts were sent to the subscribers daily.

### Adoption of Hang Seng Industry Classification

To better serve the needs of investors and other market participants, HKEx has signed an agreement with Hang Seng Indexes Company Limited to adopt the Hang Seng Industry Classification System (“HSICS”) to replace a classification system maintained by HKEx to better reflect the business nature of companies listed on the Stock Exchange. The HSICS meets the unique characteristics of the Hong Kong stock market while providing international compatibility. Individual company classifications under the HSICS became accessible through the Company/Securities Profile section of the ISC as of 31 December 2007.

### Order and Trade File Service

In 2007, HKEx introduced a new information service called the Order and Trade File Service (“OTFS”). The OTFS is restricted to the Stock Exchange Participants and provides the subscriber with its own orders, all trade tickers reported by AMS/3 as well as the best bid/ask prices for each stock at the end of each trading day. The service will facilitate the EPs to analyse their trading activities and to perform their in-house risk management and compliance functions. The service will come to production for its first batch of clients on 1 February 2008.

## Information Technology

### Production Systems Stability and Reliability

During the year, all major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets operated by HKEx continued to maintain 100 per cent operational system uptime.

### System Capacity Planning and Upgrade

In the Cash Market, the processing capacity of AMS/3 was increased from 1.2 million trades to 1.5 million per day in January 2007. Correspondingly, CCASS/3 was upgraded to ensure that it could also support 1.5 million trades per day.

In view of increasing market momentum, HKEx further enhanced the capacity of AMS/3 from 1.5 million trades to five million per day in January 2008. Additional processing power was added to the CCASS/3 mainframe system to increase the capacity from 1.5 million trades to 2.5 million daily in December 2007. MDF was also upgraded to support the increased volume of Cash Market data. Further upgrades to CCASS/3 capacity and technology are underway. In March 2008, HKEx will enhance the CCASS/3 data storage and the LAN infrastructure to be able to handle five million trades per day. HKEx will strengthen the hardware technology of CCASS/3 middle tier subsystems in August 2008.

To prepare well for growing opportunities, HKEx will consider further upgrading its various market systems to support 7.5 million trades per day at the end of 2008.

In the Derivatives Market, the respective capacities of HKATS, DCASS and PRS were doubled in mid-2007. After completing a review of the systems in December 2007, HKEx decided to further increase the capacity of DCASS and PRS in 2008.

In March 2007, HKEx increased the capacity of the HKEx website and its Internet infrastructure to handle the rapid and substantial increase in website visits and enquiries from the investing public.

### Obsolete Technology Replacement and Upgrade

In March 2007, the CCASS/3 middle-tier system was upgraded to the IBM Websphere software which is an open platform enabling better price performance and higher operational flexibility for future hardware upgrade. In April 2007, all the AMS/3 OG and MWS installed at EPs' premises were upgraded to address technology obsolescence as well as to handle larger order flow and a higher volume of market data updates.

On 3 March 2008, HKEx upgraded the HKATS and DCASS application systems to Release 19.1, which offers new functional and technical capabilities for the benefit of market users. For instance, EPs will be able to execute block trades faster and more efficiently, and information on the number of block trades executed in each series will be disseminated to improve the transparency of block trades.

Moreover, enhancements were made to the Securities Market Automated Research, Training & Surveillance System (SMARTS) to provide advanced features and higher performance and capacity to further improve HKEx's market surveillance capability.

### System Consolidation and Operational Efficiency

In July 2007, HKEx completed the final phase of the implementation of SDNet, a project begun in January 2005. SDNet is an integrated Optical Ethernet network infrastructure for the Cash and Derivatives Markets trading, clearing and settlement, and market data dissemination systems. The successful migration to the SDNet resulted in a 20 per cent cost saving for EPs and offers higher bandwidth and scalability to better serve increased order flow and market data traffic.

HKEx also launched a DIW with enhanced content and enriched functions for the dissemination of issuer-related information and regulatory news. The DIW, built on a dedicated Internet infrastructure, provides high resilience and improved capacity to serve the public.

In April 2007, the Derivatives Risk Management System was redeveloped to enhance operational automation and to further improve the risk management capability of HKEx.

Implementation of Finance MIS and redevelopment of Participant MIS were completed during the year to facilitate better business analysis and data availability. To facilitate the analysis and market surveillance, HKEx began developing the Participant Financial Resources Surveillance System to automate the processing of financial return data.

In December 2007, HKEx completed the rationalisation of the AMS/3 information pages to streamline the stock information pages disseminated through the AMS/3 trading devices and to MDF information vendors.

## Treasury

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling \$49.7 billion on average in 2007 (2006: \$25.6 billion).

As compared with 2006, the overall size of funds available for investment as at 31 December 2007 increased by 130 per cent or \$39.1 billion to \$69.1 billion (2006: \$30.0 billion). Details of the asset allocation of the investments as at 31 December 2007 against those as at 31 December 2006 are set out below.

	Investment Fund Size \$ billion		Bonds		Cash or Bank Deposits		Global Equities	
	2007	2006	2007	2006	2007	2006	2007	2006
Corporate Funds	11.5	5.9	50%	52%	47%	41%	3%	7%
Margin Funds	55.4	21.8	30%	51%	70%	49%	0%	0%
Clearing House Funds	2.2	2.3	16%	14%	84%	86%	0%	0%
Total	69.1	30.0	33%	48%	66%	51%	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 31 December 2007 and \$0.4 billion as at 31 December 2006), which have no maturity date, the maturity profiles of the remaining investments as at 31 December 2007 (\$68.8 billion) and 31 December 2006 (\$29.6 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	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Corporate Funds	11.2	5.5	33%	24%	13%	16%	36%	30%	12%	20%	6%	10%
Margin Funds	55.4	21.8	41%	32%	26%	22%	32%	46%	1%	0%	0%	0%
Clearing House Funds	2.2	2.3	84%	86%	0%	0%	16%	14%	0%	0%	0%	0%
Total	68.8	29.6	41%	35%	23%	19%	32%	40%	3%	4%	1%	2%

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 31 December 2007, had a weighted average credit rating of Aa1 (2006: Aa2) and a weighted average maturity of 0.6 year (2006: 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 2007 and 2006 was as follows:

	Average VaR \$ million		Highest VaR \$ million		Lowest VaR \$ million	
	2007	2006	2007	2006	2007	2006
Corporate Funds	15.0	14.0	19.1	15.9	11.2	12.3
Margin Funds	13.8	7.8	25.7	9.4	10.1	4.1
Clearing House Funds	0.4	0.4	0.6	0.6	0.1	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 consolidated accounts of this Annual Report.

## Investment in an Associate

### CHIS

On 29 March 2007, the Group entered into an agreement to sell all of its 30 per cent interest in CHIS for a consideration of \$270 million. The transaction was completed on 3 April 2007. The accounting profit on disposal of the investment amounted to \$206 million.

## Major Achievements and Key Initiatives

2007 Initiatives	2007 Achievements	2008 Initiatives
<b>Listing</b>		
<ul style="list-style-type: none"> <li>Facilitate equity listing regime for overseas issuers</li> <li>Review GEM</li> <li>Implement EDP</li> <li>Introduce WPIP</li> <li>Develop DIW</li> <li>Solicit market views on periodic financial reporting (“PFR”)</li> </ul>	<ul style="list-style-type: none"> <li>Published with the SFC a Joint Policy Statement Regarding the Listing of Overseas Companies</li> <li>Exploring a mechanism for Depository Receipts Regime</li> <li>Facilitated the listing of a wider range of MAPs, expanded the list of recognised exchanges and adopted the rollover approach</li> <li>Released a consultation paper on GEM and proposed rule changes for market comments</li> <li>Launched Phases I and II of EDP</li> <li>Published with the SFC a joint policy statement on a pilot scheme for posting WPIP</li> <li>Scheduled to launch DIW</li> <li>Published a consultation paper on PFR</li> </ul>	<ul style="list-style-type: none"> <li>Publish a combined consultation paper on proposed changes to Listing Rules</li> <li>Establish the Depository Receipts framework</li> <li>Implement a revised suspension policy</li> <li>Review CG Code</li> <li>Commence the “convergence” review of the Generally Accepted Accounting Principles (GAAP), and the Generally Accepted Auditing Standards (GAAS) of the People’s Republic of China, and Auditor Oversight, together with other disclosure requirements</li> <li>Complete GEM review and implement proposals</li> <li>Codify the WPIP requirements in the Listing Rules</li> <li>Launch DIW, the HKExnews website</li> <li>Implement proposals on PFR</li> </ul>
<b>Issuer Marketing</b>		
<ul style="list-style-type: none"> <li>Attract listing applicants from a broader range of jurisdictions</li> <li>Promote Hong Kong as a major capital formation centre</li> </ul>	<ul style="list-style-type: none"> <li>Devoted more resources to attract listing applications from mainly South East Asia, Central Asia and the US</li> <li>Held a series of marketing activities in overseas and Hong Kong to promote Hong Kong as a major capital formation centre</li> <li>Signed MOUs with Abu Dhabi Securities Market, Moscow Interbank Currency Exchange, Hochiminh Stock Exchange and Mongolian Stock Exchange</li> </ul>	<ul style="list-style-type: none"> <li>Organise promotional activities in overseas to attract new listings of foreign companies from particularly the Asian region and companies having nexus with the Mainland</li> <li>Organise promotional activities in Hong Kong to attract local and Mainland companies to list in Hong Kong</li> </ul>
<b>Beijing Representative Office</b>		
<ul style="list-style-type: none"> <li>Attract Mainland enterprises to list in Hong Kong</li> <li>Maintain close cooperation and coordination with the Mainland authorities</li> <li>Arrange training programmes in the Mainland and Hong Kong for Hong Kong-listed Mainland enterprises</li> </ul>	<ul style="list-style-type: none"> <li>Organised conferences and seminars in Changchun, Changsha, Dongguan, Guangzhou and Hohhot with the Mainland authorities</li> <li>Conducted over 70 marketing activities in the Mainland to promote Hong Kong listing and to meet with potential issuers and government officials</li> <li>Collaborated with the Listing Division to conduct four training programmes in Beijing and Shanghai on corporate governance</li> </ul>	<ul style="list-style-type: none"> <li>Continue to attract quality Mainland companies to list in Hong Kong</li> <li>Continue to promote Hong Kong as an international capital formation centre</li> <li>Strengthen the relationship with Mainland regulators, ministries, and provincial and municipal governments</li> <li>Assist the relevant departments to promote secondary market institutional related-business</li> <li>Collaborate with the Listing Division to arrange training programmes in the Mainland for Mainland enterprises</li> <li>Conduct investor education in the Mainland upon the launch of the Pilot Programme for Direct Foreign Portfolio Investments by Domestic Individuals</li> </ul>
<b>Cash Market</b>		
<ul style="list-style-type: none"> <li>Address barriers to securities market trading</li> <li>Introduce a closing auction session</li> <li>Increase throttles per OG</li> <li>Increase market data broadcast rate</li> <li>Enhance CBBC market infrastructure</li> <li>Propose tick rule suspension</li> <li>Introduce five-digit stock codes</li> <li>Implement two-way communication channels with EPs</li> <li>Enhance market education and training framework</li> </ul>	<ul style="list-style-type: none"> <li>Submitted a proposal for a stamp duty reform to the Government</li> <li>Published consultation conclusions on a closing auction session and obtained the SFC’s approval for the rule amendments</li> <li>Increased the maximum number of throttles per OG</li> <li>Increased market broadcast rate to 300 stock page updates per second</li> <li>Reduced listing fees for CBBCs by 70% on a permanent basis</li> <li>Submitted the rule amendments relating to tick rule suspension to the SFC for approval</li> <li>Announced the introduction of five-digit stock codes</li> <li>Studied the feasibility of implementing an EP Portal</li> <li>Organised over 30 training events and outsourced administrative support on market education to the Hong Kong Securities Institute</li> </ul>	<ul style="list-style-type: none"> <li>Implement the closing auction session</li> <li>Further increase the market data broadcast rate</li> <li>Implement the tick rule suspension</li> <li>Introduce five-digit stock codes</li> <li>Implement the EP portal</li> <li>Streamline the Participant registration process</li> <li>Review parallel trading arrangement</li> <li>Review price warning and quotation rules</li> </ul>
<b>Derivatives Market</b>		
<ul style="list-style-type: none"> <li>Increase the number of expiry months in selected stock option classes</li> <li>Improve the market maker obligations in stock options and stock futures</li> <li>Introduce Renminbi Futures</li> <li>Explore commodities derivatives</li> <li>Increase and reform position limits for HSI and H-shares Index Futures and Options</li> <li>Synchronise stock options market maker model with HKFE products</li> <li>Expand distribution networks</li> <li>Increase the exposure of the Derivatives Market and improve awareness of HKEx’s products and services</li> <li>Introduce Pre-market opening arrangement for H-shares Index Futures market</li> <li>Continue market education and marketing work on Derivatives Market products and services</li> </ul>	<ul style="list-style-type: none"> <li>Introduced a third calendar quarter expiry month in 10 stock option classes</li> <li>Revised the maximum bid/offer spread and minimum quote size requirements</li> <li>Conducted a feasibility study of Renminbi Futures</li> <li>Reviewed the feasibility studies of trading commodities and emissions-related derivatives</li> <li>Adjusted position limits for H-shares Index Futures and Options to 12,000 delta for all contract months combined</li> <li>Allowed EPs and their affiliates to apply for excess position limits for HSI and H-shares Index Futures and Options</li> <li>Reviewed stock options market maker model and removed Designated Traders</li> <li>Held seminar sessions in Shanghai and accepted securities brokers and futures brokers from Mainland as EPs</li> <li>Participated in global derivatives industry conferences and exhibitions held in Europe and Asia</li> <li>Extended Pre-market opening arrangement to H-shares Index Futures market</li> <li>Sponsored eight EPs to conduct education activities on stock options and arranged 30 Interactive Options Training courses to EPs</li> <li>Sponsored an Online Promotional Programme launched by EPs and the Joint Promotional Programme on Mainland equities-related Futures and Options</li> <li>Revised permissible price ranges of block trades</li> </ul>	<ul style="list-style-type: none"> <li>Introduce Mini H-shares Index Futures and new stock option classes</li> <li>Change closing time for trading stock index futures and options upon implementation of the closing auction session</li> <li>Conduct a feasibility study of gold futures</li> <li>Improve the infrastructure to minimise barriers for acceptance of over-the-counter trades</li> <li>Improve market liquidity through enhancements to market making services</li> <li>Further relax position limits</li> <li>Provide sponsorship for training programmes conducted by EPs under the Joint Education Programme and Online Simulation Trading Games</li> <li>Participate in the Joint Promotion Programme with EPs</li> <li>Use the partitions management concept in the derivative trading system</li> <li>Review the final settlement price determination method for stock index futures and options</li> </ul>



2007 Initiatives	2007 Achievements	2008 Initiatives
<b>Clearing</b>		
<ul style="list-style-type: none"> <li>• Introduce TPC</li> <li>• Further enhance SSA with Statement Service and IP Account Service</li> <li>• Further improve CCASS nominee services</li> <li>• Review CCASS electronic voting service</li> <li>• Increase CCASS immobilisation rate</li> </ul>	<ul style="list-style-type: none"> <li>• Launched TPC</li> <li>• Upgraded SSA with Statement Service to a level comparable with IP Account Service</li> <li>• Further extended the waiver of the SMS fee and the dormant account fee for IP Account Service</li> <li>• Enabled Broker and Custodian Participants to have certain CCASS payments effected intra-day through the Real Time Gross Settlement payment mechanism</li> <li>• Automated the information broadcast about issuer announcements by CCASS to Participants</li> <li>• Facilitated EPs to receive IPO brokerage electronically through autopay</li> <li>• Provided Broker and Custodian Participants Yellow Form Share Allotment Report through CCASS</li> <li>• Enabled multiple receiving banks arrangement for CCASS eIPO service</li> <li>• Conducted a feasibility study of extending CCASS electronic voting service to clients of Broker and Custodian Participants</li> <li>• Completed transfer of the physical holdings of a major custodian into CCASS Depository</li> </ul>	<ul style="list-style-type: none"> <li>• Continue the effort to increase the immobilisation rate in CCASS</li> <li>• Admit share registrars as CCASS Participants to facilitate electronic access to CCASS</li> <li>• Study the refund of eIPO application monies with good funds available to CCASS Participants on refund day</li> <li>• Implement a CCASS shareholding disclosure service to the public</li> </ul>
<b>Risk Management</b>		
<ul style="list-style-type: none"> <li>• Review clearing risk management policies and arrangements</li> <li>• Develop a Participant Financial Resources Surveillance System (“PFRSS”)</li> </ul>	<ul style="list-style-type: none"> <li>• Harmonised the stress testing methodologies of the three clearing houses and enhanced the legal protection of their respective Guarantee/Reserve Funds</li> <li>• Enhanced the quality of the daily settlement price set and aligned the determining methodologies adopted by HKCC and SEOCH</li> <li>• Tightened the financial criteria for HKCC and SEOCH to accept SBs and adopted a two-tier banking structure under which participants may have their designated banks accepted by HKCC and SEOCH for money settlement operations</li> <li>• Extended the arrangement to SEOCH Participants to use Client Offset Claim Accounts for eligible pairs of client positions to be allocated and margined on a net basis</li> <li>• Aligned SEOCH with HKCC on the treatment of interest on VC to the RF and the use of non-cash collateral to meet the demand for VC to the RF</li> <li>• Commenced the PFRSS development and scheduled to start its operation</li> </ul>	<ul style="list-style-type: none"> <li>• Review all risk management policies and arrangements</li> <li>• Implement PFRSS</li> </ul>
<b>Information Services</b>		
<ul style="list-style-type: none"> <li>• Enhance IIS</li> <li>• Introduce direct datafeeds products and non-display applications</li> <li>• Improve Issuer News Alert Service</li> <li>• Review vendor contracts and streamline administration</li> <li>• Implement the new policy on delayed data</li> <li>• Promote the accessibility of Hong Kong market data in the Mainland</li> </ul>	<ul style="list-style-type: none"> <li>• Redeveloped IIS and enhanced the system with a FTP function</li> <li>• Enhanced IIS and MDF to facilitate the rollout of EDP</li> <li>• Performed research and overseas market comparison on direct datafeeds products and non-display applications</li> <li>• Implemented various enhancements to Issuer News Alert Service</li> <li>• Completed a review on the “Category Notice” of the MDF Agreement and proposed a single licence regime for all market data services</li> <li>• Shortened the delay time for the delayed market data, and introduced a flat monthly fee for the delayed securities market data effective 1 January 2008</li> <li>• Extended the Mainland Discount Programme</li> <li>• Retired RDDS</li> <li>• Provided the delayed intra-day prices and turnover of all futures and options contracts traded on the Derivatives Market</li> <li>• Adopted Hang Seng Industry Classification System</li> </ul>	<ul style="list-style-type: none"> <li>• Further strengthen technical requirements for information vendors and ensure their compliance</li> <li>• Streamline vendor licensing regime</li> <li>• Further develop the Mainland market</li> <li>• Enrich Derivatives Market datafeed content</li> <li>• Introduce a new pricing model and contract for end-user direct datafeeds for non-display applications</li> <li>• Facilitate growth of the Order and Trade Files Service</li> <li>• Explore additional options to facilitate global connectivity for overseas data vendors and users</li> </ul>
<b>Information Technology</b>		
<ul style="list-style-type: none"> <li>• Implement various AMS/3 enhancements</li> <li>• Implement the final phase of SDNet migration of AMS/3</li> <li>• Replace and upgrade CCASS/3 Mainframe system and Middle-tier system</li> <li>• Commence the upgrade of HKATS and DCASS to Release 19.1</li> <li>• Conduct the Derivatives Market system capacity planning and upgrade</li> <li>• Review the HKEx information technology systems and services for possible efficiency improvements</li> <li>• Explore consolidation of data centres</li> </ul>	<ul style="list-style-type: none"> <li>• Expanded maximum outstanding orders per price queue, abolished limit on outstanding order per broker ID and increased maximum order size</li> <li>• Completed the final phase of SDNet migration of AMS/3</li> <li>• Completed the replacement and upgrade of CCASS/3 Mainframe system and Middle-tier system</li> <li>• Prepared for the upgrade of HKATS and DCASS to Release 19.1</li> <li>• Completed HKATS, DCASS and PRS hardware upgrade</li> <li>• Implemented Finance MIS</li> <li>• Redeveloped Participants Information System</li> <li>• Redeveloped Derivatives Risk Management System</li> <li>• Upgraded AMS/3 and MDF capacity</li> <li>• Completed the AMS/3 OG and MWS upgrades</li> <li>• Rationalised AMS/3 information pages</li> <li>• Completed the HKEx website capacity upgrade</li> <li>• Implemented EDS</li> <li>• Determined the consolidation approach for derivatives data centre and Information Technology offices</li> </ul>	<ul style="list-style-type: none"> <li>• Further upgrade AMS/3, MDF, CCASS/3, DCASS and PRS</li> <li>• Study AMS/3 technical architecture design for improvement of AMS/3 capacity throughput by 10 times</li> <li>• Upgrade HKATS and DCASS application to Release 19.1</li> <li>• Launch the HKExnews website</li> <li>• Commence HKEx’s corporate website revamp and further capacity upgrade</li> <li>• Upgrade the capacity and technology of Securities Market Automated Research, Training &amp; Surveillance System (SMARTS)</li> <li>• Commence derivatives data centre and Information Technology offices consolidation</li> <li>• Support and facilitate independent reviews of information technology governance and EDS</li> </ul>

# FINANCIAL REVIEW

## HKEx Group – Overview of 2007 Results and Financial Position

### Key Market Statistics and Business Drivers - Cash Market

	2007
Average daily turnover value on the Stock Exchange	<b>\$88.1 billion*</b>
Number of newly listed derivative warrants	<b>6,312*</b>
Number of newly listed companies on Main Board	82
Number of newly listed companies on GEM	2
Number of Main Board companies at 31 Dec 2007	1,048
Number of GEM companies at 31 Dec 2007	193
Total equity funds raised on Main Board	\$570.9 billion
Total equity funds raised on GEM	\$19.5 billion
Total equity funds raised	<b>\$590.4 billion*</b>

\* New record high in 2007

### Consolidated Statement of Financial Position

	2006
<b>Assets</b>	\$'000
Fixed assets, land and properties	7 323,584
Investments in an associate	68,377
Funds	8 23,937,005
Investments and time deposits	3,684,843
Cash and cash equivalents	2,223,910
Other assets	10 10,226,687
	40,464,406
<b>Liabilities</b>	
Participants' contributions to Funds	11 23,308,969
Participants' admission fees received	81,450
Other liabilities	12 11,816,401
	35,206,820
Net assets	13 5,257,586
<b>Capital and reserves</b>	
Share capital, share premium and reserves	1,941,894
Shares held for Share Award Scheme	13 (51,297)
Retained earnings	3,366,989
	5,257,586

### Segment Profit for the Year

	2007				Total \$'000
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	
Total income	3,727,020	1,441,018	2,540,896	681,536	8,390,470
Operating expenses	671,819	196,027	470,583	73,136	1,411,565
Operating profit	1 3,055,201	2 1,244,991	3 2,070,313	4 608,400	6,978,905
Gain on disposal of an associate	-	-	206,317	-	5 206,317
Share of profit of an associate	-	-	5,587	-	6 5,587
Reportable segment profit before tax	3,055,201	1,244,991	2,282,217	608,400	7,190,809
Taxation					(1,021,531)
Profit attributable to shareholders					6,169,278

### Cash Flows for the Year

	2007
	\$'000
Net cash inflow from operating activities	14 7,644,184
Purchases of shares held for Share Award Scheme	13 (4,879)
Net proceeds from disposal of an associate	5 270,050
Capital expenditures	(68,727)
Dividends paid	(3,163,445)
Net increase in available-for-sale financial assets of Corporate Funds	(2,432,136)
Other net cash inflows	275,754
Net increase in cash and cash equivalents	2,520,801
Cash and cash equivalents at 1 Jan 2007, as previously reported	2,215,257
Effect of reclassification of CFRA	8,653
Cash and cash equivalents at 31 Dec 2007	4,744,711

### Key Market Statistics and Business Drivers – Derivatives Market

	2007
Average daily number of derivatives contracts traded on the Futures Exchange	<b>171,440*</b>
Average daily number of stock options contracts traded on the Stock Exchange	<b>187,686*</b>

\* New record high in 2007

### Consolidated Statement of Financial Position

	2007
<b>Assets</b>	\$'000
Fixed assets, land and properties	7 378,282
Funds	8 57,621,092
Investments and time deposits	6,745,736
Cash and cash equivalents	9 4,744,711
Non-current assets held for sale	10 64,092
Other assets	18,390,276
	87,944,189
<b>Liabilities</b>	
Participants' contributions to Funds	11 56,925,743
Participants' admission fees received	85,600
Other liabilities	12 22,555,498
	79,566,841
Net assets	8,377,348
<b>Capital and reserves</b>	
Share capital, share premium and reserves	2,137,013
Shares held for Share Award Scheme	13 (47,803)
Retained earnings	6,288,138
	8,377,348

## Movements in Share Capital, Share Premium and Reserves for the Year

	2007				Total \$'000
	Share capital and share premium \$'000	Employee share-based compensation reserve \$'000	Revaluation reserves \$'000	Designated reserves \$'000	
At 1 Jan 2007, as previously reported	1,251,390	52,119	10,569	668,262	1,982,340
Effect of reclassification of Compensation Fund Reserve Account ("CFRA")	-	-	-	(40,446)	(40,446)
At 1 Jan 2007, as restated	1,251,390	52,119	10,569	627,816	1,941,894
Issue of shares	66,052	-	-	-	66,052
Employee share-based compensation benefits	-	24,362	-	-	24,362
Fair value change net of deferred tax:					
- financial assets	-	-	45,010	-	45,010
- leasehold buildings	-	-	515	-	515
Share of reserves of an associate (including elimination of reserve through disposal)	-	(513)	(58)	-	(571)
Transfer from retained earnings	-	-	-	67,037	67,037
Vesting of shares of Share Award Scheme	-	(7,286)	-	-	(7,286)
Transfer	19,013	(19,013)	-	-	-
At 31 Dec 2007	1,336,455	49,669	56,036	694,853	2,137,013

## Movements in Retained Earnings for the Year

	2007 \$'000
Profit attributable to shareholders	6,169,278
Dividends	(3,182,459)
Dividends forfeited	2,454
Vesting of shares of Share Award Scheme	(1,087)
Transfer to reserves	(67,037)
Net increase in retained earnings	2,921,149
Retained earnings at 1 Jan 2007, as previously reported	3,326,543
Effect of reclassification of CFRA	40,446
Retained earnings at 31 Dec 2007	6,288,138
Representing:	
Retained earnings	2,652,760
Proposed/declared dividend	3,635,378
	6,288,138

## Notes

Due to the positive market sentiment stimulated by the sustained economic growth in the Mainland and the relaxation of rules governing the permissible investments under the QDII Scheme and the proposed Pilot Programme for Direct Foreign Portfolio Investments by Domestic Individuals under which Mainland individuals would be allowed to directly invest in products listed in Hong Kong, activity on the Stock Exchange and the Futures Exchange increased substantially. As a result, the Group achieved record profit for the fourth consecutive year in 2007. The performance of the Group by operating segment during 2007 was as follows:

- Operating profit of the Cash Market increased by \$1,804m mainly due to the higher turnover of the Cash Market and the rise in Stock Exchange listing fees attributable to the higher number of newly listed derivative warrants during the year.
- Operating profit of the Derivatives Market increased by \$742m mainly as a result of the increase in net investment income from the Margin Fund investments and the increase in the level of activity on the Derivatives Market.
- Operating profit of the Clearing Business rose by \$1,221m mainly attributable to the increase in clearing and settlement fees generated from Cash Market transactions and depository, custody and nominee services fees.
- Operating profit of the Information Services Business increased by \$276m as demand for information increased in tandem with the activity of the Cash and Derivatives Markets.
- The Group disposed of its entire interest in CHIS during the year and generated a gain of \$206m.
- Share of profit of an associate decreased due to the disposal of the Group's investment in CHIS in April 2007.
- Fixed assets, land and properties increased by \$55m mainly due to additions of \$194m, but partly offset by depreciation of \$79m and the reclassification of two properties as non-current assets held for sale of \$60m.
- Funds comprised Margin Funds of \$55,429m (2006: \$21,666m) and Clearing House Funds of \$2,192m (2006: \$2,271m). The rise in Margin Funds was as a result of increased open interest in futures and options contracts and the increase in margin rates required per derivative contract. The decrease in Clearing House Funds reflected the decrease in additional contributions from Participants in response to market fluctuations and changes in risk exposure.
- In September 2007, the Board approved the disposal of one of the leasehold properties and the investment property. The properties were reclassified as non-current assets held for sale. Subsequent to the year end, the Group sold the properties to third parties and generated a profit of \$69m, which was recognised in the consolidated income statement in 2008.
- Other assets mainly consisted of money obligations receivable under the Continuous Net Settlement system of \$17,302m (2006:\$9,586m) and other receivables.
- Participants' contributions to Funds represented Margin deposits from Participants of \$55,429m (2006:\$21,666m) and Participants' contributions to Clearing House Funds of \$1,497m (2006:\$1,643m). The reasons for the movements in the funds as explained in note 8.
- Other liabilities mainly represented money obligations payable under the Continuous Net Settlement system of \$17,300m (2006:\$9,588m) and other payables.
- Shares were held by The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust") on behalf of eligible employees before the Awarded Shares became vested. During the year, \$8m of shares were vested and transferred to eligible employees and \$5m of shares were purchased by the HKEx Employee Share Trust.
- Net cash inflow from operating activities increased by \$4,776m mainly due to higher profit generated during the year.

## Overall Performance

	2007 \$'000	2006 \$'000
<b>RESULTS</b>		
Income:		
Income affected by market turnover	5,290,786	2,390,846
Stock Exchange listing fees	688,538	465,445
Income from sale of information	678,909	391,213
Net investment income	1,238,228	601,080
Other income	494,009	298,332
	<b>8,390,470</b>	<b>4,146,916</b>
Operating expenses	1,411,565	1,210,573
Operating profit	6,978,905	2,936,343
Gain on disposal of an associate	206,317	-
Share of profits of associates	5,587	27,124
Profit before taxation	7,190,809	2,963,467
Taxation	(1,021,531)	(444,898)
Profit attributable to shareholders	<b>6,169,278</b>	<b>2,518,569</b>
Basic earnings per share	\$5.78	\$2.37
Diluted earnings per share	\$5.72	\$2.34
Interim dividend per share	\$1.79	\$0.94
Final dividend per share	\$3.40	\$1.19
	<b>\$5.19</b>	<b>\$2.13</b>
Dividend payout ratio	90%	90%
	<b>2007</b>	<b>2006</b>
<b>KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>		
Shareholders' funds (\$'000)	8,377,348	5,257,586
Total assets * (\$'000)	87,944,189	40,464,406
Net assets per share #	\$7.83	\$4.94

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

# Based on 1,069,228,714 shares as at 31 December 2007, being 1,070,285,346 shares issued and fully paid less 1,056,632 shares held for the Share Award Scheme (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 achieved record high profit for the fourth consecutive year in 2007. Profit attributable to shareholders increased by 145 per cent to \$6,169 million for the year ended 31 December 2007, compared with \$2,519 million for 2006 mainly due to higher turnover-related income, higher net investment income and the one-off gain on disposal of an associate during the year.

Due to positive market sentiment stimulated by sustained economic growth in the Mainland and the relaxation of rules governing the permissible investments under the QDII scheme and the proposed Pilot Programme for Direct Foreign Portfolio Investments by Domestic Individuals under which Mainland individuals would be allowed to directly invest in products listed in Hong Kong, activity on the Stock Exchange and the Futures Exchange increased substantially, in particular in the second half of 2007. Several new records were achieved in the Cash and the Derivatives Markets in 2007, including the highest total equity capital raised, record annual turnover on the Cash Market and the highest number of contracts traded on the Derivatives Market. As a result, total turnover-related income of the Group increased significantly.

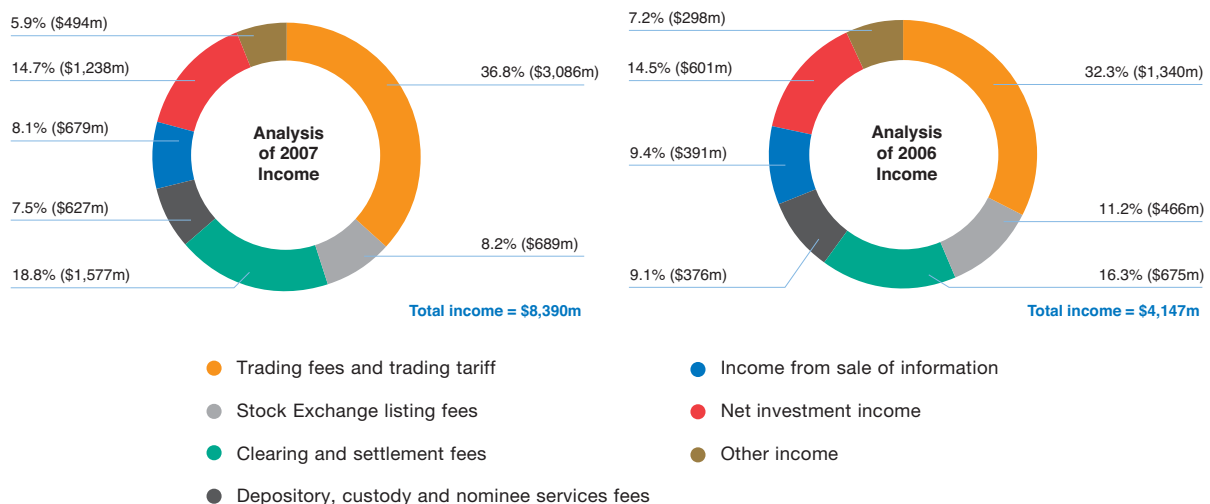
Net investment income more than doubled due to the increase in net interest income as a result of the significant increase in fund size available for investment. Stock Exchange listing fees and income from the sale of information also increased by almost half or more.

Moreover, the Group disposed of its entire interest in an associate, CHIS, during the year and generated a gain of \$206 million.

Total operating expenses increased by 17 per cent during the year mainly due to increases in staff costs and premises expenses driven by the buoyant job and property markets, and higher legal and professional fees but partly offset by a decrease in depreciation.

The accounts have been prepared in accordance with HKFRSs issued by the HKICPA, which have been aligned with the requirements of International Financial Reporting Standards in all material respects as at 31 December 2007.

**Income**



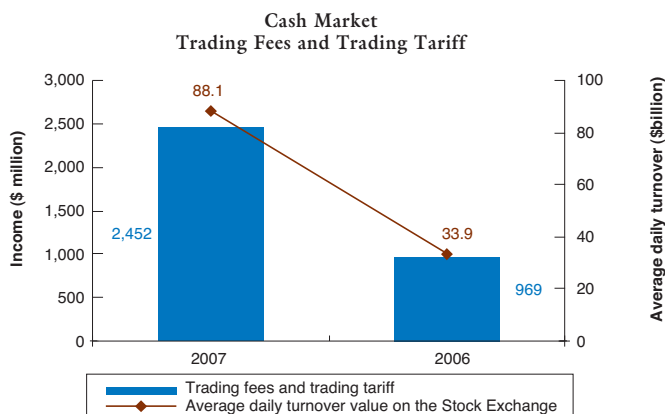
(A) Income affected by market turnover

	2007 \$'000	2006 \$'000	Change
Trading fees and trading tariff	3,086,250	1,340,355	130%
Clearing and settlement fees	1,577,433	674,373	134%
Depository, custody and nominee services fees	627,103	376,118	67%
<b>Total</b>	<b>5,290,786</b>	<b>2,390,846</b>	<b>121%</b>

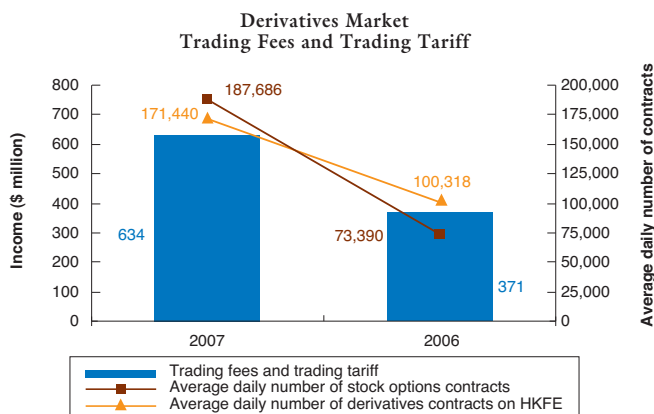
Key market indicators

	2007	2006	Change
Average daily turnover value on the Stock Exchange	<b>\$88.1 billion</b>	\$33.9 billion	160%
Average daily number of derivatives contracts traded on the Futures Exchange	171,440	100,318	71%
Average daily number of stock options contracts traded on the Stock Exchange	187,686	73,390	156%

Trading fees and trading tariff



The increase in trading fees and trading tariff from the Cash Market was mainly due to the significant increase in turnover of the Cash Market. Several new records were achieved in the Cash Market in 2007, including the highest total market turnover and the highest trading turnover of H shares and derivative warrants.



The increase in trading fees and trading tariff from the Derivatives Market was mainly driven by the increase in the number of contracts traded on the Derivatives Market. The total number of futures, options, HSI Futures and Options, H-shares Index Futures and Options and stock options traded was at record high in 2007.

### Clearing and settlement fees

Clearing and settlement fees are derived predominantly from Cash Market transactions. The increase in clearing and settlement fees in 2007 was mainly due to the higher 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 the changes in Cash Market turnover. Clearing and settlement fees did not increase linearly with Cash Market turnover as a higher proportion of the value of transactions was subject to the maximum fee and a lower proportion of the value of transactions was subject to the minimum fee in 2007.

### Depository, custody and nominee services fees

Depository, custody and nominee services fees mainly comprised scrip fees, eIPO handling fees, stock custody fees, dividend collection fees, corporate action fees and stock withdrawal fees. Depository, custody and nominee services fees increased significantly mainly due to higher scrip fees, eIPO handling fees and corporate action fees as a result of increased activity of the Cash Market. The fees were influenced by the level of Cash Market activity but did not move proportionately with changes in Cash Market turnover as they varied mostly with 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.

### (B) Stock Exchange listing fees

	2007 \$'000	2006 \$'000	Change
Annual listing fees	308,163	274,586	12%
Initial and subsequent issue listing fees	374,239	184,601	103%
Others	6,136	6,258	(2%)
<b>Total</b>	<b>688,538</b>	<b>465,445</b>	<b>48%</b>

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 the 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 31 Dec 2007	As at 31 Dec 2006	Change
Number of companies listed on Main Board	1,048	975	7%
Number of companies listed on GEM	193	198	(3%)
<b>Total</b>	<b>1,241</b>	<b>1,173</b>	<b>6%</b>

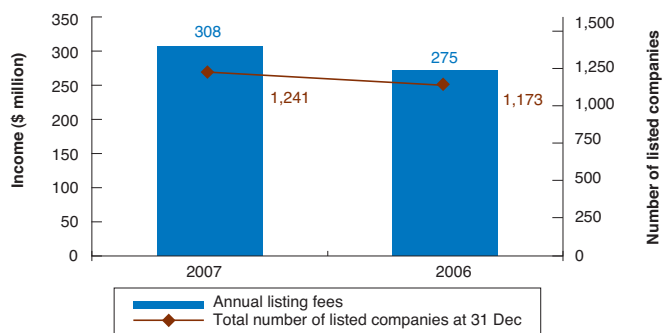
### Key drivers for initial and subsequent issue listing fees

	2007	2006	Change
Number of newly listed derivative warrants	6,312	2,823	124%
Number of newly listed CBBCs	391	83	371%
Number of newly listed companies on Main Board	82	56	46%
Number of newly listed companies on GEM	2	6	(67%)
Number of other newly listed securities on Main Board and GEM	98	93	5%
<b>Total number of newly listed securities</b>	<b>6,885</b>	<b>3,061</b>	<b>125%</b>

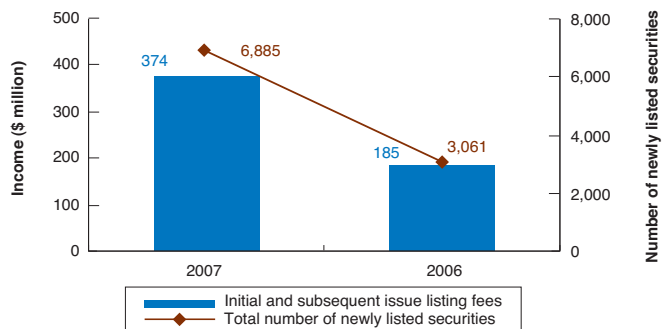
	2007 \$ billion	2006 \$ billion	Change
Total equity funds raised on Main Board	570.9	516.0	11%
Total equity funds raised on GEM	19.5	8.5	129%
<b>Total</b>	<b>590.4</b>	<b>524.5</b>	<b>13%</b>

Annual Listing Fees



Annual listing fees increased in line with the total number of listed companies.

Initial and Subsequent Issue Listing Fees



Initial and subsequent issue listing fees increased with the total number of newly listed securities.



**(C) Income from sale of information**

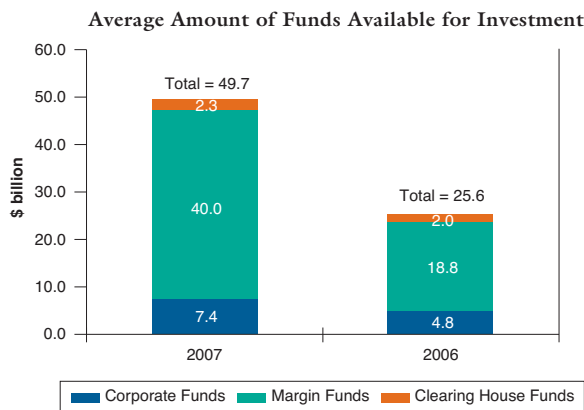
	2007 \$'000	2006 \$'000	Change
Income from sale of information	678,909	391,213	74%

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

**(D) Net investment income**

	2007 \$'000	2006 \$'000	Change
Gross investment income	1,949,955	1,043,750	87%
Interest expenses	(711,727)	(442,670)	61%
Net investment income	1,238,228	601,080	106%

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

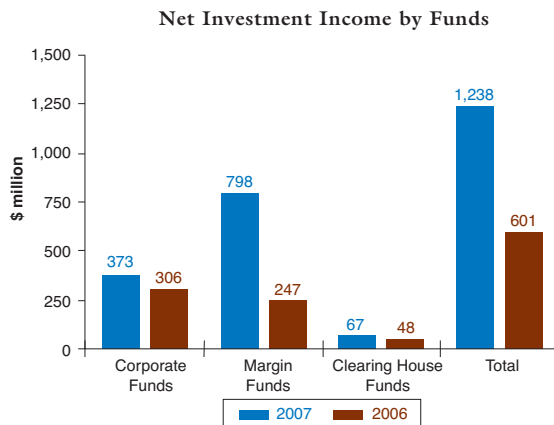


The increase in average amount of Corporate Funds was mainly due to higher profit net of dividends paid.

Average amount of Margin Funds rose primarily because of the increased open interest in futures and options contracts and the higher margin rate required per contract.

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

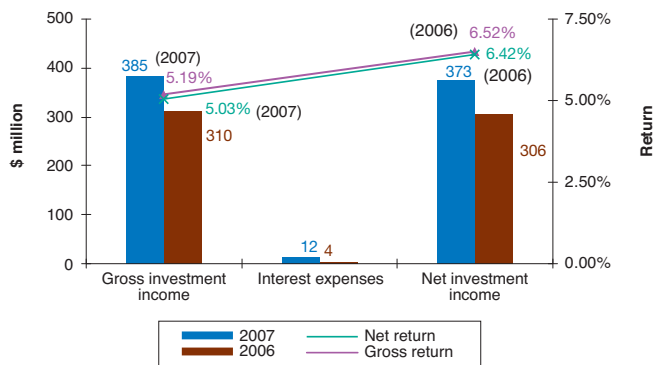
The movements in net investment income by Funds were as follows:



The higher net investment income was primarily due to the significant increase in net interest income of all funds arising from increases in fund size.

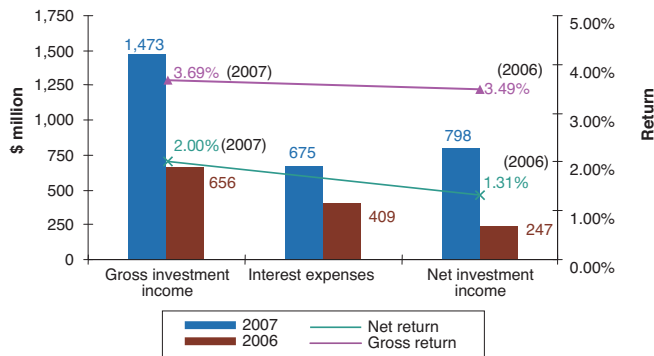
The analysis of investment income by Funds was as follows:

Investment Income – Corporate Funds



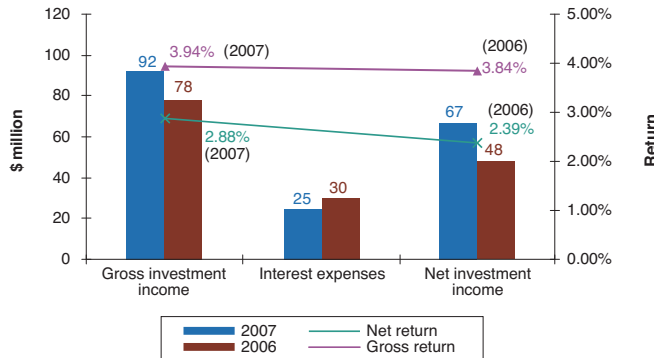
Investment income of Corporate Funds increased mainly due to the higher average fund size. This was, however, partly offset by the decrease in fair value gains of investments, reflecting market movement, which in turn led to a drop in the rate of return.

Investment Income – Margin Funds



Investment income of Margin Funds more than doubled due to the significant increase in average fund size. The increase in gross return on Margin Fund investments was attributable to a drop in the proportion of Margin Funds denominated in Japanese Yen. 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 and the fourth quarter of 2007.

Investment Income – Clearing House Funds



Gross investment income of Clearing House Funds rose due to the higher average fund size and the increase in interest rate of overnight deposits. Interest expenses fell as a lower amount of Clearing House Fund contributions was eligible for interest in 2007. The higher gross return was mainly due to increases in the interest rate for overnight deposits. The increase in net return was higher than the increase in gross return due to the lower proportion of Clearing House Fund contributions eligible for interest in 2007.

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

**(E) Other income**

	2007 \$'000	2006 \$'000	Change
Network, terminal user, dataline and software sub-license fees	311,187	180,372	73%
Participants' subscription and application fees	34,043	33,927	0%
Brokerage on direct IPO allotments	97,730	57,066	71%
Trading booth user fees	9,624	9,162	5%
Fair value gain of an investment property	4,900	1,600	206%
Accommodation income on securities deposited by Participants as alternatives to cash deposits of Margin Funds	15,555	3,164	392%
Sale of Trading Rights	3,000	-	N/A
Miscellaneous income	17,970	13,041	38%
<b>Total</b>	<b>494,009</b>	<b>298,332</b>	<b>66%</b>

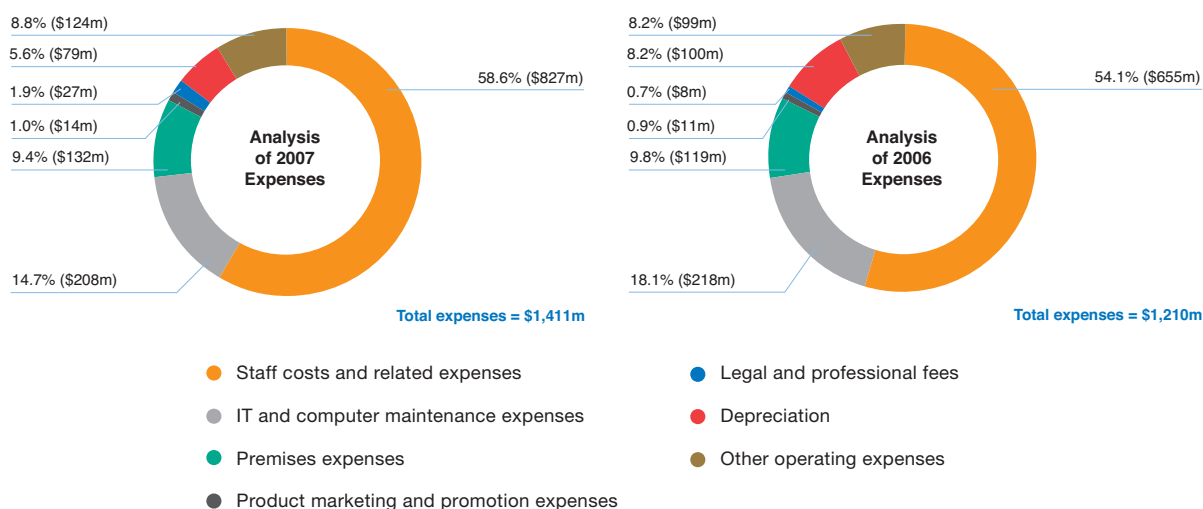
Network, terminal user, dataline and software sub-license fees rose mainly due to an increase in sales of throttle.

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

Accommodation income 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 activity.

**Operating Expenses**



	2007 \$'000	2006 \$'000	Change
Staff costs and related expenses	827,116	654,806	26%
Information technology and computer maintenance expenses	207,422	218,608	(5%)
Premises expenses	132,244	119,167	11%
Product marketing and promotion expenses	14,054	11,270	25%
Legal and professional fees	27,185	7,996	240%
Depreciation	79,144	99,888	(21%)
Other operating expenses	124,400	98,838	26%
<b>Total</b>	<b>1,411,565</b>	<b>1,210,573</b>	<b>17%</b>

Staff costs and related expenses increased by \$172 million, primarily due to an increase in performance bonus of \$141 million (2007: \$254 million; 2006:\$113 million) on account of the improved performance of the Group in 2007 and the increase in salary costs and provident fund contributions as a result of the increase in headcount and salary adjustments.

Information technology and computer maintenance expenses of the Group, after excluding goods and services directly consumed by the Participants of \$73 million (2006: \$85 million), were \$135 million (2006: \$133 million). The decrease in costs directly consumed by Participants was mainly due to lower purchases of OG and AMS/3 terminals by the Participants than in 2006 as most Participants replaced their old terminals in 2006. 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.

Premises expenses rose due to increases 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.

Other operating expenses increased, mainly attributable to higher bank charges due to increased eIPO activity, higher index license fees as a result of the rise in the number of derivative transactions and higher scrip fees paid to share registrars due to the increase in activity on the Cash Market.

### Gain on Disposal of an Associate

	2007 \$'000	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

	2007 \$'000	2006 \$'000	Change
Share of profits of associates	5,587	27,124	(79%)

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

## Taxation

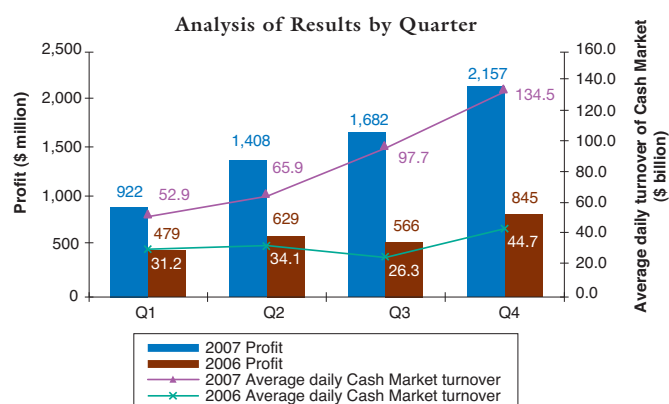
	2007 \$'000	2006 \$'000	Change
Taxation	1,021,531	444,898	130%

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

## Analysis of Results by Quarter

### Analysis of results by quarter

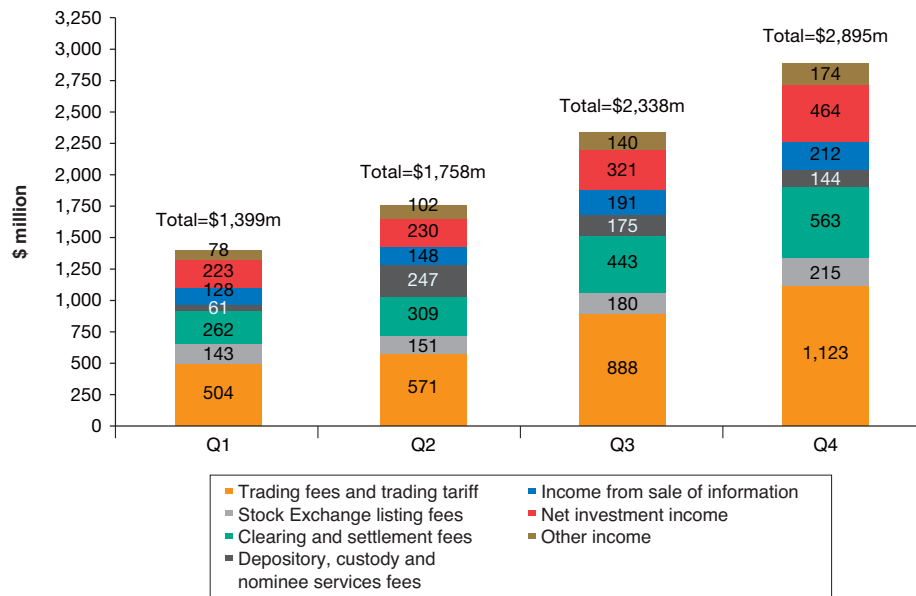
	Q1 2007 \$'000	Q2 2007 \$'000	Q3 2007 \$'000	Q4 2007 \$'000	Total 2007 \$'000
Income	1,398,939	1,757,999	2,338,580	2,894,952	8,390,470
Operating expenses	322,643	343,001	362,849	383,072	1,411,565
Operating profit	1,076,296	1,414,998	1,975,731	2,511,880	6,978,905
Gain on disposal of an associate	–	206,317	–	–	206,317
Share of profits of associates	5,587	–	–	–	5,587
Profit before taxation	1,081,883	1,621,315	1,975,731	2,511,880	7,190,809
Taxation	(159,346)	(213,551)	(293,652)	(354,982)	(1,021,531)
Profit attributable to shareholders	922,537	1,407,764	1,682,079	2,156,898	6,169,278
	Q1 2006 \$'000	Q2 2006 \$'000	Q3 2006 \$'000	Q4 2006 \$'000	Total 2006 \$'000
Profit attributable to shareholders	478,839	629,472	565,718	844,540	2,518,569



Profit attributable to shareholders for all quarters of 2007 has shown a significant growth over the corresponding quarters in 2006. The highest profit was recorded in the fourth quarter of 2007 when the average daily turnover value on the Stock Exchange and average daily number of stock options contracts traded set new records during the quarter.

## Analysis of income by quarter

### Analysis of 2007 Income by Quarter

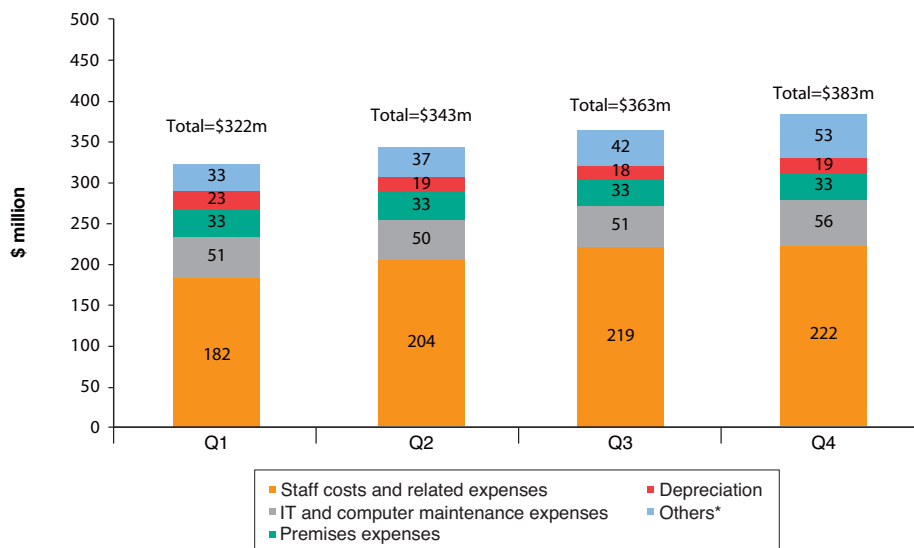


The key market indicators for the income of the Group by quarters are set out below:

	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Year 2007
Average daily turnover value on the Stock Exchange (\$ billion)	52.9	65.9	97.7	134.5	88.1
Average daily number of derivatives contracts traded on the Futures Exchange	144,216	147,572	197,874	194,893	171,440
Average daily number of stock options contracts traded on the Stock Exchange	124,662	137,742	240,131	245,883	187,686
Number of newly listed derivative warrants	1,107	1,198	1,743	2,264	6,312
Number of newly listed companies on Main Board	13	19	20	30	82
Number of newly listed companies on GEM	–	–	–	2	2

## Analysis of operating expenses by quarter

### Analysis of 2007 Expenses by Quarter



\* Others include product marketing and promotion expenses, legal and professional fees and other operating expenses.

## Key Changes to Financial Position

Key changes in the Group's financial position during the year were as follows:

### (A) Fixed assets and capital commitments

The Group's fixed assets consisted of leasehold buildings, computer trading and clearing systems, other computer hardware and software and miscellaneous assets such as leasehold improvements.

As at 31 December 2007, the net book value of fixed assets rose by \$107 million compared with 31 December 2006 mainly due to a \$119 million increase in computer trading and clearing systems and other computer hardware and software to \$269 million (2006: \$150 million), attributable to additions of \$185 million, but partly offset by depreciation of \$66 million for the year. During the year, one of the leasehold buildings with net book value of \$8 million was reclassified as a non-current asset held for sale. The leasehold property was subsequently sold in February 2008.

The Group's capital expenditure commitments as at 31 December 2007, mainly related to the development and purchases of computer systems, amounted to \$165 million (2006: \$92 million). The Group has adequate internal resources to fund its commitments on capital expenditures.

### (B) Funds

	2007 \$'000	2006 \$'000	Change
Clearing House Funds	2,192,204	2,270,531	(3%)
Margin Funds	55,428,888	21,666,474	156%
Corporate Funds	11,490,447	5,908,753	94%
Total	69,111,539	29,845,758	132%

The decrease in Clearing House Funds at 31 December 2007 as compared to 31 December 2006 reflected the decrease in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

The increase in Margin Funds was due to significant increase in open interest in futures and options contracts and the increases in margin rate required per contract.

The increase in Corporate Funds as at 31 December 2007 was mainly due to the higher profit net of dividends paid during the year, increase in profits tax provision but not yet due for payment, and increase in marks and stamp duty collected on behalf of the Government in line with the higher volume of Cash Market activity at the year-end.

### (C) Significant investments held and material acquisitions and disposals of investments and subsidiaries

There were no material acquisitions or disposals of investments and subsidiaries during the year.

Details of the disposal of an associate are set out in the Investments in Associates section under Business Review.

**(D) Accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities**

	2007 \$'000	2006 \$'000	Change
CNS money obligations receivable	17,301,606	9,586,161	80%
Other receivables from Participants	796,724	408,321	95%
Other accounts receivable, prepayments and deposits	270,407	211,759	28%
Less: provision for impairment losses of trade receivables	(4,608)	(4,679)	(2%)
<b>Total accounts receivable, prepayments and deposits</b>	<b>18,364,129</b>	<b>10,201,562</b>	<b>80%</b>
CNS money obligations payable	17,300,191	9,588,374	80%
Other payables to Participants	2,889,564	804,255	259%
Stamp duty payable	414,202	268,236	54%
Other accounts payable, accruals and other liabilities	771,952	457,443	69%
<b>Total accounts payable, accruals and other liabilities</b>	<b>21,375,909</b>	<b>11,118,308</b>	<b>92%</b>

The Group's accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities mainly comprised CNS money obligations receivable and payable and other receivables from and payables to Exchange and Clearing Participants.

The significant increase in CNS money obligations receivable and payable as at 31 December 2007 was partly due to the increase in the level of Cash Market activity at the end of 2007 compared with the end of 2006. In addition, the last trading day in 2007 was not a settlement day when the Stock Exchange was only opened for trading for half a day. Accordingly, the amounts outstanding as at 31 December 2007 represented unsettled transactions for two trading days whereas the amounts as at 31 December 2006 comprised one day of unsettled trades.

Other receivables from Participants (mainly transaction levy, stamp duty and fees receivable), other payables to Participants (mainly cash marks received from Participants) and stamp duty payable to the Government all recorded a considerable increase as a result of the increased activity on the Cash Market at the year-end.

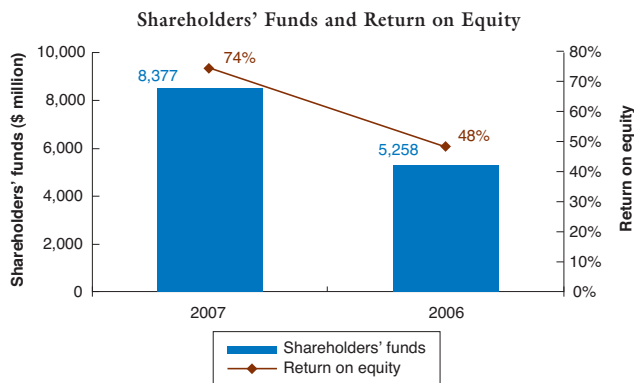
Other accounts payable, accruals and other liabilities also recorded a significant increase in 2007 due to the increase in transaction levy payable to the SFC as a result of the increased activity on the Cash and Derivatives Markets and the increase in payable in respect of purchases of fixed assets.

**(E) Shareholders' funds and return on equity**

Shareholders' funds as at 31 December 2007 increased by \$3,119 million to \$8,377 million (2006: \$5,258 million). The increase was mainly attributable to a \$2,988 million increase in retained profit before transfers to designated reserves and a \$45 million increase in revaluation reserves. Share capital, share premium, shares held for Share Award Scheme and employee share-based compensation reserve in aggregate rose by \$86 million mainly due to share options exercised and share-based compensation benefits recognised less the shares purchased for the Share Award Scheme.

Return on equity rose from 48 per cent in 2006 to 74 per cent in 2007 as profit attributable to shareholders increased.





Return on equity achieved a new record due to the record high profit in 2007.

### Liquidity, Financial Resources and Gearing

Working capital rose by \$3,104 million or 72 per cent to \$7,416 million as at 31 December 2007 (2006: \$4,312 million). The increase was primarily due to the profit generated during the year of \$6,169 million, the reclassification of \$64 million of non-current assets as held for sale, and the proceeds from issuing shares upon the exercise of employee share options less shares purchased for the Share Award Scheme of \$61 million, which was partly offset by payment of the 2006 final dividend of \$1,270 million and 2007 interim dividend of \$1,912 million, and the decrease in other net current assets of \$8 million.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. As at 31 December 2007, the Group's total available banking facilities amounted to \$3,058 million (2006: \$1,558 million), of which \$3,000 million (2006: \$1,500 million) represented repurchase facilities to augment the liquidity of the Margin Funds.

Borrowings of the Group have been rare and are mostly event driven, with little seasonality. As at 31 December 2007 and 31 December 2006, the Group had no bank borrowings, and therefore had zero gearing.

As at 31 December 2007, 99 per cent (2006: 97 per cent) of the Group's cash and cash equivalents (comprising cash on hand, bank balances and time deposits within three months of maturity when acquired) were denominated in HKD or USD.

### Charges on Assets

None of the Group's assets was pledged as at 31 December 2007 and 31 December 2006.

### 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 48(a)(i) – Foreign exchange risk to the consolidated accounts of this Annual Report.

### Contingent Liabilities

Details of contingent liabilities are included in note 42 to the consolidated accounts of this Annual Report.

# FINANCIAL STATISTICS SINCE THE YEAR OF MERGER

	2007	2006	2005	2004	2003	2002	2001	2000
<b>KEY MARKET STATISTICS</b>								
Average daily turnover value on the Stock Exchange in \$ billion	88.1	33.9	18.3	16.0	10.4	6.7	8.2	12.7
Average daily number of derivatives contracts traded on the Futures Exchange	171,440	100,318	68,157	56,752	41,889	30,038	27,192	22,118
Average daily number of stock options contracts traded on the Stock Exchange	187,686	73,390	35,385	22,720	17,122	15,203	16,567	16,958
<b>INCOME STATEMENT</b> in \$ million								
Income	8,390	4,147	2,694	2,394	2,020	1,808	1,998	2,312
Operating expenses	1,411	1,210	1,145	1,156	1,224	1,165	1,179	1,331
Operating profit	6,979	2,937	1,549	1,238	796	643	819	981
Gain on disposal of an associate	206	-	-	-	-	-	-	-
Share of profits less losses of associates	6	27	18	13	9	5	-	-
Profit before taxation	7,191	2,964	1,567	1,251	805	648	819	981
Taxation	(1,022)	(445)	(227)	(194)	(112)	(59)	(85)	(98)
Profit attributable to shareholders	6,169	2,519	1,340	1,057	693	589	734	883
Dividend per share in \$	5.19	2.13	1.13	0.90	0.60	0.51	0.33	0.33
- Interim and final dividends	-	-	-	-	1.68	-	-	-
- Special dividend	-	-	-	-	-	-	-	-
	5.19	2.13	1.13	0.90	2.28	0.51	0.33	0.33
Basic earnings per share in \$	5.78	2.37	1.26	1.00	0.66	0.56	0.71	0.85
<b>STATEMENT OF FINANCIAL POSITION<sup>Ω</sup></b> in \$ million								
Non-current assets	2,621	2,726	1,837	2,405	2,671	1,850	1,768	2,168
Current assets	85,323	37,738	21,104	19,049	17,145	12,190	11,969	11,984
Current liabilities	(77,907)	(33,426)	(17,709)	(15,966)	(13,056)	(7,946)	(7,895)	(8,677)
Net current assets	7,416	4,312	3,395	3,083	4,089	4,244	4,074	3,307
Total assets less current liabilities	10,037	7,038	5,232	5,488	6,760	6,094	5,842	5,475
Non-current liabilities	(1,660)	(1,780)	(895)	(1,456)	(1,146)	(600)	(620)	(620)
Shareholders' funds	8,377	5,258	4,337	4,032	5,614	5,494	5,222	4,855
Net assets per share in \$ <sup>^</sup>	7.83	4.94	4.09	3.82	5.35	5.26	5.02	4.67
<b>FINANCIAL RATIOS</b>								
Dividend payout ratio <sup>@</sup>	90%	90%	90%	90%	91%	91%	46%	39%
Cost to income ratio <sup>*</sup>	16%	29%	42%	48%	60%	64%	59%	58%
Pre-tax profit margin <sup>*</sup>	84%	71%	58%	52%	40%	36%	41%	42%
Return on equity <sup>#</sup>	74%	48%	31%	26%	12%	11%	14%	18%
Current ratio	1.1	1.1	1.2	1.2	1.3	1.5	1.5	1.4

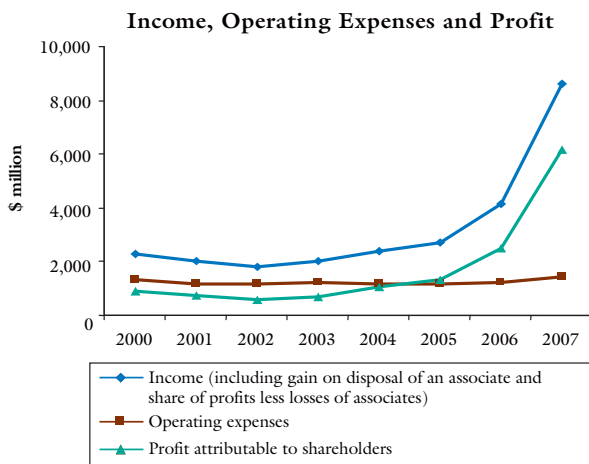
<sup>Ω</sup> Certain comparative figures have been adjusted to conform with changes in presentation in the current year.

<sup>^</sup> Based on number of shares issued and fully paid less number of shares held for the Share Award Scheme at 31 December

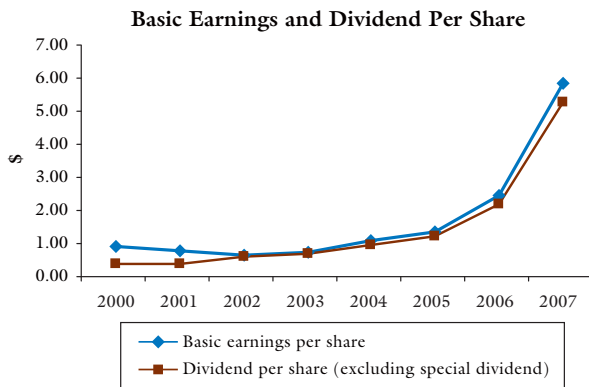
<sup>@</sup> The calculation of dividend payout ratio does not take into account special dividend.

<sup>\*</sup> For the purpose of computation of cost to income ratio and pre-tax profit margin, income includes gain on disposal of an associate and share of profits less losses of associates.

<sup>#</sup> Based on shareholders' funds as at 31 December

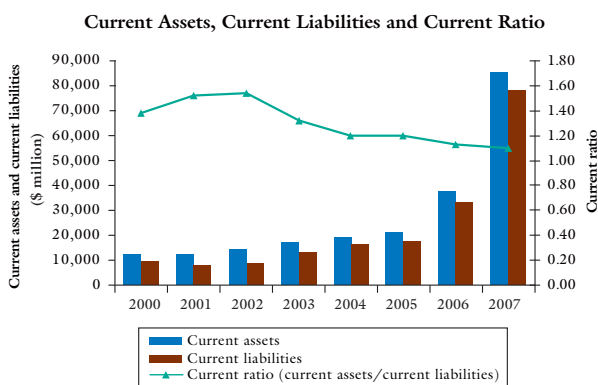


Profit attributable to shareholders declined during 2000 to 2002 as the market sentiment was adversely affected by the weak global economic environment, risk of war against Iraq and accounting scandals in the US. It started to pick up in 2003 following the end of the Severe Acute Respiratory Syndrome threat as there were increasing hopes of a revival in the Hong Kong economy. Thereafter, activity on the Cash and Derivatives Markets continued to gather increasing momentum, in particular in 2006 when various large IPOs were listed. Market sentiment was further boosted in 2007 by the strengthening Mainland economy, the relaxation of rules governing permissible investments under the QDII Scheme in the Mainland and the proposed Pilot Programme for Direct Foreign Portfolio Investments by Domestic Individuals which culminated in record high turnover of the Cash and Derivatives Markets for the fourth consecutive year. Despite increasing pressure on staff and premises costs, operating expenses were kept relatively stable due to stringent cost controls. As a result, the increase in income was translated directly into higher profit attributable to shareholders which achieved record high for the fourth consecutive year in 2007.

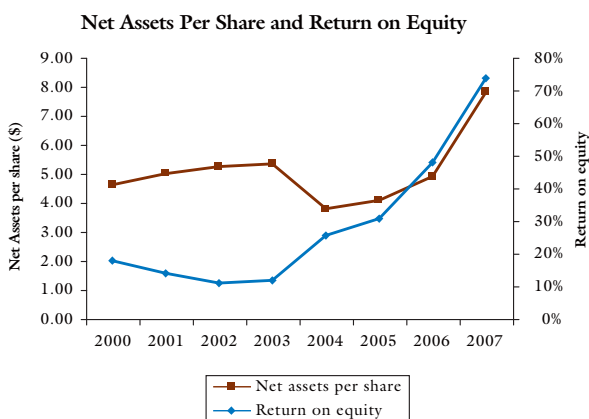


As there were no significant changes in the issued share capital, earnings per share followed the same trend as profit attributable to shareholders and reached a new high in 2007.

Since 2002, the Board has adopted a dividend policy of providing shareholders with regular dividends with a target payout ratio of 90%. Thereafter, dividend per share moved in line with earnings per share.



Current assets and current liabilities are directly affected by the amount of CNS money obligations receivable and payable under the T+2 settlement cycle and the size of the Margin Funds. Current assets and current liabilities as at the year-ends have been rising since 2003 due to the continued growth in activity on the Cash and Derivatives Markets.



Net assets per share have been increasing steadily due to profits retained until 2004 when a special dividend of \$1.68 per share was paid in May 2004.

Return on equity moved in line with profit attributable to shareholders. The sharp increase in return on equity in 2004 was also due to the special dividend paid in May 2004. Both statistics continued to rise thereafter as a result of the record profits achieved in successive years.

# CORPORATE GOVERNANCE REPORT

## Overview

The corporate governance philosophy of HKEx

**Accountability, Transparency, Fairness and Integrity** are the cornerstones on which the Board has formulated its corporate governance policies to steer the Company in discharging its public and corporate responsibilities.

HKEx believes good governance practices improve the transparency of the company's business and performance, protect shareholders' rights, and help secure investor confidence. As a market regulator, HKEx is pleased to accept a leadership role in setting and articulating corporate governance standards for our business community to reinforce Hong Kong's position as an international financial centre.

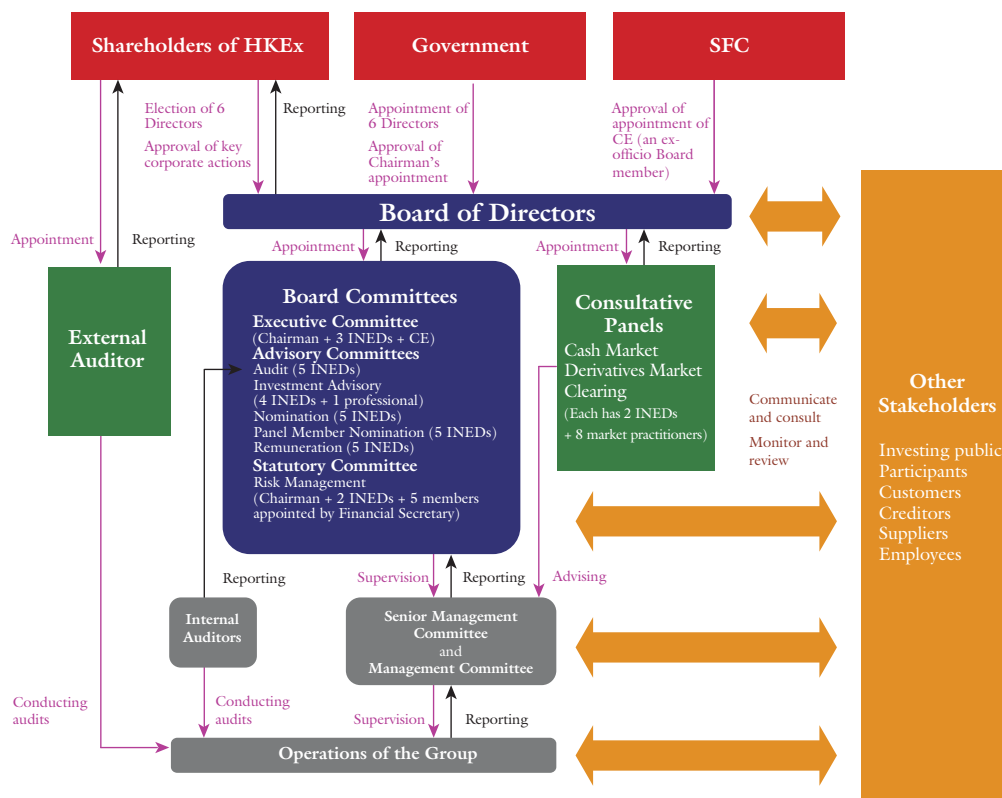
Our city's good corporate governance standards have met with acknowledgment. Hong Kong was ranked at the top in terms of corporate governance among 11 Asian markets, according to the September 2007 survey by CLSA Asia-Pacific Markets and the Asian Corporate Governance Association.

As a listed commercial entity, HKEx fully complied with all the provisions set out in the CG Code contained in Appendix 14 to the Main Board Listing Rules, and where appropriate, adopted the recommended best practices throughout 2007 save that the Government Appointed Directors, and the Chief Executive in his capacity as a Director, are not subject to election or re-election by Shareholders, and their appointments are governed by Section 77 of the SFO and the Articles of Association respectively.

**This Report** aims to provide Shareholders with a compendium of HKEx's governance principles and practices, major work done in the furtherance of corporate governance standards at HKEx as well as related changes in 2007. Details of our governance measures are available in the Corporate Governance section on HKEx's corporate website.

## Corporate Governance Structure

A comprehensive framework to enhance accountability to our Shareholders and other stakeholders



Notes: INED(s) – Independent non-executive Director(s)  
CE – the Chief Executive of HKEx

**Checks And Balances** – The following table sets out some of the measures undertaken to handle conflicts or potential conflicts arising from HKEx's dual roles as the exchange controller and a listed company:

Specific statutory duties have been imposed on HKEx under the SFO	<ul style="list-style-type: none"> <li>• HKEx is responsible for providing and ensuring an orderly, informed and fair market for securities or futures contracts traded on the stock market or futures market operated by HKEx or through its facilities</li> </ul>
Oversight by the SFC	<ul style="list-style-type: none"> <li>• HKEx as a listed issuer is regulated directly by the SFC which can give directions to avoid potential conflicts between HKEx's public responsibilities and commercial interests</li> <li>• Any rule changes of, or fees imposed by, the Stock Exchange and the Futures Exchange and their related clearing houses require the SFC's approval</li> </ul>
Independent listing function	<ul style="list-style-type: none"> <li>• Independent Listing Committees operating under no influence from the Board are responsible for overseeing the conduct of the Listing Division. The independent Listing Appeals Committee is responsible for reviewing decisions made by the Listing Division and the Listing Committees. An annual Listing Committee Report is released together with this Annual Report</li> <li>• Procedures and practices for the performance of the Stock Exchange's listing function were reviewed by the ICAC</li> <li>• SFC conducts annual review of the Stock Exchange's performance in its regulation of listing matters</li> </ul>

Details about conflict management are elaborated on in the Corporate Governance section on HKEx's corporate website.

## Key Corporate Governance Principles and Practices

Translating our corporate governance philosophy into practice

### THE BOARD

#### Roles and Responsibilities

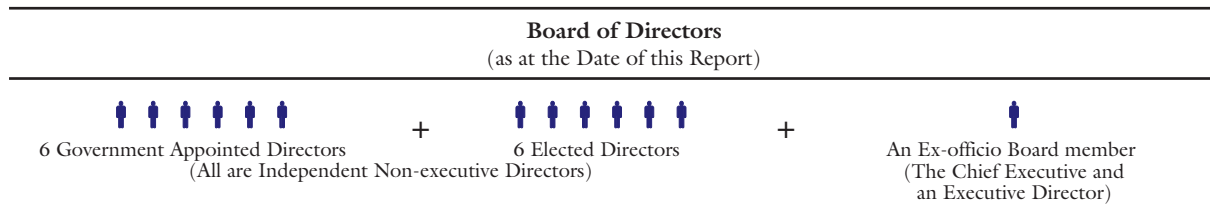
The Board assumes the responsibility for leadership and control of HKEx and is collectively responsible for promoting the Group's success. Each Director is well aware of his/her principal as well as specific roles and responsibilities.

Principal Responsibilities	Specific Role
<ul style="list-style-type: none"> <li>• To lay down the Group's objectives, strategies, policies and business plan and to monitor implementation</li> <li>• To monitor and control the Group's operation and financial performance through the determination of the annual budgets in particular, the capital expenditure budget</li> <li>• To set appropriate policies to manage risks in pursuit of the Group's strategic objectives</li> <li>• To determine the appropriate systems of control, including systems for risk management, financial and operational control as the foundation for ensuring the integrity of the Company's accounting and financial reporting system</li> </ul>	<ul style="list-style-type: none"> <li>• To act in the interest of the public, having particular regard to the interest of the investing public. They have to ensure that the interest of the public prevails where it conflicts with any other interest of HKEx</li> </ul>

The Board has delegated day-to-day operational responsibilities to the executive management under the instruction/supervision of the Chief Executive and various Board committees.

## Board Composition

The Board structure is governed by Article 90 of the Articles of Association and Section 77 of the SFO. Pursuant to the SFO, the Financial Secretary may appoint any person as a Government Appointed Director but the number of such shall not exceed the number of the Elected Directors, excluding the Chief Executive.



The service term of every Director, except the Chief Executive who is an ex-officio member, is not longer than three years. Retiring Directors are eligible for re-appointment or re-election. The staggered structure enables the Board to change its membership in an orderly manner over time while maintaining leadership stability and continuity, and allows regular evaluation of the mix of skills and experience of the Board.

Details of the rules governing the appointment, re-election and removal of Directors are laid down in the Articles of Association. Biographies of the Directors and their respective terms of office are set out in the Board of Directors and Senior Management section of this Annual Report and are also available on HKEx's corporate website.

## Chairman and Chief Executive

For the year under review, Mr Ronald J Arculli and Mr Paul M Y Chow continued to hold the positions as the Group's Chairman and Chief Executive, respectively, with segregated responsibilities in order to avoid concentration of power and control. Each plays a distinctive role and complements the other.

	Chairman	Chief Executive
<b>Responsibilities</b>	<ul style="list-style-type: none"> <li>• to provide leadership to ensure effective operation of the Board</li> <li>• to ensure all key and appropriate issues are discussed by the Board in a timely and constructive manner</li> <li>• to lead the Board in establishing good corporate governance practices and procedures for the Group</li> </ul>	<ul style="list-style-type: none"> <li>• to lead the management in the daily operation of the Group</li> <li>• to ensure the approved strategies are effectively implemented in pursuit of the Group's objectives</li> <li>• to implement the adopted corporate governance practices and to monitor and assess performance</li> </ul>
<b>Appointment</b>	<ul style="list-style-type: none"> <li>• appointed by the Board, subject to the approval of the Chief Executive of the Government</li> </ul>	<ul style="list-style-type: none"> <li>• selected by the Selection Committee (an ad hoc committee) and approved by the Board, subject to the approval of the SFC</li> </ul>

## Changes in 2007

<b>Elected Directors</b>	Mr John E Strickland and Mr Oscar S H Wong <ul style="list-style-type: none"> <li>• successfully re-elected by Shareholders at the 2007 AGM</li> <li>• service term: approximately three years from 26 April 2007 until the conclusion of the AGM to be held in 2010</li> </ul>
<b>Government Appointed Directors</b>	Dr Marvin K T Cheung, Mr Henry H L Fan and Mr Fong Hup <ul style="list-style-type: none"> <li>• re-appointed by the Financial Secretary on 26 April 2007</li> <li>• service term: approximately two years from 26 April 2007 until the conclusion of the AGM to be held in 2009</li> </ul>

Two Elected Directors, namely, Dr Bill C P Kwok and Mr Vincent K H Lee; and three Government Appointed Directors, namely, Mr Ronald J Arculli, Mrs Laura M Cha and Dr Moses M C Cheng will retire in accordance with their respective term of service at the conclusion of the 2008 AGM. Pursuant to Article 93(5) of the Articles of Association, all retiring Directors are eligible for re-appointment/re-election.

### Independence of Directors

Pursuant to the Listing Rules, every non-executive Director has confirmed his/her independence with the SFC upon his/her appointment. All Directors have also confirmed that they are totally unrelated to each other and with the Senior Management in every aspect including financial, business, or family.

On 5 March 2008, the Nomination Committee assessed and reviewed each of the non-executive Directors' annual confirmation of independence pursuant to rule 3.13 of the Main Board Listing Rules. As a good corporate governance practice, every member abstained from assessing his own independence. After taking into consideration that the Government has 5.88 per cent interest in HKEx, the Nomination Committee, by majority, affirmed that all non-executive Directors remain independent in accordance with the evaluation criteria set out in the Listing Rules albeit six of the non-executive Directors were Government appointed and four of them are Executive Councillors.

### Nomination of Directors

The Nomination Committee (comprising five INEDs) is mandated to lead the process of identifying and nominating suitable candidates to be considered, and if appropriate, recommended by the Board to stand for election by Shareholders at the annual general meeting, or when necessary, nominating candidates to fill casual vacancies of the Board. The terms of reference of the Nomination Committee are posted on HKEx's corporate website.

In the selection process, the Nomination Committee makes reference to criteria including, inter alia, reputation for integrity, accomplishment and experience in the financial service industry, in particular in the Cash and Derivatives Markets and the clearing business, professional and educational background, and commitment in respect of available time.

During 2007, one meeting was held by the Nomination Committee on 8 March 2007 to review the independence of the 12 non-executive Directors and to nominate the two retiring Board members, namely, Mr John E Strickland and Mr Oscar S H Wong, for the Board's recommendation to Shareholders for election at the 2007 AGM.

### Board Process and Effectiveness

The proceedings of the Board are well defined and follow all the recommended best practices of the CG Code as set out in the Main Board Listing Rules. Major board processes are summarised as follows:

- The Board meets regularly, and meeting schedules of each year are normally available to all members before start of the year. The attendance record is shown on page 86 of this Annual Report.
- Directors, who have declared a conflict of interest or material interest (ie, an interest of five per cent or more according to the Articles of Association) in a proposed transaction or issue to be discussed, would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution.
- Minutes of the Board/committee meetings with sufficient details on matters and concerns discussed are kept in safe custody by the Company Secretary, and are open for inspection by Directors.
- Other than regular Board meetings, non-executive Directors also meet periodically without the management to discuss matters of particular interest.

- To discharge their respective functions, the Board and committees are provided with sufficient resources, including retention of outside advisers, if necessary, to provide advice on any specific matter at the cost of HKEx.
- In order to have an effective Board, the management provides appropriate and sufficient information to Directors and committee members in a timely manner to keep them apprised of the latest development of the Group and to enable them to have a thorough consideration of all matters to be discussed at the relevant meetings.
- A comprehensive Director's Handbook is issued to every Director, which sets out the guidelines on conduct by making reference to the applicable laws and the Listing Rules, and reminds Directors of their responsibilities to make disclosure of their interests, potential conflict of interests and changes in personal particulars to HKEx in a timely manner. The Director's Handbook is updated periodically to reflect the relevant changes in the applicable laws and Listing Rules.

### Board Committees

The Board is supported by six committees and a statutory committee, each of them has a defined role and responsibilities. The composition of each committee is set out on page 20 of this Annual Report, which together with the respective terms of reference are also available on HKEx's corporate website.

Save for the Executive Committee, the Investment Advisory Committee and the Risk Management Committee, all committees comprise solely INEDs. The chairmen of the respective committees report regularly to the Board, and make recommendations, where appropriate, on matters that require the Board's consideration and approval.

The attendance of individual Directors and committee members in 2007 is set out below.

Meetings in 2007									
	Board	Executive Committee	Audit Committee	Investment Advisory Committee	Nomination Committee	Panel Member Nomination Committee	Remuneration Committee	Risk Management Committee (statutory)	2007 AGM
<b>Number of Meetings Held during the Year</b>	12	17	5	4	1	1	4	9	1
<b>Independent Non-executive Chairman</b>									
Ronald J Arculli <sup>1</sup>	12/12	17/17			1/1		2/2	9/9	1/1
<b>INEDs</b>									
Laura M Cha <sup>1</sup>	9/12			3/4		1/1	1/2		1/1
Moses M C Cheng	11/12		5/5				3/4		1/1
Marvin K T Cheung <sup>1,2,3,5</sup>	8/12		3/5				0/2	5/7	1/1
Henry H L Fan <sup>4,5,6</sup>	12/12			1/1	0/0			2/2	1/1
Fong Hup <sup>1,6</sup>	12/12	16/17	4/5		1/1	1/1	2/2	7/9	1/1
Bill C P Kwok	12/12	16/17				1/1		9/9	1/1
Vincent K H Lee	12/12	16/17	5/5		1/1	1/1	4/4		1/1
Christine K W Loh	10/12						3/4		1/1
John E Strickland <sup>2,4,6</sup>	10/12		2/2	3/3	0/0				1/1
David M Webb <sup>2</sup>	12/12		3/3	4/4	1/1				1/1
Oscar S H Wong <sup>6</sup>	12/12			4/4	1/1	1/1			1/1
<b>Executive Director</b>									
Paul M Y Chow (Chief Executive)	11/12	16/17							1/1
<b>Market Professionals</b>									
Chan Ka-lok								8/9	
He Guangbei								7/9	
Edmond Y P Lau <sup>5</sup>								3/3	
Keith K K Lui								9/9	
David T K Sun				2/4					
Eddie W M Yue <sup>5</sup>								5/6	
<b>Average attendance rate</b>	<b>92%</b>	<b>95%</b>	<b>88%</b>	<b>85%</b>	<b>100%</b>	<b>100%</b>	<b>75%</b>	<b>89%</b>	<b>100%</b>



## Notes:

1. Mr Ronald J Arculli and Mrs Laura M Cha were appointed respectively as the chairman and a member of the Remuneration Committee effective 27 April 2007. Dr Marvin K T Cheung and Mr Fong Hup retired from the Remuneration Committee on 26 April 2007.
2. Dr Marvin K T Cheung was appointed as the chairman of the Audit Committee on 27 April 2007 to succeed Mr John E Strickland. Mr David M Webb was appointed as a member of the Audit Committee effective 27 April 2007.
3. Due to his health, Dr Marvin K T Cheung took a special leave of absence from Board meetings and relevant committee meetings. He resumed attending Board and committee meetings effective 27 April 2007.
4. Mr John E Strickland was appointed as the chairman of the Investment Advisory Committee effective 27 April 2007 to succeed Mr Henry H L Fan.
5. Dr Marvin K T Cheung was appointed as a member of the Risk Management Committee effective 27 April 2007 to succeed Mr Henry H L Fan. Mr Edmond Y P Lau was appointed as a member of the Risk Management Committee effective 1 September 2007 to succeed Mr Eddie W M Yue.
6. Mr Henry H L Fan and Mr John E Strickland were appointed as members of the Nomination Committee effective 27 April 2007. Mr Fong Hup and Mr Oscar S H Wong retired from the Nomination Committee on 26 April 2007.

### Consultative Panels

To facilitate the decision-making of the Board, three Consultative Panels have been established, namely the **Cash Market Consultative Panel**, **Derivatives Market Consultative Panel** and **Clearing Consultative Panel**.

Consultative Panels	
<b>Composition</b>	2 Directors + 8 representatives of market participants or industry experts The list of members of each Panel is available on HKEx's corporate website
<b>Appointment</b>	The Panel Member Nomination Committee (a Board committee) is mandated to identify and nominate candidates for appointment or re-appointment to the Consultative Panels for the Board's consideration and approval
<b>Major Responsibilities</b>	Provision of market expertise and advice to the Board on international trends, the demand of intermediaries, issuers, investors and other market participants, technological challenges and new product opportunities relating to the Cash and Derivatives Markets and clearing business
<b>Meetings Held in 2007</b>	Cash Market Consultative Panel – one Derivatives Market Consultative Panel – four Clearing Consultative Panel – four

### Remuneration of Directors and Senior Management

The Remuneration Committee has prepared a report, as set out on page 99 of this Annual Report, which summarises its work in 2007. It encapsulates the Group's refined remuneration structure and policy, and discloses, on a named basis, the remuneration including the awarded share benefits of every Director and member of the Senior Management for the year ended 31 December 2007.

### Accountability and Audit

#### Reporting

Directors are responsible for overseeing the preparation of the annual accounts which give a true and fair view of the Group's state of affairs, results and cash flow for the year. In preparing the accounts for the year ended 31 December 2007, the Directors:

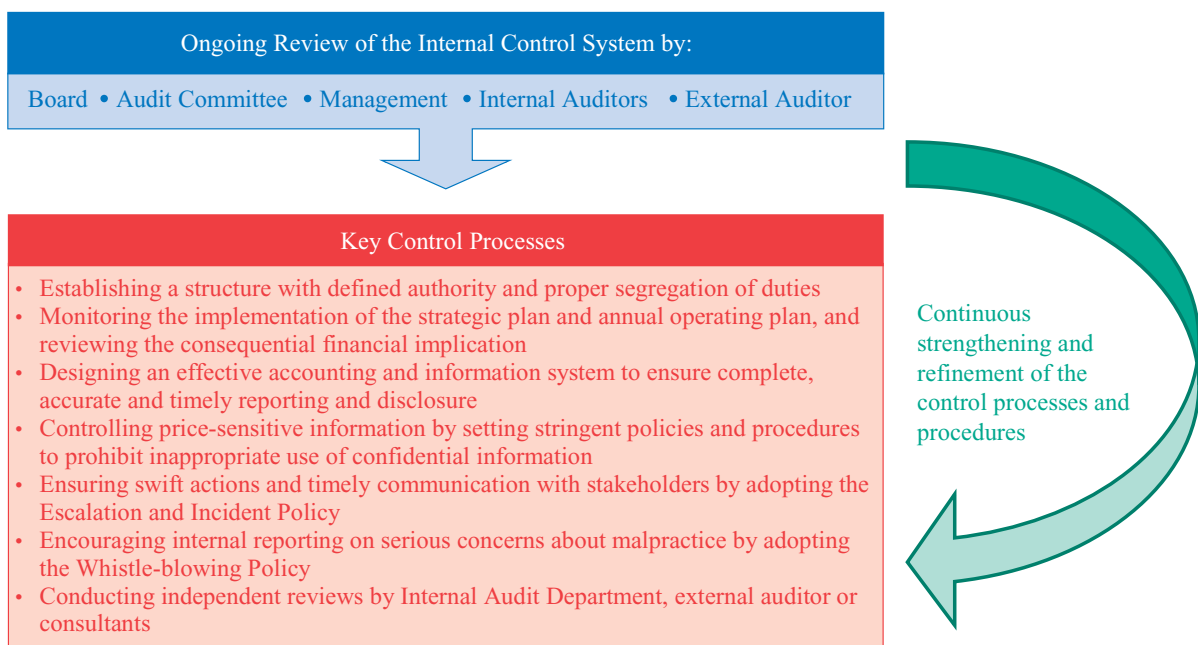
- adopted all HKFRSs which are in conformity to the International Financial Reporting Standards in all material respects;
- selected suitable accounting policies and applied them consistently; and
- made judgements and estimates that are prudent and reasonable, and ensured that the accounts were prepared on the going concern basis.

HKEx recognises that high quality, transparent and timely corporate reporting is important to reinforce the confidence of stakeholders in the Company. The annual, interim, and quarterly results of HKEx are published in a timely manner within three months, two months and 45 days respectively after the end of the relevant periods. The reports aim to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

### Internal Controls

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained. As the system serves as an integral part of HKEx's management system, the responsibility of day-to-day management of operational risks and implementation of mitigation measures rests with management and individual divisions/departments. The Senior Management Committee which comprises the Head of Risk Management Division as a member, is responsible for monitoring and assessing risks for individual business initiatives as well as providing an oversight of risk management across the Company.

The key processes that the Board established to provide effective internal controls are summarised as follows. Details are available in the Corporate Governance section on HKEx's corporate website.



The internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and manage rather than eliminate risks of failure to achieve business objectives. The system is under review and is modified from time to time to ensure that it remains efficient and effective. Besides regular management reviews, the internal audit also plays an important role in monitoring and evaluating the internal controls or governance of the Group.

### **Annual Assessment of Internal Control System**

The Group's internal control system is reviewed regularly by management and the Internal Audit Department. The Audit Committee of the Board assesses the effectiveness of the internal control system in detecting fraud and other irregularities by reviewing the work of the Internal Audit Department and its findings. The work of the Internal Audit Department covered all material financial, operational and compliance controls and included an assessment of the Group's internal control structures using the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework to provide confirmation that the system of internal control of the Group is effective in the following respects:

- to provide sufficient explanation and information to enable the Board to make cumulative assessment of the state of controls at HKEx, including the financial reporting and Listing Rules compliance process, and the effectiveness with which risk is being managed;
- to respond to changes in its business and external environment;
- to timely rectify identified internal control deficiencies or implement recommendations suggested by internal auditors, external auditor or regulator; and
- to take immediate remedial actions in response to any operating errors or failures encountered.

In 2007, no suspected frauds, irregularities or infringement of laws, rules and regulations or material control failures came to the Audit Committee's attention. The Audit Committee is satisfied with the results, and concluded that the Group's internal control system is effective and that the Group had adopted the necessary control mechanisms to monitor and rectify non-compliance.

A separate report prepared by the Audit Committee, which summarises the terms of reference and works performed in 2007 is set out on page 97 of this Annual Report.

As heavy reliance is placed on the integrity, availability and stability of the information technology ("IT") services and application systems to support the day-to-day operations of HKEx, failure to properly address IT risks would jeopardise its overall business and operation. In order to further strengthen HKEx's IT management and operations, the Board resolved to the commissioning of an independent review of the overall effectiveness of HKEx's IT risk management process. The independent review covering HKEx's IT governance framework and various core mission critical IT application systems will start in early 2008, and is planned to be completed in about two years' time.

### **External Auditor**

The Board acknowledges that independence of the external auditor is essential to the provision of an objective opinion on the truth and fairness of the financial statements. The Audit Committee is mandated to ensure continuing objectivity and independence of the external auditor whose responsibilities are set out in the Auditor's Report on page 124 of this Annual Report.

In order to ensure their independence, external auditor is prohibited from engaging in non-audit services except for limited tax-related services or specific approved items. The analysis on the right tabulates the external auditor's fees for audit and non-audit services for the year ended 31 December 2007.

	2007	2006
Audit	\$2,585,000	\$2,323,600
Permissible non-audit services:		
• Taxation services fees	\$406,000	\$442,002
• Training	\$4,100	\$7,200

Pursuant to the adopted five-year rotation policy, the engagement partner of the external auditor was first rotated in 2005. Moreover, it is the Group's policy of not hiring employees of external auditors who are or have been involved in the Group's audit so as to ensure no impairment of the auditor's judgement or independence in respect of an audit. The policy was strictly complied with in 2007.

### Relationship with Shareholders and Stakeholders

As a core corporate governance principle, HKEx is transparent to Shareholders who have the right to participate in, vote and communicate with the Directors and the Senior Management directly at general meetings. Since 2003, HKEx has adopted poll voting at general meetings so that each share is entitled to one vote. Separate resolutions are proposed for each substantive issue, including election of individual Directors. More information about Shareholders' rights is set out in the Corporate Governance section on HKEx's corporate website.

To enhance Shareholders' and other stakeholders' understanding of HKEx's business and latest business initiatives, HKEx also makes use of various communication channels, including the publication of quarterly reports, interim reports and annual reports, the provision of a website with comprehensive information and services, the publication of the "Exchange" newsletter on a quarterly basis, and the collection of market comments through consultations in respect of any proposed changes to market rules or regulations.

All members of the Board presented at the 2007 AGM which was an open forum for the exchange of views between Shareholders and the Board. Poll results were published in newspapers and on HKEx's corporate website. The matters resolved thereat are summarised below.

#### Matters Resolved at the 2007 AGM

- Approval of the audited accounts for the year ended 31 December 2006
- Approval of a final dividend of \$1.19 per share for the year ended 31 December 2006
- Mr John E Strickland and Mr Oscar S H Wong were re-elected as Directors
- Approval of re-appointment of PricewaterhouseCoopers as external auditor of HKEx and authorising the Directors to fix the remuneration of the external auditor
- Approval of granting a general mandate to the Directors for the repurchase of up to 10 per cent of the total issued shares of HKEx
- Approval of the remuneration of non-executive Directors and members of certain Board committees for service rendered by each of them for the period between annual general meetings of HKEx until Shareholders in the general meeting otherwise determine:-
  - \$450,000 and \$300,000 respectively payable to the Chairman and each of the other non-executive Directors; and
  - \$50,000 be payable to the chairman and every member (excluding executive Director) of the Executive Committee, Audit Committee, Remuneration Committee and Investment Advisory Committee of HKEx

The Financial Calendar with important dates in 2007 is set out on page 212 of this Annual Report, which together with the Financial Calendar 2008 (with tentative key dates) are available at the Investor Relation Corner on HKEx's corporate website.

## Corporate Governance Initiatives Implemented in 2007

### Work done to raise Hong Kong's corporate governance profile – Our Public Responsibility

HKEx has been at the forefront of propelling high corporate governance standards and improving the quality of disclosures in Hong Kong. Initiatives implemented in 2007 are summarised in the Marketplace section of the Corporate Social Responsibility Report as set out on page 108 of this Annual Report.

### Resolute commitment to continual corporate governance improvement – Our Corporate Responsibility

Date	Initiatives	Purposes
February 2007	<p>Revised the corporate structure with the following major changes:</p> <ul style="list-style-type: none"> <li>Set up a new Listing Operation Department for the primary market</li> <li>Replaced the Exchange Division under the secondary market with two separate departments – the Cash Market Department and the Derivatives Market Department</li> </ul>	<ul style="list-style-type: none"> <li>To enhance, focus and streamline the structure of the primary market, secondary market and support services and to further strengthen the accountability regime</li> </ul>
July 2007	<ul style="list-style-type: none"> <li>Consolidated the risk management functions in HKEx (which originally resided with different divisions and departments)</li> </ul>	<ul style="list-style-type: none"> <li>To enhance risk management effectiveness</li> </ul>
October 2007	<ul style="list-style-type: none"> <li>Expanded the Beijing Representative Office to cover services for the primary market and secondary market</li> <li>Renamed the “Business Development Division” and “Research and Planning Department” as “Issuer Marketing Division” and “Research and Corporate Development Department” respectively to better reflect their roles and responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>To promote better service, thereby enabling us to be more effective in meeting our business and market needs</li> </ul>
March 2007	Launched the Corporate Governance section on HKEx's corporate website	To provide more detailed and timely information about the HKEx's corporate governance framework and practices, thereby improving transparency of the Company and communication with stakeholders
November 2007	Engaged an independent external consultant to conduct a review of the remuneration structure of senior executives	To evaluate the senior executives based on their respective job duties and responsibilities, and align the remuneration packages and structures of the senior executives with those of the market

## Corporate Governance Scores and Ratings

Recognition of our efforts

Organisation	Ratings/Awards/Comments
FTSE4Good Policy Committee	FTSE4Good Index Series HKEx has been included as a constituent of the FTSE4Good Index since September 2005
The Asset Magazine	The Asset Corporate Governance Ranking (Apr 2007) HKEx was named as one of the best companies in Hong Kong in terms of corporate governance in the Corporate Governance Rankings 2007
CLSA Asia-Pacific Markets and Asian Corporate Governance Association	CG Watch 2007-Corporate Governance in Asia (Sep 2007) Among the over 100 large-cap companies assessed (in 11 Asian markets including Japan), HKEx was ranked third in terms of corporate governance
The Hong Kong Management Association	2007 HKMA Best Annual Reports Awards (Nov 2007) 2006 Annual Report – Gold Award and Winner in the Citation for Achievement in Corporate Governance Disclosure (General Category)
Hong Kong Institute of Certified Public Accountants	Best Corporate Governance Disclosure Awards 2007 (Nov 2007) 2006 Annual Report – Gold Award (Hang Seng Index Category)
GovernanceMetrics International Inc	Corporate Governance Rating (Feb 2008) Global rating: 8.0 (2006: 7.5) Home market rating: 10.0 (2006: 10.0) out of the full score of 10.0

## Interests of Directors and Senior Management in HKEx

### Directors' and Chief Executive's Interests in the Shares and Underlying Shares of HKEx

As at 31 December 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

Name of Director	Number of Shares/Underlying Shares Held				Total	% of the Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Paul M Y Chow	3,291,800 (Note 1)	-	-	-	3,291,800	0.31
Vincent K H Lee	-	-	2,334,000 (Note 2)	-	2,334,000	0.22
John E Strickland	18,000 (Note 3)	-	-	-	18,000	0.00
David M Webb	2 (Note 4)	2 (Note 5)	6 (Note 6)	-	10	0.00

Notes:

- The interests included Mr Chow's interest in 11,528 Awarded Shares and 272 further shares acquired by reinvesting the dividends received therefrom according to the Share Award Scheme, and 1,240,000 shares issuable under an option granted to him on 2 May 2003, of which 420,000 shares were vested. Details of the interests of Mr Chow in the share option and Awarded Shares are set out in the Remuneration Committee Report.
- Mr Lee has interest in 2,334,000 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.
- The shares were held by Mr Strickland as beneficial owner.
- The shares were held by Mr Webb as beneficial owner.
- The shares were owned by the spouse of Mr Webb.
- The shares were owned by Fundamental Consultants Limited, Member One Limited and Member Two Limited which are under the control of Mr Webb.

### Short positions in the shares and underlying shares of HKEx

As at 31 December 2007, Mr Vincent K H Lee was interested in an aggregate short positions of 500,000 underlying shares in HKEx, representing 0.05 per cent of the total issued share capital of HKEx, which arose through certain listed equity derivatives (physically settled options) held by Pacific Trust Company Limited in which Mr Lee holds 33.33 per cent beneficial interests.

Save for those disclosed above, as at 31 December 2007, none of the Directors or the Chief Executive of HKEx had any interest or short position in the shares, underlying shares and 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 pursuant to Section 352 of the SFO or as otherwise notified to HKEx and the Stock Exchange pursuant to the Model Code.

Save for the disclosed, none of the Directors or the Chief Executive of HKEx (including their spouses and children under the age of 18) had, during the year ended 31 December 2007, any interest in, or been 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.

Restrictions on securities dealings are laid down in the Director's Handbook and Human Resources Manual, which are no less stringent than the requirements in the Model Code. These restrictions shall be closely observed by the Directors, the Chief Executive and the employees at all times. Each of the Directors confirmed, following specific enquiry by HKEx, that he or she fully complied with the Model Code throughout 2007.

### Senior Management's Interests in the Shares and Underlying Shares of HKEx

As at 31 December 2007, the Senior Management had the following interests in the shares and underlying shares of HKEx:

Name of Employee	Number of Shares Held	Number of Shares Issuable Under Share Options Granted	Number of Awarded Shares (Note 1)	Derivatives (Number of Underlying Shares)
Gerald D Greiner	25,664	275,000	44,196	-
Lawrence K M Fok	824,462	160,000	23,323	-
Mary M L Kao	746,538	135,000	27,789	-
Henry M W Law	6,014	130,000	24,868	32,000 (Note 2)
Stewart S C Shing	-	547,000	5,486	-
Archie T C Tsim	8,589	164,000	34,952	-
Richard G Williams	23,500	273,500	12,785	-
Alfred K K Wong	198,431	150,000	34,944	-

Notes:

1. The number included further shares acquired through reinvesting dividend received.
2. Mr Law held long put warrant position in a cash-settled derivative with 32,000 underlying shares of HKEx.

### Continuing Connected Transactions

During the year ended 31 December 2007, the Group had the following continuing connected transactions, details of which are set out below:

- (A) For the year ended 31 December 2007, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with the use of (i) the facilities provided by HKEx or its subsidiaries for the trading, clearing and/or settlement of securities and futures products and transactions; and (ii) all services offered by HKEx or its subsidiaries which are ancillary, incidental or otherwise related to the foregoing:
- (1) Mr Ronald J Arculli, the Chairman, was interested in the transactions entered into by Bokhary Securities Limited (“BSL”), an EP and a Clearing Participant, in which his sister has a 50 per cent interest.
  - (2) Dr Bill C P Kwok, an INED, was interested in the transactions entered into by Wocom Securities Limited (“WSL”) and Wocom Limited, EPs and Clearing Participants, which are associates of Dr Kwok by virtue of the Listing Rules.
  - (3) Mr Vincent K H Lee, an INED, was interested in the transactions entered into by Tung Tai Securities Company Limited (“TTS”) and Tung Tai Futures Limited, EPs and Clearing Participants, which are associates of Mr Lee by virtue of the Listing Rules.
  - (4) Mr Dannis J H Lee, an ex-INED who retired on 26 April 2006, was interested in the transactions entered into by DL Brokerage Limited (“DL Brokerage”), an EP and a Clearing Participant, which is beneficially wholly-owned by Mr Lee.

All the above continuing connected transactions were entered into in the ordinary course of business and on normal commercial terms.

- (B) For the year ended 31 December 2007, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with the listing of securities on the Stock Exchange and all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:
- (1) Mrs Laura M Cha, an INED, was interested in the transactions entered into by her associates, HKR International Limited and Hanison Construction Holdings Limited. Both of these companies are listed on the Stock Exchange.
  - (2) Dr Bill C P Kwok, an INED, was interested in the transactions entered into by his associate, Wing On Company International Limited which is listed on the Stock Exchange.
  - (3) Dr Lo Ka Shui, an ex-INED who retired on 26 April 2006, was interested in the transactions entered into by his associates Great Eagle Holdings Limited (“Great Eagle”) and Champion Real Estate Investment Trust (“Champion REIT”), the respective shares and units are listed on the Stock Exchange.

All the above continuing connected transactions were entered into in the ordinary course of business and on normal commercial terms.

- (C) For the year ended 31 December 2007, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with the HKSCC arrangement on behalf of Clearing Participants of Buy-in Transactions:



- (1) Mr Ronald J Arculli, the Chairman, was interested in the Buy-in Transactions entered into by BSL, in which his sister has 50 per cent interests. For the year ended 31 December 2007, the total consideration of such transactions was \$29,074,500.51, comprising an aggregate of buy-in cost of \$29,001,530.56 and related brokerage fee of \$72,969.95 earned by BSL.
- (2) Dr Bill C P Kwok, an INED, was interested in the Buy-in Transactions entered into by WSL which is an associate of Dr Kwok by virtue of the Listing Rules. For the year ended 31 December 2007, the total consideration of such transactions was \$64,561,496.43, comprising an aggregate of buy-in cost of \$64,479,921.55 and related brokerage fee of \$81,574.88 earned by WSL.
- (3) Mr Vincent K H Lee, an INED, was interested in the Buy-in Transactions entered into by TTS which is an associate of Mr Lee by virtue of the Listing Rules. For the year ended 31 December 2007, the total consideration of such transactions was \$17,299,678.80, comprising an aggregate of buy-in cost of \$17,277,599.84 and related brokerage fee of \$22,078.96 earned by TTS.
- (4) Mr Dannis J H Lee, an ex-INED who was retired on 26 April 2006, was interested in the Buy-in Transactions entered into by DL Brokerage which is beneficially wholly-owned by Mr Lee. For the period from 1 January 2007 to 26 April 2007 (the last date on which he was considered as a connected person under the Listing Rules), the total consideration of such transactions was \$10,501,248.87, comprising an aggregate of buy-in cost of \$10,474,618.59 and related brokerage fee of \$26,630.28 earned by DL Brokerage.

All the above continuing connected transactions were entered into in the ordinary course of business and on normal commercial terms.

(D) Lease of premises between a connected person and HKFE

On 13 December 2006, HKFE, as the tenant, and CP (SH) Limited (“CP(SH)”), as the beneficial owner, entered into a letter of offer to renew the tenancy (“Tenancy”) in respect of the premises of Suites 501-3 and storeroom on 5th Floor and Suites 1101 & 1109-11 on 11th Floor, ICBC Tower, 3 Garden Road, Central, Hong Kong for a two-year term commencing 1 January 2007 at a monthly rental of HK\$745,056, exclusive of management charges, rates and operating expenses. The parties thereafter entered into the formal tenancy agreement on 27 March 2007. Throughout the review period, CP(SH) was owned and controlled by Champion REIT in which Great Eagle owned 48.45 per cent interests as at 31 December 2007. Dr Lo Ka Shui (“Dr Lo”), an ex-INED who retired on 26 April 2006, is a controlling shareholder of Great Eagle. According to the Listing Rules, a person who was a director of a listed issuer within the preceding 12 months is regarded as a connected person. CP(SH), an associate of Dr Lo, was therefore a connected person of HKEx and accordingly, the Tenancy constituted a continuing connected transaction of HKEx. Details of the Tenancy were announced on 13 December 2006. For the period from 1 January 2007 to 26 April 2007 (the last date on which he was considered as a connected person under the Listing Rules), the total rent, exclusive of management charges, rates and operating expenses, in respect of the Tenancy was \$2,880,883.20.

In respect of the above continuing connected transactions, two INEDs who had not entered into any connected transactions with the Group, reviewed the transactions and confirmed that the continuing connected transactions entered into by the Group were in compliance with the conditions of the waiver granted by the SFC and/or with the requirements of the Listing Rules in such a way that:

- (a) the continuing connected transactions disclosed above were entered into in the ordinary and usual course of business of the Group and conducted on an arm's length basis on normal commercial terms or on terms no more favourable than terms available to independent third parties;
- (b) in respect of transactions other than Buy-in Transactions and the Tenancy, they were in accordance with the rules and regulations of the relevant Group company governing such transactions and where the rules and regulations do not govern those transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;
- (c) in respect of Buy-in Transactions, they were in accordance with the standard terms and conditions of HKSCC applicable generally to all Buy-in Brokers in such transactions acting for and on behalf of HKSCC and at the agreed commission rate payable by HKSCC in respect of all such Buy-in Transactions; and
- (d) in respect of the Tenancy, it was entered into in accordance with the terms as contained in the formal tenancy agreement dated 27 March 2007, and was on normal commercial terms.

Based on the opinion of the two INEDs, the Board considered and decided that the continuing connected transactions were fair and reasonable and in the interests of Shareholders as a whole.

The external auditor of HKEx also confirmed that:

- (a) the continuing connected transactions disclosed above had been approved by the Board;
- (b) the continuing connected transactions, other than the Tenancy, were in accordance with the rules and regulations of the relevant Group company governing fees for the applicable facilities, services or goods provided by, or to, the Group and where the rules and regulations do not govern the transactions in full, were in accordance with the standard terms and conditions of the relevant Group company relating to the applicable facilities, services or goods provided by, or to, the Group; and
- (c) the Tenancy had been entered into in accordance with the relevant agreement governing the transaction, and the annual rental had not exceeded the cap disclosed in the announcement of HKEx made on 13 December 2006.

### Related Party Transactions

The Group also entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of these transactions are set out in note 45 to the consolidated accounts.

On behalf of the Board

**MAU Kam Shing, Joseph**  
Company Secretary

Hong Kong, 5 March 2008

# AUDIT COMMITTEE REPORT

## The Audit Committee

The Audit Committee (“AC”) comprises five INEDs, appointed by the Board, who have extensive experience in financial matters. Dr Marvin K T Cheung, Mr Fong Hup, and Mr Vincent K H Lee are certified public accountants but none of them are employed by or otherwise affiliated with the former or existing auditors of HKEx.

## Terms of Reference

The AC assists the Board by providing an independent review and supervision of financial reporting, and satisfying themselves as to the effectiveness of the Group’s internal controls and the adequacy of the external and internal audits. In performing its duties, the AC is provided with sufficient resources to discharge its responsibilities and is supported by the Internal Audit Department to examine all matters relating to the Group’s adopted accounting principles and practices and to review all material financial, operational and compliance controls. The external auditor, the Chief Executive and senior executives are invited to attend the meetings, as and when necessary. The AC is accountable to the Board and the minutes of all meetings are circulated to the Board for information. The AC’s terms of reference, setting out its role and the responsibilities, are posted on HKEx’s corporate website.

## Summary of Major Work Done in 2007

The AC holds regular meetings at least four times a year and organises additional meetings if and when necessary. In 2007, a total of five meetings were convened. The attendance record of the AC’s members is shown on page 86 of this Annual Report. The following is a summary of the tasks completed by the AC during 2007:

- reviewed the financial reports for the year ended 31 December 2006, for the six months ended 30 June 2007, and for the quarters ended 31 March 2007 and 30 September 2007;
- reviewed the 2006 internal audit activities summary and approved the 2007 internal audit plan;
- reviewed internal/external auditor’s significant findings and recommendations and monitored the subsequent implementation;
- reviewed the effectiveness of the internal control system;
- reviewed the external auditor’s statutory audit scope for 2007, including their plan and engagement letter, and the letter of representation of management;
- considered and approved the 2007 external audit fees;
- reviewed and monitored the external auditor’s independence, and the non-audit services, especially tax-related services, provided by the external auditor; and
- reviewed the “Continuing Connected Transactions” set forth on pages 94 to 96 of this Annual Report.

## Internal Controls

HKEx's internal control system is reviewed regularly by management and the Internal Audit Department. The AC assessed the effectiveness of the internal control system in detecting fraud and irregularities by reviewing the work of the Internal Audit Department and its findings. Based on the findings of the Internal Audit Department, the AC concluded that for the year ended 31 December 2007, HKEx's internal control system was effective and that HKEx had adopted the necessary control mechanisms to monitor and correct non-compliance. On this basis, the AC as set out in the Main Board Listing Rules confirmed that it was satisfied that the Group had complied with the requirements of the CG Code as set out in the Main Board Listing Rules in respect of internal controls in 2007.

## Review of 2007 Consolidated Financial Statements

The AC reviewed the 2007 consolidated financial statements in conjunction with HKEx's external and internal auditors. Based on this review and discussions with management, the AC is satisfied that the consolidated financial statements have been prepared in accordance with applicable accounting standards and fairly presents the financial position and results of the Group for the year ended 31 December 2007. The AC therefore recommended the consolidated financial statements for the year ended 31 December 2007 be approved by the Board.

## Re-appointment of External Auditor

The AC's recommendation on the re-appointment of PricewaterhouseCoopers as the Group's external auditor for 2007 was approved by Shareholders at the 2007 AGM.

### Members of the Audit Committee

CHEUNG Kin Tung, Marvin (Chairman)  
FONG Hup (Deputy Chairman)  
CHENG Mo Chi, Moses  
LEE Kwan Ho, Vincent Marshall  
WEBB, David Michael

Hong Kong, 28 February 2008

# REMUNERATION COMMITTEE REPORT

## The Remuneration Committee

The Remuneration Committee (“RC”) comprises five INEDs. Its composition during 2007 is set out on page 21 of this Annual Report.

### Terms of Reference

The RC is mandated to formulate the Group’s remuneration policy for the Board’s approval. Other key functions include, inter alia, setting the guidelines for the recruitment of the Chief Executive and the Senior Management, determining their remuneration packages and making recommendations to the Board on the Group’s annual salary adjustment, annual performance bonus and share award. The RC’s terms of reference are posted on HKEx’s corporate website.

### Summary of Major Work Done in 2007

During 2007, the RC held four meetings and members’ attendance record is shown on page 86 of this Annual Report. The following is a summary of the major tasks completed by the RC in 2007:

- recommended the revised non-executive Directors’ remuneration for Shareholders’ approval at the 2007 AGM;
- recommended harmonisation of employment terms of senior staff;
- recommended mid-year salary adjustment for 2007;
- recommended enhancement to the remuneration policy to align it with market levels and to reinforce the link between performance and incentive awards;
- reviewed and approved the proposed recommendation by Towers Perrin, a human resources consulting firm, on the position levels and remuneration of 22 senior executives of the Company;
- recommended pay adjustments for 2007/2008 based on the enhanced remuneration policy;
- recommended the employees’ performance bonus for 2007; and
- recommended the amount for the purchase of HKEx shares to be awarded to selected employees under the Share Award Scheme.

## Remuneration Policy

### Non-executive Directors

The objective of remunerating non-executive Directors is to ensure that they are remunerated fairly and not excessively for their efforts and time dedicated to HKEx. Their remuneration is reviewed annually with reference to companies of comparable business or scale, and recommendations for changes are subject to Shareholders’ approval.

Non-executive Directors are not entitled to participate in the Share Option Schemes and the Share Award Scheme, or other fringe benefits.

### Employees

Quality and dedicated staff are valuable assets contributing to the Group’s success. HKEx’s remuneration policy is built upon the principle of providing an equitable, performance-oriented, motivating and market-competitive remuneration package for employees at all levels.

A six-level performance rating scale was introduced in 2007 subsequent to a review of the Group’s performance evaluation system. The new scale serves to differentiate staff performance in a more refined manner, identifying the top 20 per cent of good performers for succession planning. The remuneration structure was also fine tuned to align HKEx’s remuneration packages with market levels, and to reinforce the link between performance and rewards.

HKEx's remuneration packages for all employees (including the Chief Executive) comprise fixed and variable components benchmarked against companies in the financial services sector. The following illustrates the mix of fixed and variable components in a year when the Group achieves its performance targets:

	Fixed		Variable (Performance-related)	
Senior staff (Note 1)	67%		22%	11%
Middle-level staff (Note 2)	75%		25%	
Supervisory-level staff	80%		20%	
General staff	86%		14%	

Base compensation – salary
  Annual incentive – cash bonus
  Long-term incentive – share award

Notes:

1. They include, inter alia, the Chief Executive (the only executive Director) and senior executives.
2. Share awards were also granted to a limited number of middle-level employees with exemplary performance for retention purposes.

Other benefits include the provident fund (the contribution to the provident fund is set out in note 8 to the consolidated accounts), medical insurance, dental insurance, life and personal accident insurance, employee compensation and business travel insurance.

Details of HKEx's remuneration policy and structure are set out in the Corporate Governance section on HKEx's corporate website.

## Non-executive Directors' Fee Review for 2007/2008

In 2007, the RC, after having conducted an annual review, recommended revising the remuneration of non-executive Directors as follows:

Non-executive Directors' fees	2007/2008 (\$)	2006/2007 (\$)
Board Chairman	450,000	240,000
Board member	300,000	240,000
Executive Committee member	50,000	-
Audit Committee member	50,000	-
Remuneration Committee member	50,000	-
Investment Advisory Committee member	50,000	-

The suggested increases were approved by Shareholders at the 2007 AGM.

In early 2008, a survey was conducted on the average annual remuneration of non-executive directors of HSI constituent companies as well as overseas listed exchanges, and, based on the findings, the RC concluded that the non-executive Director's remuneration package should remain unchanged for the ensuing year.

## Employees' Pay Review for 2007/2008

During 2007, Towers Perrin, an independent external consultant was engaged to review the remuneration packages and structures of 22 senior executives relative to their duties and responsibilities, and market levels. The consultant's recommendations were incorporated into the employees' pay review for 2007/2008.

In light of the increasing competitiveness of the employment market in the first half of 2007, a mid-year salary review was conducted in June. The Board based on the RC's recommendation, approved a general increase of two per cent of base salary for employees below the middle-level. In addition, a merit increase was given to selected employees who were in strong demand in the market.

For the annual pay review 2007/2008, the Board further approved a general increase of four and a half per cent of base salary plus additional increases for selected groups of employees with high turnover rate and professional staff whose skills were of high demand in the market.

In December 2007, the Board also approved the RC's recommendation of paying a performance bonus equivalent to 6.6 months' salary to employees in recognition of their contribution during the year. In addition, the Board allocated a sum of \$26.3 million for the purchase of HKEx shares to be awarded to senior staff (excluding the Chief Executive) as long-term rewards. Another awarded sum of \$612,000 was provided by the Board on 18 February 2008, in accordance with the RC's recommendation, for the purchase of HKEx shares for the Chief Executive in recognition of his contribution to the Group in 2007. The performance bonus and share awards were determined based on the Company's performance, taking into account both financial and non-financial factors including profit, business development, market and regulatory development, organisational development and market availability. Details of the Share Award Scheme are set out in the section of the Long-Term Incentive Schemes below.

Neither the Chief Executive nor the Senior Management participated in the RC's discussion on his/her pay review and performance award. The RC consulted the Chief Executive about the performance of respective members of the Senior Management. The Chief Executive's performance was also taken into consideration by the RC for the purpose of the pay review exercise.

## Emoluments for 2007

### Non-executive Directors

Name	2007 Director's Fee (\$)	2006 Director's Fee (\$)
<b>Current Directors</b>		
Ronald J Arculli (Note)	472,500	180,000
Laura M Cha (Note)	360,000	180,000
Moses M C Cheng (Note)	360,000	180,000
Marvin K T Cheung	322,500	240,000
Henry H L Fan	285,000	240,000
Fong Hup	360,000	240,000
Bill C P Kwok	322,500	240,000
Vincent K H Lee	397,500	240,000
Christine K W Loh (Note)	322,500	180,000
John E Strickland	322,500	240,000
David M Webb	360,000	240,000
Oscar S H Wong	322,500	240,000
<b>Ex-Directors</b> (retired on 26 April 2006)		
Charles Y K Lee	-	60,000
Tim Freshwater	-	60,000
Dannis J H Lee	-	60,000
Lo Ka Shui	-	60,000
<b>Total</b>	<b>4,207,500</b>	<b>2,880,000</b>

Note: Mr Ronald J Arculli, Mrs Laura M Cha and Dr Moses M C Cheng were appointed, and Dr Christine K W Loh was elected, on 26 April 2006.

## Executive Director

Chief Executive	2007					Total (\$)	2006	2007	
	Salary (\$)	Cash Bonus (\$)	Other Benefits (\$) (Note 1)	Retirement Benefits Cost (\$) (Note 2)	Director's Fee (\$)		Total (\$)	Share Option Benefits (\$) (Note 3)	Share Awards Benefits (\$) (Note 3)
Paul M Y Chow	7,344,000	5,814,000	58,540	918,000	-	14,134,540	11,074,540	819,864	227,953

Apart from the cash bonus, the Board, in accordance with the Share Award Scheme, resolved on 18 February 2008 to provide a sum of \$612,000 for the purchase of HKEx shares to be awarded to Mr Chow. The awarded sum will be paid to the trustee after the expiry of the moratorium period for dealing in HKEx's shares and the release of the results for the year ended 31 December 2007, on 5 March 2008. Relevant shares so purchased will be allocated and awarded by the trustee to Mr Chow according to the Share Award Scheme.

## Senior Management

Name	2007					Total (\$)	2006	2007	
	Salary (\$)	Cash Bonus (\$)	Other Benefits (\$) (Note 1)	Retirement Benefits Cost (\$) (Note 2)	Compensation for Loss of Office (\$)		Total (\$)	Share Options Benefits (\$) (Note 3)	Share Awards Benefits (\$) (Note 3)
Patrick K Conroy (Note 4)	1,356,767	-	227,932	75,908	-	1,660,607	8,620,590	-	-
Gerald D Greiner	5,309,436	3,910,000	86,957	663,680	-	9,970,073	5,763,138	347,853	628,717
Lawrence K M Fok	3,672,000	1,224,000	80,747	459,000	-	5,435,747	5,221,547	183,232	303,307
Mary M L Kao	3,574,080	2,233,800	64,143	446,760	-	6,318,783	5,291,243	183,232	366,110
Henry M W Law	2,448,000	1,683,000	29,349	306,000	-	4,466,349	3,578,949	149,825	350,708
Stewart S C Shing	3,794,400	2,529,600	70,441	474,300	-	6,868,741	5,619,751	840,903	109,328
Archie T C Tsim	3,060,000	2,295,000	64,532	382,500	-	5,802,032	4,577,672	141,142	489,443
Richard G Williams (Note 5)	3,978,000	3,563,625	121,989	497,250	-	8,160,864	6,080,224	531,557	265,803
Alfred K K Wong	3,000,000	2,375,000	69,455	375,000	-	5,819,455	4,561,809	167,037	493,297

Apart from the cash bonus, the respective members of the Senior Management were allocated Awarded Shares according to the Share Award Scheme on 4 February 2008. Details of the awards are set out on page 103 of this Annual Report.

Notes:

1. Other benefits include leave pay, insurance premium, and club membership.
2. An employee who retires before normal retirement age is eligible to 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of seven years of service.
3. The share options benefits and the share awards benefits represent the aggregate of the amortised fair value of the share options granted and shares awarded to the Chief Executive and respective members of the Senior Management under the Post-Listing Scheme and the Share Award Scheme respectively that were charged to the consolidated income statement for the year ended 31 December 2007. (Under HKFRS2, amortisation of the fair value of the options granted under the Pre-Listing Scheme is not required.)
4. Mr Patrick K Conroy resigned as the Chief Operating Officer on 9 February 2007.
5. Mr Richard G Williams is a member of a pension scheme operating in the United Kingdom, and he is exempted under Section 4(3) of the Mandatory Provident Fund Schemes Ordinance from participating in HKEx's provident fund scheme. The vesting scale of retirement benefits is not applicable to Mr Williams.

Further particulars regarding the emoluments of Directors and the five top-paid employees as required to be disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Main Board Listing Rules are set out in notes 12 and 13 to the consolidated accounts respectively.

## Directors' Service Contract

Mr Paul M Y Chow is employed as the Chief Executive whose existing contract will expire on 30 April 2009. Save as the aforesaid, no Director has any existing or proposed service contract with any member of the Group.



## Chief Executive and the Senior Management's Interests in HKEx's Securities under Long-Term Incentive Schemes

### Share Options

Name	Date of Grant	Exercise Price (\$)	Number of Shares Issuable Under the Options				Exercise Period (Note 1)
			As at 1 Jan 2007	Subscribed during the Year	Lapsed during the Year	As at 31 Dec 2007	
<b>Chief Executive</b>							
Paul M Y Chow	2 May 2003	8.28	2,460,000	1,220,000	–	1,240,000	2 May 2005 – 1 May 2013
<b>Senior Management</b>							
Patrick K Conroy (Note 2)	18 Aug 2003	12.49	1,476,000	492,000	984,000	–	18 Aug 2005 – 17 Aug 2013
Gerald D Greiner	17 May 2004	15.91	150,000	25,000	–	125,000	17 May 2006 – 16 May 2014
	26 Jan 2005	19.25	200,000	50,000	–	150,000	26 Jan 2007 – 25 Jan 2015
Lawrence K M Fok	20 Jun 2000	6.88	58,000	58,000	–	–	6 Mar 2002 – 30 May 2010
	31 Mar 2004	16.96	120,000	60,000	–	60,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	100,000	–	–	100,000	26 Jan 2007 – 25 Jan 2015
Mary M L Kao	31 Mar 2004	16.96	120,000	60,000	–	60,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	100,000	25,000	–	75,000	26 Jan 2007 – 25 Jan 2015
Henry M W Law	31 Mar 2004	16.96	100,000	50,000	–	50,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	80,000	–	–	80,000	26 Jan 2007 – 25 Jan 2015
Stewart S C Shing	15 Jan 2004	17.30	822,000	275,000	–	547,000	15 Jan 2006 – 14 Jan 2014
Archie T C Tsim	26 Jan 2005	19.25	164,000	–	–	164,000	26 Jan 2007 – 25 Jan 2015
Richard G Williams	14 Aug 2003	12.45	547,000	273,500	–	273,500	14 Aug 2005 – 13 Aug 2013
Alfred K K Wong	31 Mar 2004	16.96	100,000	50,000	–	50,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	100,000	–	–	100,000	26 Jan 2007 – 25 Jan 2015

### Awarded Shares

Name	Date of Award (Note 3)	Number of Awarded Shares	Average Fair Value per Share (\$)	Number of Shares					Vesting Period (Note 4)
				As at 1 Jan 2007	Further Shares Acquired during the Year through Reinvesting Dividends Received	Vested during the Year	Lapsed during the Year	As at 31 Dec 2007	
<b>Chief Executive</b>									
Paul M Y Chow	15 Jan 2007	11,528	72.28	–	272	–	–	11,800	13 Dec 2008 – 13 Dec 2011
<b>Senior Management</b>									
Gerald D Greiner	19 Dec 2005	40,600	31.20	41,677	984	10,664	–	31,997	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	11,911	72.28	–	288	–	–	12,199	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	8,418	163.72	–	–	–	–	–	12 Dec 2009 – 12 Dec 2012
Lawrence K M Fok	19 Dec 2005	24,600	31.20	25,253	596	6,462	–	19,387	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	3,842	72.28	–	94	–	–	3,936	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	658	163.72	–	–	–	–	–	12 Dec 2009 – 12 Dec 2012
Mary M L Kao	19 Dec 2005	28,700	31.20	29,461	696	7,538	–	22,619	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	5,048	72.28	–	122	–	–	5,170	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	1,202	163.72	–	–	–	–	–	12 Dec 2009 – 12 Dec 2012
Henry M W Law	19 Dec 2005	22,900	31.20	23,507	552	6,014	–	18,045	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	6,660	72.28	–	163	–	–	6,823	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	3,623	163.72	–	–	–	–	–	12 Dec 2009 – 12 Dec 2012
Stewart S C Shing	15 Jan 2007	5,360	72.28	–	126	–	–	5,486	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	1,361	163.72	–	–	–	–	–	12 Dec 2009 – 12 Dec 2012
Archie T C Tsim	19 Dec 2005	32,700	31.20	33,567	792	8,589	–	25,770	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	8,965	72.28	–	217	–	–	9,182	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	4,941	163.72	–	–	–	–	–	12 Dec 2009 – 12 Dec 2012
Richard G Williams	15 Jan 2007	12,490	72.28	–	295	–	–	12,785	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	7,672	163.72	–	–	–	–	–	12 Dec 2009 – 12 Dec 2012
Alfred K K Wong	19 Dec 2005	32,100	31.20	32,952	776	8,431	–	25,297	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	9,417	72.28	–	230	–	–	9,647	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	5,113	163.72	–	–	–	–	–	12 Dec 2009 – 12 Dec 2012

## Notes:

- 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.
- Mr Patrick K Conroy resigned as the Chief Operating Officer on 9 February 2007.
- Prior to 16 August 2006, the date of award refers to the date on which the Board determined such number of shares awarded to the selected employees. Following the amendments to the rules of the Share Award Scheme which took effect from 16 August 2006, the date of award refers to the date on which the trustee allocated such number of Awarded Shares to the selected employees from the total number of shares purchased with the sum determined by the Board.  
On 4 February 2008, Awarded Shares were allocated to the respective members of the Senior Management by the trustee of the Share Award Scheme according to their respective proportionate awarded sums so determined for him/her against the total amount awarded.
- The shares awarded are vested in tranches of 25 per cent per annum starting from the second anniversary until the fifth anniversary of the date of approval of the award by the Board.

## Long-Term Incentive Schemes

### Share Option Schemes

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, for the purpose of attracting and retaining high calibre employees. Both schemes were approved by Shareholders on 31 May 2000 and have a life of 10 years until 30 May 2010.

A non-refundable sum of \$1 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the granted option. The maximum number of shares in respect of which options may be granted under these schemes shall not in aggregate exceed 10 per cent of the shares in issue as at the date of approval of the schemes, ie, a total of 104,066,484 shares.

The total number of shares available for issue, save for those granted but yet to be exercised, under the Pre-Listing Scheme and the Post-Listing Scheme aggregated to 64,977,484 shares, which represented 6.07 per cent of the issued share capital of HKEx as at 5 March 2008. Pursuant to the terms of scheme, no further options can be granted under the Pre-Listing Scheme as from 27 June 2000, the date of listing of HKEx shares on the Stock Exchange. Since the adoption of the Share Award Scheme in September 2005, no further options have been or will be granted under the Post-Listing Scheme.

### Pre-Listing Scheme

The maximum entitlement of each participant, when aggregated with shares issued and issuable under all options granted to him/her, must not exceed 25 per cent of the aggregated number of shares issued and issuable under the Pre-Listing Scheme.

The subscription price for a share in HKEx in respect of any particular option granted was determined based on a formula:  $P = 80 \text{ per cent } (A \times B)$ , where “P” was the subscription price; “A” was 18.81, a price/earnings multiple determined by reference to the price/earnings multiples of various financial companies listed on the Stock Exchange and/or overseas; and “B” was the earnings per share of the Group based on its audited combined results for the year ended 31 December 1999 as if the then group structure of HKEx had been in existence throughout the year divided by 1,040,664,846 shares in issue. Based on this formula, the subscription price of the option granted was \$7.52 per share, which was subsequently adjusted by Shareholders at the AGM held in 2004, to \$6.88 per share as the result of the payment of a special dividend of \$1.68 per share in 2004.

### Post-Listing Scheme

Unless approved by Shareholders in general meeting, no employee shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to such employee in any 12-month period up to the date of the latest grant would exceed one per cent of the share capital of HKEx in issue at the relevant time.

The subscription price of shares in respect of any particular option granted shall be at least the higher of (i) the closing price of HKEx shares on the Stock Exchange, as stated in the Stock Exchange's daily quotations sheet on the relevant offer date in respect of such option; or (ii) the average of the closing prices of HKEx shares on the Stock Exchange, as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the relevant offer date in respect of such option; or (iii) the nominal value of a share in HKEx.

Further details in relation to the Share Option Schemes are set out in note 34(b) to the consolidated accounts.

Details of the share options granted under the two schemes, which remained outstanding as at 31 December 2007 were as follows:

### Pre-Listing Scheme

Date of Grant	Exercise Price	Number of Shares Issuable Under the Options			As at 31 Dec 2007	Exercise Period (Note 2)
		As at 1 Jan 2007	Issued upon Subscription during the Year (Note 1)	Lapsed during the Year		
<b>Employee (Note 3)</b>						
20 Jun 2000	\$6.88	788,000	409,000	–	379,000	6 Mar 2002 – 30 May 2010

### Post-Listing Scheme

Date of Grant	Exercise Price	Number of Shares Issuable Under the Options			As at 31 Dec 2007	Exercise Period (Note 5)
		As at 1 Jan 2007	Issued upon Subscription during the Year (Note 4)	Lapsed during the Year		
<b>Director (Note 6)</b>						
2 May 2003	\$8.28	2,460,000	1,220,000	–	1,240,000	2 May 2005 – 1 May 2013
<b>Employees (Note 3)</b>						
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	1,228,000	29,000	2,827,500	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	914,500	63,000	4,076,500	26 Jan 2007 – 25 Jan 2015

No options granted under the Share Option Schemes were cancelled during the year ended 31 December 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 \$113.17.
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 Paul M Y Chow, an Executive Director and the Chief Executive of HKEx.
7. The amortised fair value of the share options charged to the consolidated income statement for the year ended 31 December 2007 was \$9,779,000 (2006: \$15,553,000).

## Share Award Scheme

On 14 September 2005 (“Adoption Date”), the Board adopted the Share Award Scheme in which selected employees (including any executive director) of the Group are entitled to participate. The purpose of the scheme is to recognise the contributions by certain employees of the Group and to retain them for the continual operation and development of the Group. 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 to the trust fund will be made by HKEx on or after the tenth anniversary date of the Adoption Date. The maximum numbers of shares which can be awarded under the Share Award Scheme and to a selected employee throughout its duration are limited to three per cent (ie, 31,871,575 shares) and one per cent (ie, 10,623,858 shares) respectively of the HKEx shares in issue as at the Adoption Date.

Pursuant to the rules of the Share Award Scheme, the Group has set up a trust, for the purpose of administering the Share Award Scheme and holding the Awarded Shares before they are vested. 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.

Further details in relation to the Share Award Scheme are set out in note 34(c) to the consolidated accounts.

During 2007, the Board awarded an aggregate amount of \$27,500,000 for the purchase of HKEx shares to certain eligible employees, the shares so purchased have been allocated and awarded to the relevant employees according to the rules of the Share Award Scheme as set out below. Subsequent to the year-end, the Board on 18 February 2008 provided a sum of \$612,000 for the purchase of HKEx shares to be awarded to the Chief Executive. The trustee will be instructed to effect the purchase after the date of this report.

Date of Grant	Awarded Sum (\$)	Number of Shares	
		Purchased	Allocated and Awarded (Date)
<b>2007</b>			
16 Apr	600,000	7,000	7,000 (7 Jun 2007)
18 Jun	600,000	5,500	5,500 (17 Jul 2007)
12 Dec	26,300,000	151,000	150,965 (4 Feb 2008)
<b>2008</b>			
18 Feb	612,000	-	-

Since its adoption, a total of 1,395,930 shares have been awarded as at the date of this report, representing about 0.13 per cent of the issued share capital of HKEx as at the Adoption Date, to the selected employees, as set out below:

Date of Award	Number of Awarded Shares	Average Fair Value per Share (Note 1)	Vesting Period
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
4 Feb 2008	150,965	\$163.72	12 Dec 2009 – 12 Dec 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. The amortised fair value of the Awarded Shares charged to the consolidated income statement for the year ended 31 December 2007 was \$14,583,000 (2006: \$8,480,000).

As at 31 December 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 1,056,632 shares held in trust by the trustee under the Share Award Scheme, of which 1,024,262 shares were held for the benefit of the selected employees who remained under the employ by the Group, and 32,370 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 year ended 31 December 2007, 1,873 shares (including further shares) lapsed, and 243,868 shares (including further shares) were vested and transferred out of the trust.

Movements in the numbers of HKEx shares held in trust by the trustee under the Share Award Scheme were as follows:

	2007	2006
Balance at 1 Jan	1,258,000	958,000
During the year:		
– Purchased	12,500	274,500
– Further shares acquired by reinvesting dividends	30,000	25,500
Less: Vested and transferred out of the trust	(243,868)	–
Balance at 31 Dec	1,056,632	1,258,000

### Members of the Remuneration Committee

Ronald J Arculli (Chairman)

Laura M Cha

Moses M C Cheng

Vincent K H Lee

Christine K W Loh

Hong Kong, 5 March 2008

# CORPORATE SOCIAL RESPONSIBILITY REPORT

Our definition of success encompasses the sustainable development of the society we serve. At HKEx, we believe that good management of corporate social responsibility (“CSR”) is a business imperative to meet evolving needs in a fast-paced business environment. There are rising expectations for responsible and sustainable business practices from our stakeholders, including the Government, non-governmental organisations, Shareholders, Participants, investors, listed issuers, market intermediaries, customers, suppliers and our employees.

The Board provides guidance to management in establishing policies and practices that address social concerns alongside commercial initiatives to ensure social responsibilities are not being ignored in the course of pursuing business growth. We use economic as well as social and ecological criteria as the basis for our actions. Our CSR framework is built on four cornerstones, namely, the marketplace, workplace, community and environment. We have a defined set of CSR principles which is shared with our employees to ensure their duties are performed with an awareness of social responsibilities.

HKEx believes being the exchange controller in Hong Kong is a privilege that provides scope to fulfill certain responsibilities. In order to safeguard Hong Kong as an international financial centre and discharge its public responsibilities, HKEx upholds the core value of maintaining its political neutrality and independence so as to maintain its legitimacy and integrity. Remaining politically neutral is fundamental if the organisation is to remain effective and to fulfill its basic role as the frontline regulator in Hong Kong.

In addition to our ongoing CSR initiatives undertaken within the organisation, we are committed to developing and supporting the initiatives which will have a positive impact on the environment, local communities and stakeholders. In particular, environmental consideration is increasing its significance in our internal processes. At the end of 2007, we introduced a charitable donation scheme to promote less paper consumption. We have been supportive of the various other proposals leading to the reduction in the number of printed corporate documents and the size of a prospectus, and will continue working with the SFC and market practitioners on the implementation of the proposals. For a longer term, we will devote resources to conduct an environmental audit periodically to minimise environmental impact arising from our operations, thus increasing our social leadership towards environmental responsibility. This will certainly bring benefits to our employees as well as the society at large.

Following the practice adopted since 2004, this CSR Report serves to encapsulate our work in 2007 and sets out areas for further improvement in 2008 and beyond.

## Marketplace

<b>Principle</b>	Develop sustainable financial markets in Hong Kong	
<b>Objective</b>	To strengthen and promote Hong Kong’s role as an international financial centre	
	<b>Actions/Performance in 2007</b>	<b>Initiatives for 2008</b>
	Achieved 100 per cent operational system uptime throughout 2007 for all major trading, clearing and settlement, and market data dissemination systems	To continue upholding the highest level of system stability and reliability

Objective	To strengthen and promote Hong Kong's role as an international financial centre (cont'd)	
	Actions/Performance in 2007	Initiatives for 2008
	<p>Organised market rehearsals for market participants and information vendors to ensure market readiness as a whole:</p> <ul style="list-style-type: none"> <li>AMS/3 and MDF in January and December 2007 for capacity upgrade and in May 2007 for contingency and recovery drill</li> <li>CCASS/3 in September 2007 for contingency &amp; recovery drill</li> <li>HKATS, DCASS &amp; PRS in April 2007 for contingency &amp; recovery drill and in December 2007 for Release 19.1</li> <li>EDS in May and June 2007 for production launch</li> <li>AMS/3 circuits migration to SDNet in May 2007</li> </ul>	<p>To organise a series of market rehearsals to ensure market readiness before initiatives are implemented:</p> <ul style="list-style-type: none"> <li>HKATS, DCASS and PRS in February 2008 for Release 19.1</li> <li>AMS/3 and MDF in the fourth quarter of 2008 for further capacity upgrades</li> <li>AMS/3, CCASS/3, HKATS, DCASS, MDF and PRS in 2008 for various major market developments, eg, five-digit stock codes and the closing auction session</li> <li>Contingency and recovery drills for all major market systems throughout 2008</li> </ul>
	<p>Upgraded the capacity and processing efficiency of HKEx's various systems to deal with growing market demand ④</p>	<p>To continue reviewing the capacity of various systems to ensure they can support increasing market demand ⑤ and to conduct an independent review of the overall effectiveness of HKEx's information technology risk management process ①</p>
	<p>Enhanced the trading infrastructure, introduced new products and improved services based on ongoing reviews of the market to meet the diverse demands of the investing public ④</p>	<p>To continue liaising with issuers and other market participants to facilitate product and market development ⑤</p>
	<p>Organised training programmes and participated in investment expos for the investing public and market participants to improve their knowledge of new products/services and the associated investment risks:</p> <ul style="list-style-type: none"> <li>17 familiarisation sessions on EDP in March and April, following briefings for listed issuers and their agents in early 2007. Conducted additional briefings for EPs and information vendors</li> <li>28 CCASS/DCASS system and operation training sessions to Clearing Participants</li> <li>16 briefings and seminars on CCASS/DCASS service enhancements to Clearing Participants</li> <li>Four Continuous Professional Training ("CPT") sessions on CCASS service enhancements to broker associations</li> <li>10 CPT sessions on topics relating to the Cash Market</li> <li>Over 130 visits to EPs to collect their views on services and products provided in the Cash Market</li> <li>Two EP Relationship Programmes to enhance relationships with EPs and to exchange views on market development</li> <li>About 30 training sessions on terminal/MWS</li> <li>Investment Expo 2007 for the Derivatives Markets</li> <li>Around 100 briefings and courses on topics relating to the Derivatives Market</li> </ul>	<p>To work closely with issuers and market participants to launch new products ⑤</p> <p>To review the existing trading infrastructure and the HKEx website on dissemination of trading information ⑤</p> <p>To continue work on improving investors' knowledge of products and awareness of associated risks</p> <p>To centralise different training units to facilitate attendance</p> <p>To enhance educational material and web content to promote the Hong Kong securities market</p>
	<p>Reviewed the Listing Rules to provide a level playing field and better investor protection ④</p>	<p>To proceed with the revamp of GEM as a second board, taking into account market views</p> <p>To undertake consultations on listing matters</p>
	<p>Organised a series of promotional activities and training programmes on Hong Kong's financial markets, its listing requirements as well as corporate governance practices ④</p>	<p>To continue organising activities for Hong Kong, Mainland and overseas companies to promote the Hong Kong financial markets, and continue conducting meetings with potential companies</p>
	<p>Contributed a total of \$7.5 million (including the one-off sum of \$5 million) to the FRC with the aim of enhancing the standard of accounting and reporting of listed companies through the FRC's independent investigations into possible auditing and reporting irregularities and non-compliance with financial reporting requirements of listed companies, and safeguarding the public interest, and signed a memorandum with the FRC on regulatory cooperation</p>	<p>To fulfill our commitment to facilitate the FRC's operation</p>

Objective	To strengthen and promote Hong Kong's role as an international financial centre (cont'd)	
	Actions/Performance in 2007	Initiatives for 2008
	<p>Sponsored the activities on promoting good corporate governance and Hong Kong's financial markets. Major ones included:</p> <ul style="list-style-type: none"> <li>• HKICS Annual Dinner</li> <li>• The 2nd Asia-Pacific Corporate Governance Conference organised by the Hong Kong Baptist University</li> <li>• Economic Summit organised by Metro Finance and Hong Kong Economic Journal</li> <li>• HKSFPA – University Investment Research Competition organised by The Hong Kong Society of Financial Analysts</li> <li>• HKMA Annual Conference</li> <li>• HKICPA Annual Dinner 2007</li> <li>• A joint forum entitled “Evolution of Financial Reporting – Has it fostered better market communication?” organised with HKICPA in November</li> </ul>	<p>To continue our support to professional and financial organisations on promoting good corporate governance and the Hong Kong financial markets, including the “Investment Triathlon”, a cross-media financial knowledge quiz, organised by the SFC, and the “Asian Roundtable on Corporate Governance” organised by the World Bank Group and the Organisation for Economic Co-operation and Development (OECD) to be held in May 2008 in Hong Kong</p>

Objective	To monitor customer advocacy and recommendations, and meet needs	
	Actions/Performance in 2007	Initiatives for 2008
	<p>Provided the Simplified Chinese version of the Listing Rules ②</p> <p>Prepared the Chinese version of the trading rules relating to the Derivatives Market for posting onto the HKEx website for investors' reference</p> <p>Opened a public viewing room for the public to access HKEx's websites and issuers' websites</p> <p>Implemented a series of investor-friendly information measures ④</p> <p>Launched an Options Reference Educator with a refined Simplified Chinese version on the HKEx website</p> <p>Introduced additional features to SSA with Statement Service ④</p> <p>Introduced a designated “Notes for Mainland Investors” section on the HKEx website</p> <p>Organised seminars by HKEx executives to explain HKEx's policies and operations</p> <p>Translated the listing information booklet “Listing in Hong Kong” into Japanese, Korean, Russian and Vietnamese ④</p> <p>Collected suggestions and views from market practitioners and the public on HKEx's proposals and issues relating to the development of the securities and derivatives markets in Hong Kong by means of:</p> <ul style="list-style-type: none"> <li>• Convening one Cash Market Consultative Panel meeting, four Derivatives Market Consultative Panel meetings and four Clearing Consultative Panel meetings</li> <li>• Launching a pilot scheme for earlier disclosure of information by IPO applicants via the publication of WPIP on the HKEx website prior to the issue of an IPO prospectus</li> <li>• Publishing consultation papers on: ② <ul style="list-style-type: none"> <li>➢ Further development of GEM</li> <li>➢ Periodic financial reporting</li> <li>➢ Closing auction session</li> </ul> </li> <li>• Publishing consultation conclusions on a closing auction session ②</li> </ul> <p>Conducted the following surveys to understand the investor mix of the respective markets: ②</p> <ul style="list-style-type: none"> <li>• Derivatives Market Transaction Survey</li> <li>• Cash Market Transaction Survey</li> </ul> <p>Organised seven classes on customer service/service excellence for front-line employees to improve their customer services skills</p>	<p>To make improvements as appropriate based on market needs</p> <p>To continue seeking views from market practitioners through consultative panel meetings and visits to EPs</p> <p>To publish a Combined Consultation Paper on 18 substantive policy issues</p> <p>To complete the Retail Investor Survey 2007 to understand retail investors' profile and perceptions of the markets</p> <p>To continue organising training classes for employees with reference to market developments</p>



<b>Principle</b>	<b>Achieve and maintain the highest standards of openness, probity and accountability</b>
<b>Objective</b>	<b>To operate transparently and effectively for our stakeholders</b>

**Actions/Performance in 2007****Initiatives for 2008**

Provided the public promptly with updated information on HKEx's financial position, operating performance, corporate actions as well as latest developments by the following means:

- Publishing quarterly, interim and annual reports ②
- Publishing quarterly newsletters – the “Exchange” ②
- Issuing about 300 news releases ②
- Issuing about 20 announcements and notices ②
- Despatching four shareholder circulars ②
- Handling over 4,000 media enquiries
- Arranging more than 170 media interviews and 30 press activities

To continue maintaining high levels of transparency and accountability

Implemented EDP to ensure issuers' news is promptly released to the market and accessible to investors. Average daily visits and page views of the websites of HKEx in 2006 and 2007 were:

	Average daily visits		Average daily page views	
	2007	2006	2007	2006
HKEx website	324,882	117,552	3,015,125	1,111,681
GEM website	25,757	13,302	117,437	80,307

Developed DIW for the dissemination of issuer-related information to provide better searching, archiving and backup functions for issuer information and regulatory news and to cope with the growing market demand for updated market information

Held more than 100 meetings, various roadshows, presentations and conferences with fund managers and/or analysts, and received more than 10,000 visitors from different institutions, educational or otherwise, to explain to them our businesses and operation through the interactive use of our Exchange Exhibition Hall and Auditorium

To continue promoting direct communication with our stakeholders including local, Mainland and overseas investors, analysts and intermediaries, through meetings, conferences or roadshows

Handled about 25,000 enquiries (telephone and written ones) and 180 local and overseas complaints

To continue ensuring that public enquiries and complaints are handled effectively and efficiently

Remained deeply committed to achieving and maintaining the highest standards of corporate governance ①

To enhance HKEx's corporate governance practices in line with evolving international practices

Launched the Corporate Governance section on HKEx's corporate website in March

To timely update the Corporate Governance section to ensure high transparency and accuracy

Revamped the Investor Relations Corner of HKEx's corporate website to enrich its content and to provide direct access to HKEx's corporate communications

To strengthen ongoing communication with stakeholders

<b>Objective</b>	<b>To ensure a high standard of integrity and honesty when performing duties</b>
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**Actions/Performance in 2007****Initiatives for 2008**

Arranged three briefings on “Integrity and Corruption Prevention” by the ICAC for our employees to ensure HKEx's employees, especially new recruits, are familiar with the relevant laws and requirements

To ensure HKEx's employees possess sufficient knowledge about their obligations

The Code of Conduct for compliance by employees is articulated with prevailing statutory rules and other regulations ③

To automate the approval and declaration procedures for securities, futures contracts and derivatives transactions with a view to improving the timeliness and accuracy of the declarations and reducing paper flow

Revised in January the Covenant of Desensitisation, applicable to senior executives, to include selected group of staff in the Listing Division. Applicable employees are restrained from taking up any new employment that may constitute a conflict of interest during the desensitisation period of three months

To conduct ongoing review of the Human Resources Manual to ensure HKEx sets high standards of integrity and honesty to achieve the objective of maintaining a fair and orderly market

**Objective** To ensure a high standard of integrity and honesty when performing duties (cont'd)

**Actions/Performance in 2007**

**Initiatives for 2008**

Whistle-blowing policy is in place to facilitate internal reporting by employees on any malpractice. Issues whenever raised by employees under the whistle-blowing policy received prompt attention of the management ③

To respond promptly to any reported malpractice and implement rectification if and when appropriate

Policies and guidelines on the proper use of legitimate software and against unauthorised use of copyright works are in place to ensure proper management of copyright assets and to guard against inadvertent end-user piracy ③

To ensure full compliance with the Copyright Ordinance with the aim of preventing the use of pirated copies in business and promoting corporate accountability and responsible governance

**Principle** Have supply chains that reflect our values and commitment

**Objective** To help our suppliers/contractors/business partners to follow our CSR philosophy

**Actions/Performance in 2007**

**Initiatives for 2008**

Gave priority to suppliers who shared our commitment to environmental protection and waste reduction

To include our CSR philosophy in HKEx's procurement and tendering guidelines  
To encourage suppliers to support our corporate responsibility policy and to follow socially responsible business practices

Respected the human rights of our suppliers/contractors/business partners

To follow the Tendering Guidelines to ensure that the process of selecting prospective tenders is conducted fairly

**Workplace**

**Principle** Create a supportive and quality environment to attract and retain the best people

**Objective** To recognise and reward our people for their contribution

**Actions/Performance in 2007**

**Initiatives for 2008**

Conducted a review of the performance management system and introduced a six-level performance rating scale to better reflect and differentiate staff performance with a view to identifying good performers for succession planning

To ensure a continuity of talent within the Company for key positions who are capable of leading the continued growth of HKEx's businesses

Conducted a review of the remuneration package of Senior Management through an independent consulting company ⑥

Conducted two salary reviews for HKEx employees: ⑥

- Mid-year – a 2 per cent general increase was awarded to staff below middle-level to adjust salary levels in accordance with inflation in the first half of 2007, and a merit salary increase was given to selected staff whose skills were sought after in the market
- Year-end – a general increase of 4.5 per cent base salary budgeted. Additional increases were awarded to selected groups of staff with high turnover rate and to professional staff whose skills were of high demand in the market. The remuneration package was fine tuned to align HKEx's remuneration packages with market levels, and to reinforce the link between performance and rewards

To ensure employees are equitably rewarded

Promoted/re-designated 117 employees to take up higher levels of responsibilities

To ensure talented people are retained for the further growth of the Company

**Objective** To encourage employees to reach their full potential through training

**Actions/Performance in 2007**
**Initiatives for 2008**

Spent \$4 million on staff training and organised 108 training classes with more than 2,900 participants, with an average 24 hours of training per employee

Provided academic sponsorship to 22 employees at different levels

Organised seven in-house seminars for employees from different divisions/departments to improve their understanding of HKEx's products and services

About 600 participants attended external seminars/courses on the latest development of relevant rules and regulations

Introduced electronic learning, providing a wide variety of courses covering managerial, language and technical skills. 95 employees enrolled in various e-learning courses

Encouraged internal transfers or promotions through the Intranet before open recruitment. A total of eight successful applications for transfers within the organisation were noted in 2007. As part of the succession planning programme, Head of Cash Market was appointed Head of the Listing Operation Department under the Listing Division and a senior executive from the Chief Executive's Office was appointed Head of Cash Market

To continue to be a good employer by contributing to the career development of its employees

**Objective** To respect human rights and promote an equal opportunity environment

**Actions/Performance in 2007**
**Initiatives for 2008**

Recognised the contributions of its employees and treated each individual employee fairly and consistently in all matters, with a uniform application of its defined set of human resources philosophies as set out in the Human Resources Manual ③

Observed the Code of Practice on Equal Opportunity as recommended by the Equal Opportunities Commission in Hong Kong. Staff mix (including temporary staff) as at year-end was as follows:

	2007	2006
No. of female employees	398	387
No. of male employees	439	441
Total	837	828

To closely observe and promote equal employment opportunities

**Objective** To encourage open and transparent communication within the organisation

**Actions/Performance in 2007**
**Initiatives for 2008**

Procedures for handling employee grievances are in place. ③ Two complaints on staff matters were received by the Human Resources Department and they were handled according to grievance procedures

To ensure employee complaints are handled promptly and fairly

Conducted 73 staff exit interviews to collect views and help management make improvements if and when appropriate

To collect employees' views and make improvements as appropriate

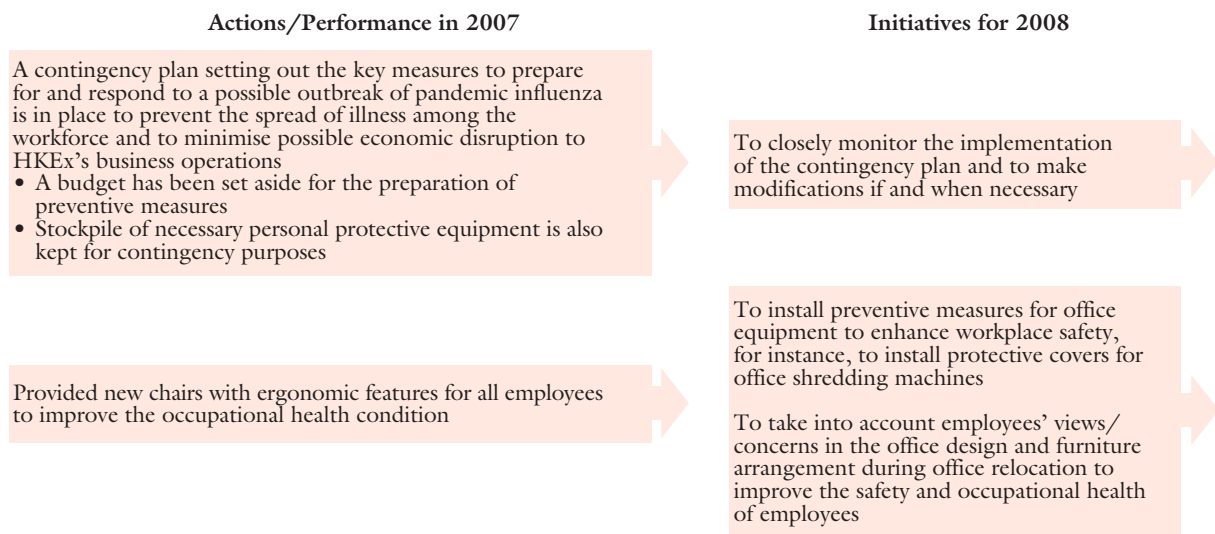
Encouraged two-way communication between employees and management through the Intranet, especially the Staff Suggestion Award Scheme. Comprehensive information on the Group, business resources, company news, human resources related matters, staff activities, health and medical issues, etc, were conveyed to employees while employee suggestions were collected to improve HKEx's business and operations

To promote direct dialogue between employees and management within the organisation

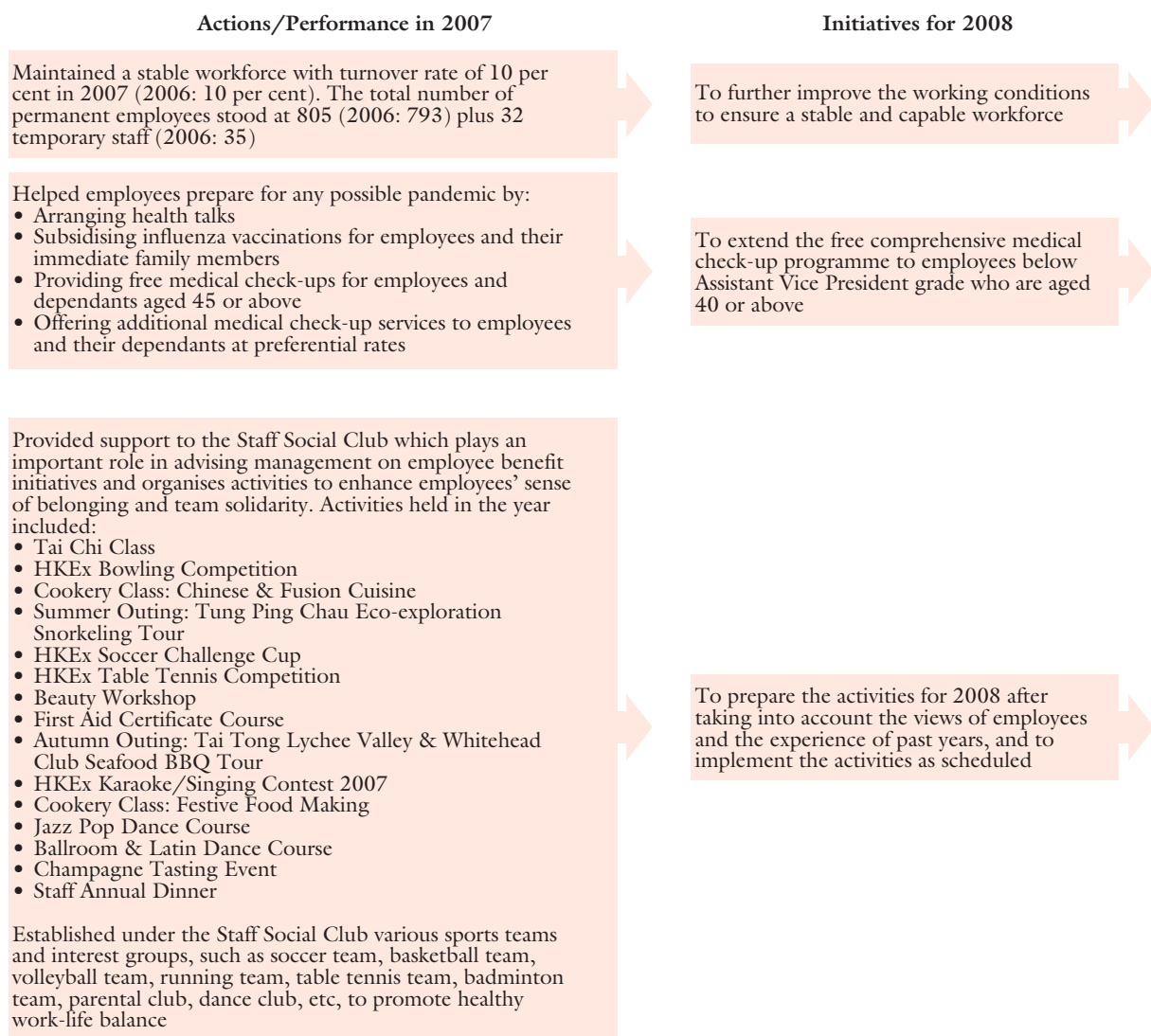
Convened nine Monthly Executive Forums ("MEFs"), including one special MEF to discuss 2007 performance appraisal matters, and four Quarterly Staff Briefings (of about 300 executives each) by the Chief Executive to explain HKEx's business, policies and developments

To continue direct communication between management and employees to ensure employees of different levels are kept abreast of HKEx's developments. External speakers will also be invited, where appropriate, to provide updates on trends and issues relevant to the securities market

<b>Principle</b>	<b>Have a healthy and safe workplace</b>
<b>Objective</b>	<b>To enable employees to deliver their best performance</b>



<b>Principle</b>	<b>Care about employees' welfare and satisfaction and strengthen team collaboration</b>
<b>Objective</b>	<b>To motivate employees to achieve corporate objectives and goals and enhance employees' sense of belonging</b>



## Community

<b>Principle</b>	<b>Develop socially responsible investment</b>
<b>Objective</b>	<b>To bring benefits to the community we serve</b>

### Actions/Performance in 2007

Raised a total of \$63,650,000 through the Stock Code Balloting for Charity Scheme ("Scheme") from newly listed companies for the Community Chest of Hong Kong (2006: \$40,000,000)

Contributed issuers' documents and HKEx publications to 10 universities and technical colleges and three public libraries

HKEx was named a Caring Company in recognition of our commitment to being a good corporate citizen for the third consecutive year

### Initiatives for 2008

To continue the implementation of the Scheme

To continue contributing the documents to educational institutions and public libraries to promote wider access to the information

To continue our commitment to fulfilling our CSR in accordance with the defined CSR framework

<b>Objective</b>	<b>To improve the quality of life of people in need</b>
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### Actions/Performance in 2007

HKEx was granted the Bronze Award by The Community Chest under the Corporate & Employee Contribution Programme in 2006/2007. In 2007, HKEx's employees donated a total of \$155,309 to various charitable organisations:

Donated a total of \$524,863 (of which \$369,554 by HKEx, including activities participation fees) to charitable organisations through the following activities:

- The 2007 Community Chest Corporate Challenge
- Standard Chartered Hong Kong Marathon Corporate Challenge 2007
- Outward Bound® Adventure Race 2007
- MTR HONG KONG Race Walking 2007 ~ Corporate Team Challenge
- HKEx 7-a-side Soccer Challenge Cup 2007: Senior Management Community Shield
- 新城公益金慈善足球王盃2007
- Mahjong Competition for Charity 2007
- Dress Special Day 2007
- Hongkong Land - CENTRAL Rat Race 2007
- 新城仁濟慈善乒乓球王 2007
- 11th ACCA Charity Fun Day - "Rickshaw Race"
- Annual Charitable Donation under the electronic corporate communications programme

### Initiatives for 2008

To encourage employees to continue making contribution to people in need

To continue participating in community activities so as to help those people in need

<b>Principle</b>	<b>Promote society participation</b>
<b>Objective</b>	<b>To encourage employees to serve the community</b>

### Actions/Performance in 2007

Contributed a total of 375 hours to the community by participating in the following activities:

- Ocean Park Fun Day for Underprivileged Children
- A Museum Visit cum Experiential Learning Day for Underprivileged Children in Tuen Mun
- Mid-Autumn Festival Fun Day in a Day Care Centre for the Elderly
- Christmas Party for Underprivileged Children

### Initiatives for 2008

To encourage employee involvement in the community

## Environment

<b>Principle</b>	<b>Minimise environmental impact during the course of business</b>
<b>Objective</b>	<b>To conserve natural resources</b>

### Actions/Performance in 2007

Reduced paper consumption by promoting wider use of electronic copies within the Group and in the securities market by implementing the following initiatives:

- Paid announcements were optional so long as issuers published a notification in newspapers and the full announcement on their own websites as well as the HKEx website under phase 1 of EDP
- Proposal to allow provision of soft copies of quarterly reports to shareholders
- Introduced a charitable donation scheme to encourage wider support for delivery of corporate communications via electronic means
- 82 per cent of the new listings provided eIPO (2006: 62 per cent)
- Despatch of electronic greeting cards
- Implementation of internal e-leave system and other electronic administrative system
- Internal electronic process for handling share options
- Used two-sided copying

### Initiatives for 2008

To continue pursuing initiatives to reduce the use of paper:

- Abolition of mandatory paid announcements effective 25 June 2008
- Market consultation on proposals to allow a non-Hong Kong incorporated listed issuer to supply annual reports and other corporate communications to its shareholders electronically subject to certain conditions and to reduce significantly the number of draft and published circulars, announcements and certain other documents to be provided to the Exchange
- Proposals to allow issuers to distribute printed application forms without an accompanying printed prospectus when certain conditions are met and to amend the law to facilitate incorporation by reference to the information outside of the prospectus so as to reduce the size of a prospectus
- To further promote two-sided copying within the organisation

Channelled 214,833 kg of waste paper for recycling

Used recycled paper and light-weight paper as appropriate for business cards, corporate envelopes, newsletters, financial reports and calendar cards

To engage a consultant to give advice on environmental measures

To prepare for a periodic green audit

To promote wider support for channelling waste paper for recycling and to increase the use of recycled paper

Reduced waste by disposing of office equipment in an environmentally friendly manner:

- Participated in the waste computer recovery programme organised by the Environment Protection Department and channelled 160 personal computers, 10 notebook computers and 22 Host Security Module for re-use and recycling
- Used the old executive chairs as conference chairs
- Donated 204 office chairs to charitable organisations for re-use

To continue pursuing initiatives to reduce waste:

- Participation in the recovery programme for electrical and electronic equipment for re-use and recycling
- Launch of waste segregation plan in offices where appropriate

Reduced energy consumption by:

- Using energy saving lamps
- Adopting the Summer Attire Policy throughout the year so as to support the maintenance of optimal indoor temperature

To give preference to energy efficient office equipment/appliances

To use timer control gear for office lighting where applicable

To encourage energy saving by posting reminders to switch off lights at prominent locations

To replace existing exit signs with light emitting diode lamps for illumination

To establish an energy accounting system to locate saving opportunities and to track and measure the performance of energy efficient strategies

<b>Principle</b>	<b>Support environmental protection</b>
<b>Objective</b>	<b>To promote a “green” Hong Kong</b>

**Actions/Performance in 2007**

A total \$56,450 was donated to Friends of the Earth (HK) to help preserve and improve Hong Kong’s environment

**Initiatives for 2008**

To continue implementation of the charitable donation scheme

To continue our commitment to making donations to support environmental protection

To use environmentally friendly building material such as wallpaper and sealants in renovations

To incorporate the green office concept in future office relocations and renovations regarding lighting, environment controls and indoor air quality

<b>Objective</b>	<b>To advocate a “clean” Hong Kong</b>
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**Actions/Performance in 2007**

Implemented a smoke-free workplace to reduce carbon dioxide emission

Disposed of deteriorated UPS battery in compliance with waste disposal (chemical waste) regulation

Used infra-red controlled water taps and urinals

Used low volatile organic compound adhesive in the carpet tile replacement project

Engaged an independent external consultant to study the feasibility of trading emission-related products in Hong Kong

**Initiatives for 2008**

To use environmentally friendly/green products in procurement where appropriate

To use Forest Stewardship Council certified/environment friendly paper

To use low volatile organic compounds/ environmentally friendly material in decoration

To seek to develop HKEx’s existing businesses (eg IPOs, ETFs, index-linked products) with a focus on environmental and greenhouse gases markets, thereby facilitating “clean” investments in Hong Kong

**Notes:**

- ① Details are set out in the Corporate Governance Report of this Annual Report
- ② Documents are posted on HKEx’s corporate website
- ③ Policies/procedures are included in the Human Resources Manual, which is posted on HKEx’s corporate website
- ④ Details are set out in the Business Review of this Annual Report
- ⑤ More information is set out in the Major Achievements and Key Initiatives under the Business Review of this Annual Report
- ⑥ Details are set out in the Remuneration Committee Report of this Annual Report

On behalf of the Board

**MAU Kam Shing, Joseph**

Company Secretary

Hong Kong, 5 March 2008

# DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 31 December 2007.

## Principal Activities

HKEx is the recognised exchange controller under the SFO. It owns and operates the only stock exchange and futures exchange in Hong Kong and their related clearing houses, namely HKSCC, SEOCH and HKCC.

The Stock Exchange and the Futures Exchange are recognised exchange companies under the SFO to operate and maintain a stock market and futures market in Hong Kong respectively. HKSCC, SEOCH and HKCC are the recognised clearing houses for the purposes of the SFO.

The Group's revenue is derived solely from business activities in Hong Kong. An analysis of the Group's income and contribution to operating profit for the year ended 31 December 2007 is set out in note 3 to the consolidated accounts.

## Results and Appropriations

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 125.

An interim dividend of \$1.79 (2006: \$0.94) per share, amounting to a total of about \$1,914 million (2006: \$1,001 million), including dividend of about \$2,306,000 for shares held in trust under the Share Award Scheme (2006: \$912,000), was paid to Shareholders on 18 September 2007.

The Board recommends the payment of a final dividend of \$3.40 (2006: \$1.19) per share to Shareholders whose names appear on HKEx's Register of Members on 24 April 2008, and the retention of the remaining profit for the year. The proposed final dividend together with the interim dividend payment amounts to a total of about \$5,553 million (including dividend of about \$5,898,000 for shares held in trust under the Share Award Scheme) (2006: \$2,273 million, including dividend of about \$2,409,000 for shares held in trust under the Share Award Scheme).

## Reserves

The distributable reserves of HKEx as at 31 December 2007, calculated under Section 79B of the Companies Ordinance, amounted to \$3,353 million (2006: \$3,375 million).

Movements in reserves of the Group and HKEx during the year are set out in notes 34 to 39 to the consolidated accounts respectively.

## Donations

Charitable and other donations made by the Group during the year amounted to \$328,000.

## Group Financial Summary

A summary of the results and the assets and liabilities of the Group for the past eight financial years, since the year of merger, is set out on page 80 of this Annual Report.



## Fixed Assets

Movements in fixed assets of the Group and HKEx during the year are set out in note 17 to the consolidated accounts.

## Share Capital

Details of the movements in the share capital during the year are set out in note 33 to the consolidated accounts.

## Directors

The list of Directors of HKEx during the year and up to the date of this Annual Report is set out on page 20 of this Annual Report.

As at 31 December 2007, the Board consisted of 13 Directors. Six of them are Government Appointed Directors, namely, Mr Ronald J Arculli, Mrs Laura M Cha, Dr Moses M C Cheng, Dr Marvin K T Cheung, Mr Henry H L Fan and Mr Fong Hup, who were appointed by the Financial Secretary pursuant to Section 77 of the SFO. Six of them are Elected Directors, namely, Dr Bill C P Kwok, Mr Vincent K H Lee, Dr Christine K W Loh, Mr John E Strickland, Mr David M Webb and Mr Oscar S H Wong, who were elected by Shareholders at annual general meetings. The Chief Executive of HKEx is an ex-officio member of the Board.

According to Articles 90(1), 90(1A) and 90(3) of the Articles of Association, any Elected Director and any Government Appointed Director shall be elected or appointed for a term of not more than approximately three years expiring at the conclusion of the annual general meeting of HKEx held in the third year following the year of his or her appointment. On expiration of his or her term, he or she shall retire but be eligible for re-appointment pursuant to Article 93(5).

The terms of office of three Government Appointed Directors, namely Mr Ronald J Arculli, Mrs Laura M Cha and Dr Moses M C Cheng, will expire at the conclusion of the 2008 AGM. The Financial Secretary has not yet informed HKEx of the persons whom he intends to appoint or re-appoint as Directors upon the retirement of the aforesaid three Directors. An announcement will be made once HKEx receives the notices of appointment from the Financial Secretary.

In addition, two Elected Directors, namely Dr Bill C P Kwok and Mr Vincent K H Lee, whose terms of office will expire at the conclusion of the 2008 AGM, shall retire but both of them are eligible for re-appointment. The Nomination Committee has nominated, and the Board has recommended Dr Bill C P Kwok and by majority, Mr Vincent K H Lee to stand for re-election as Directors at the 2008 AGM.

Shareholders are invited to elect up to two Directors at the 2008 AGM to fill the vacancies available due to the retirement of the said two Elected Directors. Details of the proposed candidates standing for election are set out in the circular to the Shareholders sent together with this Annual Report.

No Director proposed for re-election at the 2008 AGM has a service contract with any member of the Group that is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## Biographical Details of Directors and Senior Management

The biographical details of Directors and Senior Management are set out in the Board of Directors and Senior Management section of this Annual Report.

## Directors' Interests in Contracts

Details of the connected transactions and related party transactions are set out in the Corporate Governance Report on pages 94 to 96 of this Annual Report and note 45 to the consolidated accounts respectively.

Save for the above, no contracts of significance in relation to the Group's business to which HKEx or any of its subsidiaries was a party, and in which a Director of HKEx had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the year.

## Directors' Rights to Acquire Shares or Debentures

### Share Option Schemes

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. Pursuant to the terms of the scheme, no further options can be granted under the Pre-Listing Scheme as from 27 June 2000, the date of listing of HKEx shares on the Stock Exchange. Since the adoption of the Share Award Scheme as mentioned hereunder, no further options have been granted under the Post-Listing Scheme.

### Share Award Scheme

HKEx adopted the Share Award Scheme on 14 September 2005, under which the Board or the trustee of the scheme shall select the employees (including any executive director) of the Group for participation in the scheme, and determine the number of shares of HKEx to be awarded. Effective 16 August 2006, the rules of the Share Award Scheme have been amended by which the Board shall determine the lump sum for acquiring the awarded shares instead of approving a fixed number of awarded shares.

Details of the schemes, the options granted and shares awarded thereunder are set out in the Remuneration Committee Report on pages 104 to 107 of this Annual Report and note 34 to the consolidated accounts.

Apart from the Share Option Schemes and the Share Award Scheme, at no time during 2007 was HKEx or any of its subsidiaries a party to any arrangements to enable the Directors of HKEx to acquire benefits by means of acquisition of shares in, or debenture of, HKEx or any body corporate.

## Subsidiaries

Particulars of HKEx's subsidiaries as at 31 December 2007 are set out in note 32 to the consolidated accounts.

## Corporate Governance

HKEx is committed to building and maintaining high standards of corporate governance. Further information on the HKEx's corporate governance practices is set out in the following reports:

- (a) **Corporate Governance Report** – it sets out details of how HKEx applied and complied with the corporate governance principles and practices as set out in the CG Code of the Main Board Listing Rules, and the major work done in furtherance of corporate governance standards. It also provides information regarding interests of the Directors and the Senior Management in shares of HKEx and contracts with the Group.

- (b) **Audit Committee Report** – it gives a summary of work performed by the Audit Committee during 2007.
- (c) **Remuneration Committee Report** – it gives a summary of work performed by the Remuneration Committee during 2007 embracing an overview of the remuneration policy of HKEx and the emoluments, including the options and share awards granted, of the Directors and the Senior Management.
- (d) **Corporate Social Responsibility Report** – it summarises our work done in 2007 for improving the society we serve, and sets out initiatives for 2008 and beyond.

## Interests and Short Positions of Other Persons

As at 31 December 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 Investment manager Custodian corporation/ approved lending agent	8,194,018 20,163,810 31,062,703	59,420,531 (Note 1)	5.55
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund) (Note 2)	Beneficial owner	62,919,500		

### 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	20,350,080	20,350,080 (Note 3)	1.90

Notes:

- The interests included aggregate interests in 3,748,950 underlying shares through its holding of certain listed cash settled equity derivatives (12,250 underlying shares), and unlisted equity derivatives (physically settled – 3,659,000 underlying shares, and cash settled – 77,700 underlying shares). It also included 31,062,703 shares in the lending pool.
- It is 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.
- The interests included aggregate interests in 18,719,830 underlying shares through its holding of certain listed cash settled equity derivatives (314,500 underlying shares) and unlisted equity derivatives (physically settled – 3,936,330 underlying shares, and cash settled – 14,469,000 underlying shares).

## Minority Controller

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 31 December 2007, the five approved Minority Controllers in aggregate held 62.47 per cent of the issued share capital of HKEx (31 December 2006: 63.81 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.

## Public Float

As at the date of this report, the Directors acknowledge that 100 per cent of the issued share capital of HKEx is held by the public. The market capitalisation of HKEx as at 31 December 2007 is set out on page 213 of this Annual Report.

A Shareholding Analysis, based on the result of the investigation carried out pursuant to Section 329 of the SFO with respect to the interests in the shares in HKEx or equity derivatives or short position in those shares as at 31 October 2007, is set out on page 210 of this Annual Report.

## Major Customers and Suppliers

Contracts with the HKEx's five largest suppliers combined by value which are not of a capital nature, contributed to less than 30 per cent in value of supplies purchased during the year ended 31 December 2007. HKEx's five largest customers combined by value contributed to less than 30 per cent in value of the income during the year ended 31 December 2007.

## Purchase, Sale or Redemption of HKEx's Listed Securities

During the year ended 31 December 2007, HKEx had not redeemed, and neither had HKEx nor any of its subsidiaries 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 from the market a total of 12,500 HKEx shares being the awarded shares, and a further 30,000 shares with the dividends received during the year in respect of the Shares held under the trust. The total amount paid to acquire these 42,500 shares during the year was about \$4,879,000.

## Provident Fund Schemes

Particulars of provident fund schemes of the Group are set out in note 8 to the consolidated accounts.

## Auditor

The accounts for the year ended 31 December 2007 have been audited by PricewaterhouseCoopers who will retire at the 2008 AGM and, being eligible, offer themselves for re-appointment.

On behalf of the Board  
**Ronald Joseph ARCULLI**  
Chairman

Hong Kong, 5 March 2008

# AUDITOR'S REPORT

## Independent Auditor's Report to the Shareholders of Hong Kong Exchanges and Clearing Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Hong Kong Exchanges and Clearing Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 125 to 209, which comprise the consolidated and company statements of financial position as at 31 December 2007, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 5 March 2008

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2007

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



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Share capital, share premium and shares held for Share Award Scheme (note 33) \$'000	Employee share-based compensation reserve (note 34) \$'000	Other comprehensive income			Retained earnings (note 39) \$'000	Total equity \$'000
			Revaluation reserves (note 35) \$'000	Hedging reserve (note 36) \$'000	Designated reserves (note 37) \$'000		
At 1 Jan 2006, as previously reported	1,183,132	34,980	(37,086)	-	700,641	2,455,804	4,337,471
Effect of reclassification of Compensation Fund Reserve Account ("CFRA")	-	-	-	-	(38,420)	38,420	-
At 1 Jan 2006, as restated	1,183,132	34,980	(37,086)	-	662,221	2,494,224	4,337,471
Total comprehensive income attributable to shareholders	-	-	47,655	-	-	2,518,569	2,566,224
2005 final dividend at \$0.64 per share	-	-	-	-	-	(680,588)	(680,588)
2006 interim dividend at \$0.94 per share	-	-	-	-	-	(1,000,307)	(1,000,307)
Unclaimed dividend forfeited	-	-	-	-	-	686	686
Shares issued under employee share option schemes	30,895	-	-	-	-	-	30,895
Shares purchased for Share Award Scheme	(21,269)	-	-	-	-	-	(21,269)
Employee share-based compensation benefits	-	24,033	-	-	-	-	24,033
Share of reserve of an associate	-	441	-	-	-	-	441
Transfer of reserves	7,335	(7,335)	-	-	(34,405)	34,405	-
At 31 Dec 2006, as restated	1,200,093	52,119	10,569	-	627,816	3,366,989	5,257,586
At 1 Jan 2007, as previously reported	1,200,093	52,119	10,569	-	668,262	3,326,543	5,257,586
Effect of reclassification of CFRA	-	-	-	-	(40,446)	40,446	-
At 1 Jan 2007, as restated	1,200,093	52,119	10,569	-	627,816	3,366,989	5,257,586
Total comprehensive income attributable to shareholders	-	-	45,467	-	-	6,169,278	6,214,745
2006 final dividend at \$1.19 per share	-	-	-	-	-	(1,270,266)	(1,270,266)
2007 interim dividend at \$1.79 per share	-	-	-	-	-	(1,912,193)	(1,912,193)
Unclaimed dividend forfeited	-	-	-	-	-	2,454	2,454
Shares issued under employee share option schemes	66,052	-	-	-	-	-	66,052
Shares purchased for Share Award Scheme	(4,879)	-	-	-	-	-	(4,879)
Vesting of shares of Share Award Scheme	8,373	(7,286)	-	-	-	(1,087)	-
Employee share-based compensation benefits	-	24,362	-	-	-	-	24,362
Share of reserve of an associate:							
- during the year	-	47	-	-	-	-	47
- eliminated through disposal of associate	-	(560)	-	-	-	-	(560)
Transfer of reserves	19,013	(19,013)	-	-	67,037	(67,037)	-
At 31 Dec 2007	1,288,652	49,669	56,036	-	694,853	6,288,138	8,377,348

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

Approved by the Board of Directors on 5 March 2008

Ronald Joseph ARCULLI  
Director

CHOW Man Yiu, Paul  
Director

# HONG KONG EXCHANGES AND CLEARING LIMITED

## STATEMENT OF FINANCIAL POSITION

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

Approved by the Board of Directors on 5 March 2008

Ronald Joseph ARCULLI  
Director

CHOW Man Yiu, Paul  
Director

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2007

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

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 1. General Information

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

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

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

## 2. Principal Accounting Policies

### (a) Statement of compliance

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

### (b) Basis of preparation

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

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

#### Early adoption of new/revised HKFRSs

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

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

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

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

## 2. Principal Accounting Policies (continued)

### (b) Basis of preparation (continued)

#### Early adoption of new/revised HKFRSs (continued)

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

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

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

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

#### Reclassification of Compensation Fund Reserve Account (“CFRA”)

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

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

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

### (c) Consolidation

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

#### (i) Subsidiaries and controlled special purpose entities

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

## 2. Principal Accounting Policies (continued)

### (c) Consolidation (continued)

#### (i) Subsidiaries and controlled special purpose entities (continued)

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

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

#### (ii) Associates

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

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

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

### (d) Turnover

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

### (e) Revenue recognition

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

- (i) Trading fees and trading tariff on securities and options traded on the Stock Exchange and trading fees on derivatives contracts traded on the Futures Exchange are recognised on a trade date basis.
- (ii) Initial listing fees for initial public offering ("IPO") are recognised upon the listing of an applicant, cancellation of the application or six months after submission of the application, whichever is earlier. Initial listing fees for warrants, callable bull/bear contracts and other securities are recognised upon the listing of the securities. Income from annual listing fees is recognised on a straight-line basis over the period covered by the respective fees received in advance.
- (iii) Settlement fees on derivatives contracts traded on the Futures Exchange are recognised on the official final settlement day.



## 2. Principal Accounting Policies (continued)

### (e) Revenue recognition (continued)

- (iv) Fees for clearing and settlement of trades between Participants in eligible securities transacted on the Stock Exchange are recognised in full on T+1, ie, on the day following the trade day, upon acceptance of the trades. Fees for other settlement transactions are recognised upon completion of the settlement.
- (v) Custody fees for securities held in the Central Clearing and Settlement System (“CCASS”) depository are calculated and accrued on a monthly basis. Income on registration and transfer fees on nominee services are calculated and accrued on the book close dates of the relevant stocks during the financial year.
- (vi) Income from sale of information and other fees are recognised when the related services are rendered.
- (vii) Interest income on investments represents gross interest income from bank deposits and securities and is recognised on a time apportionment basis using the effective interest method.
- (viii) When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rates of the instrument, and continues unwinding the discount as interest income included under Other Income. Interest income on impaired loans is recognised using the original effective interest rate.
- (ix) Dividend income is recognised when the right to receive payment is established.
- (x) Rental income is recognised on an accrual basis.

### (f) Interest expenses

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

### (g) Employee benefit costs

#### (i) Employee leave entitlements

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

#### (ii) Equity compensation benefits

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

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

## 2. Principal Accounting Policies (continued)

### (g) Employee benefit costs (continued)

#### (ii) Equity compensation benefits (continued)

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

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

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

#### (iii) Retirement benefit costs

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

### (h) Operating leases

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

### (i) Fixed assets

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

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

## 2. Principal Accounting Policies (continued)

### (i) Fixed assets (continued)

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

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

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

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

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

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

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

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

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

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

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

### (j) Investment properties

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

## 2. Principal Accounting Policies (continued)

### (k) Lease premiums for land

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

### (l) Goodwill

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

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

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

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

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

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

## 2. Principal Accounting Policies (continued)

### (n) Clearing House Funds

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

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

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

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

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

### (p) Cash marks received from Participants

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

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

## 2. Principal Accounting Policies (continued)

### (q) Derivative financial instruments

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

### (r) Hedge accounting

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

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

#### (i) Fair value hedges

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

#### (ii) Cash flow hedges

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

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

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

## 2. Principal Accounting Policies (continued)

### (s) Investments

#### (i) Classification

Investments of the Group are classified under the following categories:

##### Financial assets at fair value through profit or loss

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

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

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

##### Available-for-sale financial assets

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

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

##### Loans and receivables

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

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

## 2. Principal Accounting Policies (continued)

### (s) Investments (continued)

#### (ii) Recognition and initial measurement

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

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

#### (iii) Derecognition

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

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

##### Financial assets at fair value through profit or loss

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

##### Available-for-sale financial assets

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



## 2. Principal Accounting Policies (continued)

### (s) Investments (continued)

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

##### Loans and receivables

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

#### (v) Fair value measurement principles

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

#### (vi) Impairment

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

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

## 2. Principal Accounting Policies (continued)

### (s) Investments (continued)

#### (vi) Impairment (continued)

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

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

#### Loans and receivables

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

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

As soon as a loan or receivable becomes impaired, the Group may continue to provide services or facilities to the debtor or obligor but no further accounts receivable is recognised on consolidated statement of financial position as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when cash is received.

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

#### Available-for-sale financial assets

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

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

## 2. Principal Accounting Policies (continued)

### (s) Investments (continued)

#### (vi) Impairment (continued)

##### Available-for-sale financial assets (continued)

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

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

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

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

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

### (u) Financial liabilities

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

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

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

#### (ii) Financial guarantee contracts

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

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

## 2. Principal Accounting Policies (continued)

### (u) Financial liabilities (continued)

#### (iii) Other financial liabilities

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

### (v) Repurchase transactions

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

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

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

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

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

### (x) Deferred taxation

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

### (y) Deferred revenue

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

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

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

## 2. Principal Accounting Policies (continued)

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

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

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

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

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

### (aa) Foreign currency translation

#### (i) Functional and presentation currency

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

#### (ii) Transactions and balances

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

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

### (ab) Cash and cash equivalents

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

## 2. Principal Accounting Policies (continued)

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

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

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

### (ad) Operating Segments

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

### (ae) Dividends

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

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

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

### (af) Related parties

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

### 3. Operating Segments

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

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

The **Cash Market** business mainly refers to the operations of the Stock Exchange, which covers all products traded on the Cash Market platforms, such as equities, debt securities, unit trusts, callable bull/bear contracts, warrants and rights. Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market ("GEM"). The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market. Stock Exchange listing fees and costs of the Listing Function are further explained in note 5.

The **Derivatives Market** business refers to the derivatives products traded on the Futures Exchange and stock options traded on the Stock Exchange, which includes the provision and maintenance of trading platforms for a range of derivatives products, such as stock and equity index futures and options, and interest rate and Exchange Fund Note futures. Its income mainly comprises trading fees, trading tariff and net investment income on the Margin Funds invested.

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

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

### 3. Operating Segments (continued)

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

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

	At 31 Dec 2007				
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Group \$'000
Reportable segment assets (excluding non-current assets held for sale)	4,664,621	56,877,568	26,219,215	114,935	87,876,339
Non-current assets held for sale	29,880	9,588	20,567	4,057	64,092
Reportable segment assets	4,694,501	56,887,156	26,239,782	118,992	87,940,431
Reportable segment liabilities	1,249,741	55,470,549	22,012,451	51,595	78,784,336
Additions to fixed assets (ie, non-current assets excluding financial instruments and deferred tax assets)	98,874	2,587	88,650	3,579	193,690





### 3. Operating Segments (continued)

- (a) The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Central income (mainly net investment income of the Corporate Funds) and central costs (mainly costs of support functions that centrally provide services to all of the operating segments) are allocated to the operating segments as they are included in the measure of the segments' profit that is used by the chief operating decision-makers for the purposes of resource allocation and assessment of segment performance. Performance is measured based on segment profit before tax. Taxation charge/(credit) is not allocated to reportable segments.

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

- (b) Reconciliation of reportable segment assets and segment liabilities

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

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

	At 31 Dec 2007 \$'000	At 31 Dec 2006 \$'000
Reportable segment assets	87,940,431	40,461,076
Unallocated assets:		
Tax recoverable	148	–
Deferred tax assets	3,610	3,330
Total assets per consolidated statement of financial position	<b>87,944,189</b>	40,464,406
	At 31 Dec 2007 \$'000	At 31 Dec 2006 \$'000
Reportable segment liabilities	78,784,336	34,864,103
Unallocated liabilities:		
Taxation payable	687,726	287,368
Deferred tax liabilities	36,873	14,003
Unclaimed dividends declared by HKEx	57,906	41,346
Total liabilities per consolidated statement of financial position	<b>79,566,841</b>	35,206,820

- (c) Geographical information

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

	At 31 Dec 2007 \$'000	At 31 Dec 2006 \$'000
Hong Kong	380,956	326,118
China	29	130
	<b>380,985</b>	326,248

### 3. Operating Segments (continued)

(d) Information about major customers

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

### 4. Trading Fees and Trading Tariff

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

### 5. Stock Exchange Listing Fees

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

	2007				2006			
	Equity		Debt & Derivatives \$'000	Total \$'000	Equity		Debt & Derivatives \$'000	Total \$'000
	Main Board \$'000	GEM \$'000			Main Board \$'000	GEM \$'000		
<b>Stock Exchange Listing Fees</b>								
Annual listing fees	280,879	25,297	1,987	308,163	247,797	24,977	1,812	274,586
Initial and subsequent issue listing fees	66,425	5,710	302,104	374,239	45,910	3,175	135,516	184,601
Prospectus vetting fees	3,745	345	140	4,230	2,730	360	60	3,150
Other listing fees	1,514	392	-	1,906	2,174	934	-	3,108
<b>Total</b>	<b>352,563</b>	<b>31,744</b>	<b>304,231</b>	<b>688,538</b>	<b>298,611</b>	<b>29,446</b>	<b>137,388</b>	<b>465,445</b>
<b>Costs of Listing Function</b>								
<b>Direct costs</b>								
Staff costs and related expenses	169,979	33,393	13,045	216,417	120,623	30,664	6,886	158,173
Information technology and computer maintenance expenses	2,052	496	1,086	3,634	1,943	517	-	2,460
Premises expenses	17,888	3,393	855	22,136	14,930	3,722	870	19,522
Legal and professional fees	4,558	211	-	4,769	1,785	1,247	-	3,032
Depreciation	2,956	595	143	3,694	3,420	1,008	57	4,485
Other operating expenses	5,724	1,884	371	7,979	8,489	2,992	204	11,685
<b>Total direct costs</b>	<b>203,157</b>	<b>39,972</b>	<b>15,500</b>	<b>258,629</b>	<b>151,190</b>	<b>40,150</b>	<b>8,017</b>	<b>199,357</b>
<b>Total indirect costs</b>	<b>33,807</b>	<b>6,060</b>	<b>9,669</b>	<b>49,536</b>	<b>25,175</b>	<b>5,361</b>	<b>4,578</b>	<b>35,114</b>
<b>Total costs</b>	<b>236,964</b>	<b>46,032</b>	<b>25,169</b>	<b>308,165</b>	<b>176,365</b>	<b>45,511</b>	<b>12,595</b>	<b>234,471</b>
<b>Contribution to Cash Market Segment Profit before Tax</b>	<b>115,599</b>	<b>(14,288)</b>	<b>279,062</b>	<b>380,373</b>	<b>122,246</b>	<b>(16,065)</b>	<b>124,793</b>	<b>230,974</b>

## 5. Stock Exchange Listing Fees (continued)

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

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

## 6. Net Investment Income

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

## 7. Other Income

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

## 8. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

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

### (a) Retirement Benefit Costs

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

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

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

**8. Staff Costs and Related Expenses (continued)****(a) Retirement Benefit Costs (continued)**

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

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

**9. Information Technology and Computer Maintenance Expenses**

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

**10. Other Operating Expenses**

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

## 11. Profit before Taxation

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

## 12. Directors' Emoluments

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

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

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

## 12. Directors' Emoluments (continued)

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

	2007 Number of Directors	2006 Number of Directors
\$1 – \$500,000	12	16
\$12,000,001 – \$12,500,000	–	1
\$15,000,001 – \$15,500,000	1	–
	<b>13</b>	<b>17</b>

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

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

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



## 12. Directors' Emoluments (continued)

(c) (continued)

Notes:

- (i) Other benefits included insurance premium and club membership.
- (ii) Employees who retire before normal retirement age are eligible for 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of seven years of service.
- (iii) Appointment effective 26 April 2006
- (iv) Retired on 26 April 2006.

## 13. Five Top-paid Employees

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

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

- (a) Employee share-based compensation benefits represent fair value of share options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme amortised to profit or loss during the year disregarding whether the options and the Awarded Shares have been vested/exercised or not.
- (b) The emoluments of these four (2006: four) employees, including employee share-based compensation benefits for options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme, were within the following bands:

	2007 Number of employees	2006 Number of employees
\$6,500,001 – \$7,000,000	1	3
\$7,500,001 – \$8,000,000	1	1
\$8,500,001 – \$9,000,000	1	–
\$10,500,001 – \$11,000,000	1	–
	<b>4</b>	4

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

**14. Taxation**

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

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

- (i) Hong Kong Profits Tax has been provided for at 17.5 per cent (2006: 17.5 per cent) on the estimated assessable profit for the year.
- (b) The taxation on the Group's profit before taxation (excluding share of profits of associates and gain on disposal of an associate) differs from the theoretical amount that would arise using the taxation rate of 17.5 per cent (2006: 17.5 per cent) as follows:

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

## 15. Dividends

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

- (a) Actual 2006 final dividend paid was \$1,270,266,000 of which \$3,879,000 was paid for shares issued for employee share options exercised after 31 December 2006.
- (b) The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

## 16. Earnings Per Share

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

- (a) Basic earnings per share

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

- (b) Diluted earnings per share

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

## 17. Fixed Assets

## (a) Group

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

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

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

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

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

## 17. Fixed Assets (continued)

### (a) Group (continued)

- (iv) The leasehold building held for sale was revalued as at 30 June 2007 and the other leasehold building was revalued as at 31 December 2007 on the basis of the depreciated replacement costs calculated by Jones Lang LaSalle, an independent firm of qualified property valuers. During the year ended 31 December 2007, the total revaluation deficit of the two leasehold buildings amounted to \$118,000, of which \$44,000 was charged to other comprehensive income and leasehold buildings revaluation reserve (note 35) to set off against previous valuation surpluses and \$74,000 was charged to other operating expenses in the consolidated income statement (note 10). For the year ended 31 December 2006, the total revaluation gain of the two leasehold buildings amounted to \$924,000, of which \$502,000 was credited to other comprehensive income and leasehold buildings revaluation reserve (note 35) and \$422,000 was credited to other operating expenses in the consolidated income statement to offset previous impairment losses charged to the consolidated income statement (note 10).
- (v) The cost of the leasehold building not reclassified as held for sale was \$15,900,000 (2006: cost of the two leasehold buildings was \$26,900,000). The carrying value of the said leasehold building as at 31 December 2007 would have been \$6,327,000 (2006: carrying value of the two leasehold buildings was \$11,001,000) had it been carried at cost less accumulated depreciation.

### (b) HKEx

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

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

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

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

## 18. Investment Property

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

- (a) On 19 September 2007, the Board approved the disposal of the investment property and the amount was reclassified as a non-current asset held for sale (note 27(c)).
- (b) The cost of the investment property as at 31 December 2006 was \$8,229,000 and was held under long-term lease and situated in Hong Kong. Prior to its reclassification as a non-current asset held for sale, the investment property was revalued as at 30 June 2007 on the basis of its open market value by Jones Lang LaSalle, an independent firm of qualified property valuers. The fair value gain during the period up to the date of reclassification amounted to \$1,100,000 (year ended 31 December 2006: \$1,600,000) and was credited to the consolidated income statement under other income (note 7).

## 19. Lease Premiums for Land

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

- (a) On 19 September 2007, the Board approved the disposal of one of the leasehold properties used by the Group and the lease premium for the land of the property was reclassified as a non-current asset held for sale (note 27(d)).
- (b) The leasehold land not reclassified as non-current assets held for sale is held under long-term lease and situated in Hong Kong. The cost of the leasehold land was \$69,659,000 (2006: cost of the leasehold land of two leasehold properties was \$102,770,000).

## 20. Investment in an Associate

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

## (a) Share of net assets of associates

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

## (b) Goodwill

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

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

## (ii) Impairment tests for investment in an associate

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

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

- (c) On 29 March 2007, the Group entered into an agreement to sell all of its 7,317 fully paid Class A ordinary shares (equivalent to 30 per cent of the issued share capital) of CHIS for a consideration of \$270,320,000 as the Board considered that the sale represented a good opportunity for the Group to realise a gain on the investment. The transaction was completed on 3 April 2007 and the Group ceased to have significant influence over CHIS on the same date. The accounting profit on disposal of the investment, after deducting stamp duty of \$270,000, amounted to \$206,317,000 and was recognised in the consolidated income statement during the year ended 31 December 2007.

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

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

	2006 \$'000
Assets	122,486
Liabilities	61,918
Income	374,121
Profit	<u>90,409</u>



## 21. Clearing House Funds

	Group	
	At 31 Dec 2007 \$'000	At 31 Dec 2006 \$'000
Net assets of the Clearing House Funds were as follows:		
HKSCC Guarantee Fund	362,015	344,825
SEOCH Reserve Fund	1,263,056	578,407
HKCC Reserve Fund	567,133	1,347,299
	<b>2,192,204</b>	<b>2,270,531</b>
Net assets of the Clearing House Funds were composed of:		
Available-for-sale financial assets:		
Debt securities, at market value		
– listed in Hong Kong	–	129,512
– unlisted	361,506	187,700
Cash and cash equivalents	1,841,508	1,957,229
	<b>2,203,014</b>	<b>2,274,441</b>
Less: Other liabilities	<b>(10,810)</b>	<b>(3,910)</b>
	<b>2,192,204</b>	<b>2,270,531</b>
The Clearing House Funds were funded by:		
Clearing Participants' cash contributions (note a)	1,496,855	1,642,495
Designated reserves (note 37):		
– Clearing houses' contributions	320,200	320,200
– Forfeiture of a defaulted Clearing Participant's contributions	1,928	1,928
– Accumulated net investment income net of expenses attributable to:		
– Clearing Participants' contributions	282,213	232,148
– Clearing houses' contributions	90,512	73,540
	<b>694,853</b>	<b>627,816</b>
Revaluation reserve (Note 35(b))	496	220
	<b>2,192,204</b>	<b>2,270,531</b>
The maturity profile of the net assets of the Clearing House Funds was as follows:		
Amounts maturing within twelve months	2,192,204	2,270,531

- (a) Amount included Participants' additional deposits of \$1,116,555,000 (2006: \$1,279,645,000).
- (b) The Clearing House Funds were established to support the respective Clearing Houses (ie, HKSCC, HKCC and SEOCH) to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to the Clearing Houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Clearing Participants arising from depositing defective securities into CCASS.

## 22. Available-for-sale Financial Assets

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

## 23. Accounts Receivable, Prepayments and Deposits

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

- (a) The carrying amounts of accounts receivable and deposits approximated their fair values.
- (b) The movements in provision for impairment losses of trade receivables were as follows:

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

- (c) CNS money obligations receivable accounted for 94 per cent (2006: 94 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 30 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits would mature within three months.

## 24. Margin Funds on Derivatives Contracts

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

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

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

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

	Group	
	At 31 Dec 2007 \$'000	At 31 Dec 2006 \$'000
<b>Analysis of financial liabilities at fair value through profit or loss:</b>		
<u>Held for trading</u>		
Derivative financial instruments, at market value		
– forward foreign exchange contracts	6,149	7,505

## 27. Non-current Assets Held for Sale

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

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

Subsequent to 31 December 2007, the Group has entered into agreements with two third parties to sell the leasehold property and the investment property for a consideration of \$103,380,000 and \$30,400,000 respectively. The sale transactions were completed on 18 February 2008. The accounting profit on the disposal of properties, after deducting related selling expenses of \$1,047,000, amounted to \$68,641,000 and was recognised in the consolidated income statement in February 2008.

- (b) Leasehold building

	Group	
	2007 \$'000	2006 \$'000
Transfer from leasehold buildings (note 17(a)(iii)) and at 31 Dec	7,524	–

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

- (c) Investment property

	Group	
	2007 \$'000	2006 \$'000
Transfer from investment property (note 18(a))	20,400	–
Fair value gain	3,800	–
At 31 Dec	<b>24,200</b>	–

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

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

- (d) Leasehold premium for land of leasehold property

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

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

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

**28. Accounts Payable, Accruals and Other Liabilities**

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

- (a) The carrying amounts of accounts payable and other liabilities approximated their fair values.
- (b) Unclaimed dividends for the Group represent dividends declared by listed companies which were held by HKSCC Nominees Limited but not yet claimed by shareholders of the companies concerned, and dividends declared by HKEx but not yet claimed by its shareholders. During the year, dividends declared by HKEx which were unclaimed over a period of six years from the date of payment amounting to \$2,454,000 (2006: \$686,000) were forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association (note 39).
- (c) CNS money obligations payable accounted for 81 per cent (2006: 86 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations payable mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

**29. Participants' Admission Fees Received**

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

### 30. Provisions

#### (a) Group

	Reinstatement costs \$'000	Employee benefit costs \$'000	Total \$'000
At 1 Jan 2007	24,128	26,712	50,840
Provision for the year	–	37,391	37,391
Amount used during the year	–	(33,109)	(33,109)
Amount paid during the year	–	(1,364)	(1,364)
At 31 Dec 2007	24,128	29,630	53,758
		At 31 Dec 2007 \$'000	At 31 Dec 2006 \$'000
Analysis of provisions:			
Current		29,630	26,712
Non-current		24,128	24,128
		53,758	50,840

#### (b) HKEx

	Reinstatement costs \$'000	Employee benefit costs \$'000	Total \$'000
At 1 Jan 2007	575	26,712	27,287
Provision for the year	–	37,391	37,391
Amount used during the year	–	(33,109)	(33,109)
Amount paid during the year	–	(1,364)	(1,364)
At 31 Dec 2007	575	29,630	30,205
		At 31 Dec 2007 \$'000	At 31 Dec 2006 \$'000
Analysis of provisions:			
Current		29,630	26,712
Non-current		575	575
		30,205	27,287

- (i) The provision for reinstatement costs represents the estimated costs used to restore the leased office premises to their original state upon the expiry of the leases. The leases are expected to expire within four years.
- (ii) The provision for employee benefit costs represents unused annual leave that has been accumulated at the end of the reporting period. It is expected to be fully utilised in the coming twelve months.

### 31. Deferred Taxation

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

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

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

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

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

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

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

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



**31. Deferred Taxation (continued)**

(d) (continued)

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

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

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

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

(a) Investments in subsidiaries

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

(b) Amounts due from/(to) subsidiaries

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

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

(c) Particulars of subsidiaries

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

Company	Issued and fully paid up share capital	Principal activities	Interest held
<b>Direct subsidiaries:</b>			
The Stock Exchange of Hong Kong Limited	“A” shares \$929	Operates the single, unified stock exchange in Hong Kong for the purposes of the Securities and Futures Ordinance	100%
Hong Kong Futures Exchange Limited	Ordinary \$19,600,000 Standard \$850,000	Operates a futures and options exchange	100%
Hong Kong Securities Clearing Company Limited	Ordinary \$2	Operates a clearing house for securities traded on the unified stock exchange in Hong Kong and the central securities depository and provides custody and nominee services for eligible securities listed in Hong Kong	100%
HKEC Nominees Limited	Ordinary \$2	Nominee services	100%
Hong Kong Financial Markets Development Limited	\$2	Promotes the securities, futures and financial industry	100%
HKEx (China) Limited	\$2	Promotes HKEx products and services	100%
HKEx (Singapore) Limited	\$2	Dormant	100%
<b>Indirect subsidiaries:</b>			
The SEHK Options Clearing House Limited	Ordinary \$1,000,000	Operates a clearing house for options contracts traded on the Stock Exchange	100%
HKEx Information Services Limited	\$100	Sale of stock market information	100%
Prime View Company Limited	\$20	Property holding	100%
The Stock Exchange Club Limited	\$8	Property holding	100%
The Stock Exchange Nominee Limited	\$2	Nominee services	100%
HKFE Clearing Corporation Limited	Ordinary \$1,000,000	Operates a clearing house for derivatives contracts traded on the Futures Exchange	100%

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

#### (c) Particulars of subsidiaries (continued)

Company	Issued and fully paid up share capital	Principal activities	Interest held
<b>Indirect subsidiaries: (continued)</b>			
HKFE Clearing Linkage Limited	\$2	Dormant	100%
HKSCC Nominees Limited	\$20	Acting as common nominee in respect of securities held in the CCASS depository	100%
Many Profit Limited	\$2	Dormant	100%
Freestar Corporation Limited	\$2	Dormant	100%
Star Prime Limited	\$2	Dormant	100%
HK Conversion Agency Services Limited	\$2	Conversion agency services	100%

#### (d) Controlled special purpose entity

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

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

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

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

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

	Group and HKEx				
	At 31 Dec 2007 \$'000	At 31 Dec 2006 \$'000			
Authorised:					
2,000,000,000 shares of \$1 each	2,000,000	2,000,000			
Issued and fully paid:					
	Group				
	Number of shares of \$1 each	Share capital \$'000	Share premium \$'000	Shares held for Share Award Scheme \$'000	Total \$'000
At 1 Jan 2006	1,061,796,846	1,062,755	150,405	(30,028)	1,183,132
Shares issued under employee share option schemes (note a)	2,693,500	2,693	28,202	-	30,895
Transfer from employee share-based compensation reserve (note 34)	-	-	7,335	-	7,335
Shares purchased for Share Award Scheme (note b)	(300,000)	-	-	(21,269)	(21,269)
At 31 Dec 2006	1,064,190,346	1,065,448	185,942	(51,297)	1,200,093
At 1 Jan 2007	1,064,190,346	1,065,448	185,942	(51,297)	1,200,093
Shares issued under employee share option schemes (note a)	4,837,000	4,837	61,215	-	66,052
Transfer from employee share-based compensation reserve (note 34)	-	-	19,013	-	19,013
Vesting of shares of Share Award Scheme (note c)	243,868	-	-	8,373	8,373
Shares purchased for Share Award Scheme (note b)	(42,500)	-	-	(4,879)	(4,879)
At 31 Dec 2007	1,069,228,714	1,070,285	266,170	(47,803)	1,288,652

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

	HKEx			Total \$'000
	Number of shares of \$1 each	Share capital \$'000	Share premium \$'000	
At 1 Jan 2006	1,062,754,846	1,062,755	150,405	1,213,160
Shares issued under employee share option schemes (note a)	2,693,500	2,693	28,202	30,895
Transfer from employee share-based compensation reserve (note 34)	-	-	7,335	7,335
At 31 Dec 2006	1,065,448,346	1,065,448	185,942	1,251,390
At 1 Jan 2007	1,065,448,346	1,065,448	185,942	1,251,390
Shares issued under employee share option schemes (note a)	4,837,000	4,837	61,215	66,052
Transfer from employee share-based compensation reserve (note 34)	-	-	19,013	19,013
At 31 Dec 2007	1,070,285,346	1,070,285	266,170	1,336,455

- (a) During the year, employee share options granted under the Pre-Listing Scheme and the Post-Listing Scheme were exercised to subscribe for 4,837,000 shares (2006: 2,693,500 shares) in HKEx at an average consideration of \$13.66 per share (2006: \$11.47 per share), of which \$1.00 per share was credited to share capital and the balance was credited to the share premium account.
- (b) During the year, the HKEx Employee Share Trust acquired 42,500 HKEx shares (2006: 300,000 shares) through purchases on the open market for the Share Award Scheme (note 34(c)). The total amount paid to acquire the shares during the year was \$4,879,000 (2006: \$21,269,000) and has been deducted from shareholders' equity.
- (c) During the year, the HKEx Employee Share Trust transferred 243,868 HKEx shares (2006: Nil shares) to the awardees upon vesting of certain Awarded Shares on 19 December 2007. The total cost of the related vested shares was \$8,373,000 (2006: \$Nil).

### 34. Employee Share-based Compensation Reserve

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

- (a) Employee share-based compensation benefits represent the fair value of employee services estimated to be received in exchange for the grant of the relevant options and shares awards over the relevant vesting periods, the total of which is based on the fair value of the options and share awards granted. The amount for each period is determined by spreading the fair value of the options and share awards over the relevant vesting periods and is recognised as staff costs and related expenses (note 8) with a corresponding increase in the employee share-based compensation reserve.
- (b) Share options
- (i) HKEx operates two share option schemes, the Pre-Listing Scheme and the Post-Listing Scheme, under which the Board may, at its discretion, offer any employee (including any Executive Director) of HKEx or its subsidiaries, options to subscribe for shares in HKEx subject to the terms and conditions stipulated in the two schemes. Both schemes were approved by the shareholders of HKEx on 31 May 2000 and have a life of 10 years until 30 May 2010. Amendments to the Post-Listing Scheme, including, inter alia, the abolition of granting options at a discounted price, were approved by the shareholders of HKEx on 17 April 2002 so as to comply with the new requirements of Chapter 17 of the Main Board Listing Rules which came into effect on 1 September 2001.

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

No share options were granted after 26 January 2005 and no further share options will be granted following the adoption of the Share Award Scheme in September 2005 (note 34(c)).

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

### 34. 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
<b>Pre-Listing Scheme</b>				
Outstanding at 1 Jan	6.88	788,000	6.88	2,126,000
Exercised	6.88	(409,000)	6.88	(1,338,000)
Outstanding at 31 Dec	6.88	379,000	6.88	788,000
<b>Post-Listing Scheme</b>				
Outstanding at 1 Jan	15.68	14,593,500	15.80	16,574,000
Exercised	14.28	(4,428,000)	16.00	(1,355,500)
Forfeited	13.01	(1,076,000)	18.32	(625,000)
Outstanding at 31 Dec	16.67	9,089,500	15.68	14,593,500
Total	16.28	9,468,500	15.23	15,381,500

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

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

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

	At 31 Dec 2007		At 31 Dec 2006	
	Remaining contractual life	Number of shares issuable under options granted	Remaining contractual life	Number of shares issuable under options granted
Exercise price				
\$6.88	2.41 years	379,000	3.41 years	788,000
\$8.28	5.33 years	1,240,000	6.33 years	2,460,000
\$12.45	5.62 years	273,500	6.62 years	547,000
\$12.49	N/A	–	6.63 years	1,476,000
\$17.30	6.04 years	547,000	7.04 years	822,000
\$16.96	6.24 years	2,827,500	7.24 years	4,084,500
\$15.91	6.37 years	125,000	7.37 years	150,000
\$19.25	7.07 years	4,076,500	8.07 years	5,054,000
	6.30 years	9,468,500	7.08 years	15,381,500

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

#### (b) Share options (continued)

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

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

#### (c) Awarded Shares

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

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



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

#### (c) Awarded Shares (continued)

##### (i) (continued)

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

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

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

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

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

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

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

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

#### (c) Awarded Shares (continued)

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

	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 of \$73.08) * #	284,965	-
Forfeited	(1,800)	(28,700)
Vested	(232,375)	-
Dividends reinvested		
– allocated to awardees	29,132	24,867
– allocated to awardees but subsequently forfeited	(73)	(261)
– vested	(11,493)	-
Outstanding at 31 Dec	<b>1,024,262</b>	<b>955,906</b>

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

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

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

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

	At 31 Dec 2007		At 31 Dec 2006	
	Remaining vesting period	Number of Awarded Shares outstanding	Remaining vesting period	Number of Awarded Shares outstanding
Fair value				
\$31.20	0.97 year to 2.97 years	697,125	0.97 year to 3.97 years	931,300
\$72.28	0.95 year to 3.95 years	272,465	N/A	-
\$81.33	1.29 year to 4.29 years	7,000	N/A	-
\$102.29	1.47 year to 4.47 years	5,500	N/A	-
Dividends reinvested	0.95 year to 4.47 years	42,172	0.97 year to 3.97 years	24,606
		<b>1,024,262</b>		<b>955,906</b>

- (iv) As at 31 December 2007, 32,370 forfeited and unallocated shares were held by the HKEx Employee Share Trust and would be allocated to awardees in future (2006: 302,094 forfeited and unallocated shares, of which 272,465 shares were allocated to awardees on 15 January 2007).
- (v) Had all the outstanding Awarded Shares been fully vested on 31 December 2007, the theoretical gains of the awardees based on the closing price of \$221.20 per share on that date would have been \$226,567,000.

## 35. Revaluation Reserves

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

- (a) The revaluation reserves are segregated for their respective specific purposes and are stated net of applicable deferred taxes.
- (b) Included gross investment revaluation surplus of \$496,000 (2006: \$220,000) which was attributable to investments of the Clearing House Funds.
- (c) Balance at 31 December 2006 included share of investment revaluation reserve of an associate of \$58,000.

## 36. Hedging Reserve

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

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

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

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

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

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

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

### 37. Designated Reserves

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

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

#### (a) Clearing House Funds reserves

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

#### (b) Development reserve

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

### 38. Merger Reserve

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

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

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

- (a) Profit attributable to shareholders included a profit of \$3,161,859,000, of which \$3,156,100,000 was dividends from subsidiaries (2006: \$1,821,661,000, of which \$1,802,995,000 was dividends from subsidiaries), which has been dealt with in the accounts of HKEx, the holding company of the Group.
- (b) The Group's profit attributable to shareholders included the net investment income net of expenses of the Clearing House Funds for an aggregate amount of \$67,037,000 (2006: \$37,840,000).
- (c) The negative reserve arising on consolidation of \$4,116,436,000, representing the difference between the cost of acquiring the subsidiaries at the time of the merger and their respective issued share capital, was offset against merger reserve of \$2,997,115,000 (note 38) and retained earnings of \$1,119,321,000.

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

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

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

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

#### 41. Commitments

- (a) Commitments in respect of capital expenditures:

	Group		HKEx	
	At 31 Dec 2007 \$'000	At 31 Dec 2006 \$'000	At 31 Dec 2007 \$'000	At 31 Dec 2006 \$'000
Contracted but not provided for	33,555	9,144	105	2,123
Authorised but not contracted for	131,349	82,461	29,361	22,598
	<b>164,904</b>	<b>91,605</b>	<b>29,466</b>	<b>24,721</b>

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

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

	Group		HKEx	
	At 31 Dec 2007 \$'000	At 31 Dec 2006 \$'000	At 31 Dec 2007 \$'000	At 31 Dec 2006 \$'000
Land and buildings				
– within one year	88,736	91,910	1,403	1,558
– in the second to fifth years	8,151	96,819	1,391	2,734
	<b>96,887</b>	<b>188,729</b>	<b>2,794</b>	<b>4,292</b>
Computer systems, software and equipment				
– within one year	17,097	8,320	14,664	7,605
– in the second to fifth years	1,786	2,218	1,786	2,218
	<b>18,883</b>	<b>10,538</b>	<b>16,450</b>	<b>9,823</b>
	<b>115,770</b>	<b>199,267</b>	<b>19,244</b>	<b>14,115</b>

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

- (c) Commitments for computer maintenance contracts

The Group is heavily reliant on the capability and reliability of its computer systems for its business operations, including those required for its electronic trading platforms and post-trading clearing and settlement services. In order to maintain the high standard of performance of the systems, the Group has entered into various maintenance contracts with its vendors. The total commitments under maintenance contracts in respect of computer systems and equipment were as follows:

	Group		HKEx	
	At 31 Dec 2007 \$'000	At 31 Dec 2006 \$'000	At 31 Dec 2007 \$'000	At 31 Dec 2006 \$'000
Computer systems and equipment				
– within one year	47,839	34,377	47,013	24,684
– in the second to fifth years	107,611	2,101	107,611	2,101
	<b>155,450</b>	<b>36,478</b>	<b>154,624</b>	<b>26,785</b>



#### 41. Commitments (continued)

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

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

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

#### 42. Contingent Liabilities

(a) Group

- (i) The Group has a contingent liability in respect of potential calls to be made by the SFC to replenish all or part of compensation less recoveries paid by the Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$72 million. At 31 December 2007, no calls have been made by the SFC in this connection.
- (ii) The Stock Exchange has undertaken to indemnify the Collector of Stamp Revenue against any loss of revenue resulting from any underpayment or default or delay in payment of stamp duty by its Participants, up to \$200,000 in respect of the default of any one Participant. In the unlikely event that all of its 439 trading Participants as at 31 December 2007 (2006: 425) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to \$87,800,000 (2006: \$85,000,000).

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

(b) Group and HKEx

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

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

### 43. Future Operating Lease Arrangements

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

	Group	
	At 31 Dec 2007 \$'000	At 31 Dec 2006 \$'000
Land and buildings		
– within one year	354	933
– in the second to fifth years	6	815
	360	1,748
Trading booths and related facilities		
– within one year	9,610	9,610
– in the second to fifth years	387	9,997
	9,997	19,607
Total	10,357	21,355

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

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

As at 31 December, the amount of non-cash collateral received from Participants and the amount utilised for covering part of their Clearing House Fund contributions and Margin Fund obligations for derivatives contracts were as follows:

	Group			
	At 31 Dec 2007		At 31 Dec 2006 (As restated)	
	Amount received \$'000	Amount utilised \$'000	Amount received \$'000	Amount utilised \$'000
<b>Clearing House Funds</b>				
Bank guarantees	1,759,650	519,137	699,130	491,866
<b>Margin Funds</b>				
Equity securities, listed in Hong Kong, at market value	1,847,054	–*	604,276	–*
US Treasury Bills, at market value	8,672,944	5,935,238	1,516,506	1,090,589
Bank guarantees	854,000	607,930	269,000	181,111
	11,373,998	6,543,168	2,389,782	1,271,700
	13,133,648	7,062,305	3,088,912	1,763,566

\* Certain equity securities received were used to cover call options issued by SEOCH Participants whose underlying stocks were the same as the collateral received. Under the Operational Clearing Procedures for Options Trading Exchange Participants of SEOCH, such call options issued are not marginable positions (ie, no margin requirements). Hence, the amount is not treated as having been utilised for covering Margin Fund obligations. As at 31 December 2007, \$1,307,776,000 (2006: \$286,494,000) of equity securities received were used for such purpose (including those amounts discovered but not yet released of \$23,066,000 (2006: \$34,102,000)).

## 45. Connected Transactions and Material Related Party Transactions

### (a) Connected transactions and material related party transactions

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

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

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

	Group	
	2007 \$'000	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 year ended 31 December 2006 disclosed above represented expenses incurred up to 26 April 2006 and were related party transactions under HKAS 24. The transactions were also continuing connected transactions as defined under the Main Board Listing Rules but the amount disclosed as continuing connected transactions for 2007 and 2006 in the Corporate Governance Report represented expenses incurred from 1 January 2007 to 26 April 2007 and from 1 January 2006 to 31 December 2006 respectively.

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

## (b) Material related party transactions

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

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

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

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

## (ii) Key management personnel compensation

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

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

## (b) Material related party transactions (continued)

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

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

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

## (iv) Post-retirement benefit plans

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

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

**46. Banking Facilities with Assets Pledged**

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

**47. Capital Management**

The Group's objectives when managing capital are:

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

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

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

## 48. Financial Risk Management

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

### (a) Market risk

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

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

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

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

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

### (i) Foreign exchange risk

Foreign exchange risk is the risk that the value of an asset, liability or highly probable forecast transaction denominated in foreign currency will fluctuate because of changes in foreign exchange rates. When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency cash and bank deposits have been used to hedge the currency exposure of the Group's non-HKD investments, highly probable forecast transactions and liabilities to mitigate risks arising from fluctuations in exchange rates.

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

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

## 48. Financial Risk Management (continued)

### (a) Market risk (continued)

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

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

##### Cash flow hedges

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

##### Fair value hedges

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

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

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

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

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

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

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

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

## (a) Market risk (continued)

## (i) Foreign exchange risk (continued)

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

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



## 48. Financial Risk Management (continued)

## (a) Market risk (continued)

## (i) Foreign exchange risk (continued)

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

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

## (a) Market risk (continued)

## (i) Foreign exchange risk (continued)

		HKEx		
		At 31 Dec 2007		
Foreign currency	Gross open position \$'000	Forward foreign exchange contracts and hedges \$'000	Net open position \$'000	
<b>Financial assets/(financial liabilities)</b>				
Other financial assets	USD	44	–	44
	RMB	342	–	342
Cash and cash equivalents	RMB	520	–	520
	SEK #	623	(253)	370
Accounts payable, accruals and other liabilities	USD	(14,140)	–	(14,140)
	RMB	(1,602)	–	(1,602)
	SEK #	(257)	253	(4)
<b>Total net open position for HKEx</b>				
	RMB			740
	USD			14,096
	SEK			366
				<b>15,202</b>
		HKEx		
		At 31 Dec 2006		
Foreign currency	Gross open position \$'000	Forward foreign exchange contracts and hedges \$'000	Net open position \$'000	
<b>Financial assets/(financial liabilities)</b>				
Other financial assets	RMB	1	–	1
Cash and cash equivalents	RMB	105	–	105
	SEK #	22,467	(19,548)	2,919
Accounts payable, accruals and other liabilities	USD	(706)	–	(706)
	RMB	(289)	–	(289)
	SEK #	(19,914)	19,548	(366)
<b>Total net open position for HKEx</b>				
	RMB			183
	USD			706
	SEK			2,553
				<b>3,442</b>

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

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

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

## 48. Financial Risk Management (continued)

### (a) Market risk (continued)

#### (ii) Equity and commodity price risk

The Group is exposed to equity price risk as equities and index futures contracts are held as part of the Corporate Fund's investments. Equity price risk is capped by an asset allocation limit. The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's investment policy.

#### (iii) Interest rate risks

There are two types of interest rate risk:

- Fair value interest rate risk – the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and
- Cash flow interest rate risk – the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to both fair value and cash flow interest rate risks as the Group has significant assets and liabilities which are interest-bearing.

#### (iv) Risk management

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

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

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

## (a) Market risk (continued)

## (iv) Risk management (continued)

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

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

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

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

## (b) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities.

Investments of the Group are kept sufficiently liquid to meet the operating needs and possible liquid requirements of the Clearing House Funds and Margin Funds. The Group also sets a limit on the minimum level of cash or bank deposits held for the Corporate Funds, and the minimum level of investments to be held that would mature the same day and the next day for the Clearing House Funds and Margin Funds.

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

##### (b) Liquidity risk (continued)

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

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

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

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

## (b) Liquidity risk (continued)

	HKEx				
	At 31 Dec 2007				
	Up to 1 month \$'000	>1 month to 3 months \$'000	>3 months to 1 year \$'000	Not determinable \$'000	Total \$'000
<b>Current liabilities</b>					
Accounts payable, accruals and other liabilities	164,922	1,813	18	291	167,044
Amounts due to subsidiaries	522,218	-	-	-	522,218
	<b>687,140</b>	<b>1,813</b>	<b>18</b>	<b>291</b>	<b>689,262</b>
<b>Non-current liabilities</b>					
Financial guarantee contract (note i)	-	-	-	50,000	50,000
	-	-	-	50,000	50,000
<b>Total</b>	<b>687,140</b>	<b>1,813</b>	<b>18</b>	<b>50,291</b>	<b>739,262</b>
	HKEx				
	At 31 Dec 2006				
	Up to 1 month \$'000	>1 month to 3 months \$'000	>3 months to 1 year \$'000	Not determinable \$'000	Total \$'000
<b>Current liabilities</b>					
Accounts payable, accruals and other liabilities	102,883	1,328	17	263	104,491
Amounts due to subsidiaries	498,224	-	-	-	498,224
	<b>601,107</b>	<b>1,328</b>	<b>17</b>	<b>263</b>	<b>602,715</b>
<b>Non-current liabilities</b>					
Financial guarantee contract (note i)	-	-	-	50,000	50,000
	-	-	-	50,000	50,000
<b>Total</b>	<b>601,107</b>	<b>1,328</b>	<b>17</b>	<b>50,263</b>	<b>652,715</b>

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

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

## 48. Financial Risk Management (continued)

### (b) Liquidity risk (continued)

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

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. In addition, banking facilities have been put in place for contingency purposes. As at 31 December 2007, the Group's total available banking facilities amounted to \$3,058 million (2006: \$1,558 million), of which \$3,000 million (2006: \$1,500 million) were repurchase facilities to augment the liquidity of the Margin Funds.

### (c) Credit risk

#### (i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's investments and trade receivables. Impairment provisions are made for losses that have been incurred at the end of the reporting period. The Group limits its exposure to credit risk by rigorously selecting the counterparties (ie, deposit-takers, bond issuers and debtors) and by diversification. As at 31 December 2007, the bonds held were of investment grade and had a weighted average credit rating of Aa1 (2006: Aa2), and there were no financial assets whose terms were renegotiated (2006: \$Nil). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time. All investments are subject to a maximum concentration limit approved by the Board and there was no significant concentration risk to a single counterparty. The Group mitigates its exposure to risks relating to accounts receivable from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

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

In the normal course of business, the clearing houses of the Group, HKSCC, SEOC and HKCC, act as the counterparties to eligible trades concluded on the Stock Exchange and the Futures Exchange through the novation of the obligations of the buyers and sellers. HKSCC is also responsible for the good title to the securities deposited and accepted in the CCASS depository. As a result, the Group has considerable market risk and credit risk since the Participants' ability to honour their obligations in respect of their trades and securities deposited may be adversely impacted by economic conditions affecting the Cash and Derivatives Markets. If the Participants default on their obligations on settlement or there are defects in the title of securities deposited and accepted in the CCASS depository, the Group could be exposed to potential risks not otherwise accounted for in these accounts.

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

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

## (c) Credit risk (continued)

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

Position limits are imposed by HKCC and SEOC to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. As of 31 December 2007, bank guarantees of \$5,509,200,000 (2006: \$1,511,500,000) were accepted for such purpose.

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

## (iii) Exposure to credit risk

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

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

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



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

(c) Credit risk (continued)

(iii) Exposure to credit risk (continued)

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

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

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

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

\* No provision for impairment losses has been made against trade receivables amounting to \$8,510,000 (2006: \$8,510,000) as the balances can be recovered from the Clearing House Funds.

The fair value of cash deposits placed by the related trade debtors with the Group was \$12,643,000 (2006: \$6,088,000).

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

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

## (c) Credit risk (continued)

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

As at 31 December 2007, trade receivables of the Group amounting to \$4,608,000 (2006: \$4,679,000) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days as at the end of the reporting period or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired are disclosed in note 2(s)(vi). No cash deposits had been placed by the related trade debtors with the Group (2006: \$Nil).

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

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

As soon as a loan or receivable becomes impaired, the Group may continue to provide services or facilities to the debtors concerned but no further accounts receivable will be recognised on consolidated statement of financial position as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when cash is received. As at 31 December 2007, the amount of doubtful deferred revenue amounted to \$48,955,000 (2006: \$44,242,000).

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

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

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

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

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

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

- (i) The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets/liabilities, adjusted by an estimated credit spread. Assets/liabilities without a contractual maturity date are assumed to mature exactly one year after the end of the reporting period. The discount rates used ranged from 3.35 per cent to 3.76 per cent as at 31 December 2007 (2006: 3.94 per cent to 4.17 per cent).
- (ii) The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity. The discount rate was 3.46 per cent as at 31 December 2007 (2006: 3.73 per cent).

**49. Events after the Reporting Period**

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

**50. Comparative Figures**

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

# SHAREHOLDING ANALYSIS

The shareholding analysis is based on an investigation of shareholding conducted by HKEx under Section 329 of the SFO. The analysis covered the top 150 registered holders of HKEx shares in the CCASS Participants Shareholding Report and the non-private registered holders in the Register of Members who held more than 700,000 shares as at 31 October 2007. HKEx's issued share capital as at 31 October 2007 comprised 1,069,673,346 shares of \$1 each.

## Top Five Investors

Name	Number of Shares	% of Total Issued Share Capital
1 Exchange Fund Investment Limited	62,919,500	5.9
2 Barclays (Institutional Group) <sup>1</sup>	46,339,146	4.3
3 Horizon Asset Management, Inc	34,054,600	3.2
4 The Hong Kong and Shanghai Banking Corporation Ltd (Private Clients) <sup>2</sup>	27,120,299	2.5
5 Fidelity (Institutional Group) <sup>3</sup>	24,325,748	2.3

Notes:

1. Comprising a number of fund managers within the Barclays Group
2. Comprising clients whose individual shareholdings were less than 100,000
3. Comprising a number of fund managers within the Fidelity Group

## Types of Investors by Geographic Distribution

Location	Institutional Investors <sup>1</sup>	Corporate & Non Profit <sup>2</sup>	Private Investors <sup>3</sup>	Brokers <sup>4</sup>	Custodians & Nominees <sup>5</sup>	Undisclosed <sup>6</sup>	Total	% of Total Issued Share Capital
Hong Kong	167,295,327	22,177,027	231,023,136	22,934,941	19,089,174	N/A	462,519,605	43.3
United Kingdom	113,457,764	393,001	580,720	359,619	258,800	N/A	115,049,904	10.8
Europe (excluding United Kingdom)	40,229,900	2,270,028	3,477,220	-	12,155,775	N/A	58,132,923	5.4
North America	194,547,523	553,835	325,585	11,287,374	10,765,667	N/A	217,479,984	20.3
Asia	67,481,835	2,715,250	13,486,518	198,650	9,134,934	N/A	93,017,187	8.7
Rest of the World	21,232,998	1,204,500	318,380	932,500	151,600	N/A	23,839,978	2.2
Undisclosed <sup>6</sup>							117,500	0.0
Total Number of Shares Analysed	604,245,347	29,313,641	249,211,559	35,713,084	51,555,950	117,500	970,157,081	90.7
% of Total Issued Capital	56.5	2.8	23.3	3.3	4.8	0.0	90.7	2.3
Number of Shares Not Analysed <sup>7</sup>							99,516,265	9.3
Total Issued Capital							1,069,673,346	100.0

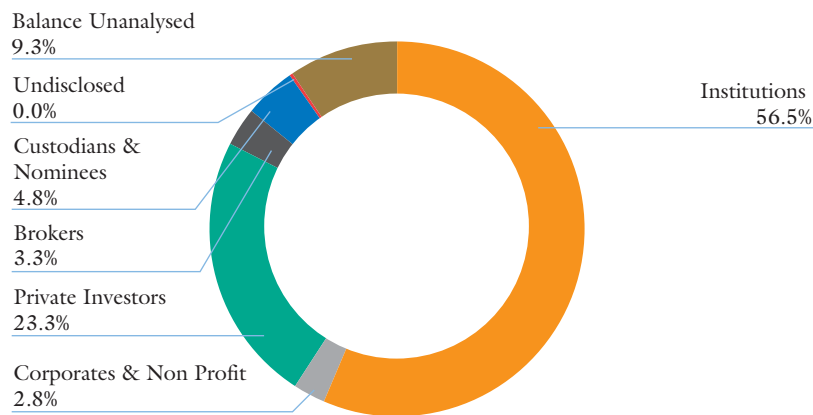
Notes:

1. They are financial institutions providing investment products such as superannuation, investments and insurance.
2. They are shareholders who held the shares for their own investment.
3. They refer to individuals who have acquired shares directly on the market or through a public offering.
4. They are stockbrokers rather than investors, who have not yet replied at the close of the analysis.
5. Un-breakdown shareholdings of custodians and nominees (ie, intermediaries that hold shares in custody for and on behalf of investors), who have not yet replied at the close of the analysis.
6. Holdings of which ownership could not be positively identified as the request for information was declined.
7. Shareholdings which are not covered in the analysis.

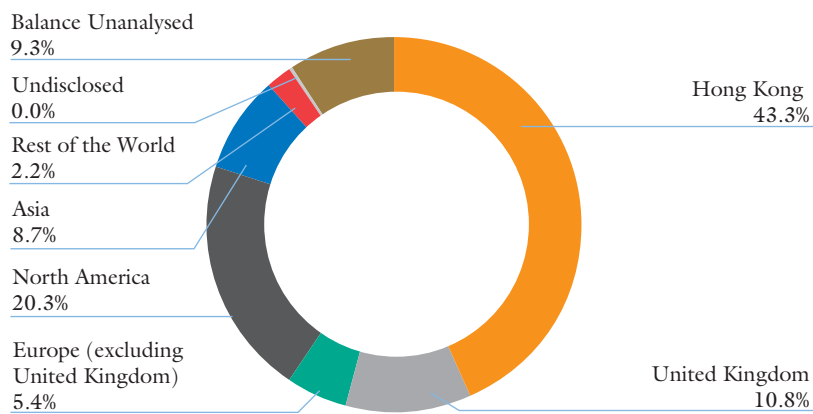
Overview as at 31 October 2007

- More than half of HKEx's issued capital was owned by Institutional Investors with about 604.2 million shares (56.5 per cent of the issued capital), followed by Private Investors with 249.2 million shares (23.3 per cent of the issued capital).
- HKEx's largest single investor was Exchange Fund Investment Limited who held about 62.9 million shares (5.9 per cent of the issued capital).
- Other large institutional investors included Barclays (Institutional Group) who held about 46.3 million shares (4.3 per cent of the issued capital).
- The top five investors in aggregate held 194,759,293 shares (about 18.2 per cent of the issued capital).

Investor Type by Category



Investor by Geographic Distribution



# INFORMATION FOR STAKEHOLDERS

## Annual Report

This Annual Report is printed in English and Chinese and is available on HKEx's corporate website at [www.hkex.com.hk](http://www.hkex.com.hk) under the "Investor Relations Corner". Printed copies in either or both languages are posted to Shareholders in accordance with their indicated preference. Shareholders are encouraged to access by electronic means the corporate communications posted on HKEx's corporate website to help protect the environment. Registered Shareholders may at any time choose to change their choice of language or means of receipt of the Company's corporate communications free of charge by notice in writing to the Company Secretary or HKEx's registrar, Hong Kong Registrars Limited. For Shareholders whose shares are held through brokers or custodians, they should inform their respective brokers or custodians to effect the change.

As a note of appreciation, HKEx will make charitable donation of \$50 for each election made by Shareholders to access corporate communications electronically, subject to a cap of \$100,000 per annum.

## Closure of Register of Members

HKEx's Register of Members will be closed from Monday, 21 April 2008 to Thursday, 24 April 2008, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with HKEx's registrar, Hong Kong Registrars Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on Friday, 18 April 2008. Subject to the Shareholders' approval of the proposed final dividend at the 2008 AGM, dividend warrants will be despatched on or about Friday, 9 May 2008 to the Shareholders whose names are on HKEx's Register of Members on 24 April 2008.

## Annual General Meeting

The 2008 AGM will be held on Thursday, 24 April 2008. Details of the 2008 AGM are set out in the Notice of AGM which constitutes part of the circular to Shareholders sent together with this Annual Report. Notice of AGM and the proxy form are also available on HKEx's corporate website.

## Financial Calendar

2007 AGM	26 April 2007
Announcement of first quarter results	9 May 2007
Announcement of interim results	15 August 2007
Announcement of third quarter results	14 November 2007
Announcement of final results	5 March 2008
2008 AGM	24 April 2008

## Dividends

Interim dividend	\$1.79 per share
Payment date for interim dividend	18 September 2007
Proposed final dividend	\$3.40 per share
Ex-dividend date for final dividend	17 April 2008
Book closing dates for final dividend	21-24 April 2008
Record date for final dividend	24 April 2008
Payment date for final dividend	on or about 9 May 2008

## Share Information

### Share Listing

HKEx's shares were first listed on the Stock Exchange on 27 June 2000. HKEx has been included as a constituent stock of the HSI with effect from 11 September 2006.

## Stock Codes

Stock Exchange	388
Access to Reuters	0388.HK
Access to Bloomberg	388 HK Equity
WPK Number	A0J3E8
SEDOL	6267359
ISIN	HK0388034859
COMMON	025967712

## Board Lot

500 shares

## Price and Turnover History

2007	Price per Share		Turnover (in millions)	
	High (\$)	Low (\$)	(Shares)	(\$)
January	93.50	79.90	156.43	13,477.29
February	90.45	79.10	101.01	8,590.90
March	80.60	68.85	226.57	17,045.21
April	82.20	74.70	103.39	8,123.10
May	90.50	74.20	192.63	16,219.05
June	111.00	87.30	170.74	16,929.17
July	136.40	114.00	201.24	25,917.11
August	143.50	96.80	418.02	51,688.56
September	248.40	138.60	314.31	59,708.99
October	259.40	226.00	238.14	59,273.57
November	268.60	210.80	310.42	73,668.66
December	244.80	211.00	103.80	23,739.06

## As at 31 December 2007

Market capitalisation	\$236,747 million
Number of issued shares	1,070,285,346 shares
Closing price	\$221.20 per share

## Registered Office

Address:	12th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Telephone number:	+852 2522 1122
Fax number:	+852 2295 3106
Email address:	info@hkex.com.hk
Website:	www.hkex.com.hk

## Representative Office in Beijing

Address:	Suite 1002, W2, Oriental Plaza, Dong Cheng District, Beijing, China
Postal code:	100738
Telephone number:	+8610 8518 3088
Fax number:	+8610 8518 3288
Email address:	bj@hkex.com.hk

## Guangzhou Special Representative

Address:	Room C, 12th Floor, Guangdong International Building, Annex A, 339 Huanshi Dong Lu, Guangzhou, China
Postal code:	510098
Telephone number:	+8620 2237 3166
Fax number:	+8620 2237 3167

## Shanghai Special Representative

Address: Room 012, 14th Floor, HSBC Tower,  
1000 Lujiazui Ring Road, Pudong New Area, Shanghai, China

Postal code: 200120

Telephone number: +8621 6841 1783

Fax number: +8621 6841 0938

## Our Contact Details

### Listing

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Fax number: +852 2295 4806

Email address: hol@hkex.com.hk

### Issuer Marketing (Primary Market)

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Telephone number: +852 2840 3050

Fax number: +852 2521 7060

Email address: imd@hkex.com.hk

### Secondary Market

Name: Mr Gerald Greiner, Chief Operating Officer

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1 Harbour View Street, Central, Hong Kong

Telephone number: +852 2840 3312

Fax number: +852 2295 0935

Email address: geraldgreiner@hkex.com.hk

### Corporate Communications and Investor Services

Name: Mr Henry Law, Head of Corporate Communications Department

Address: 12th Floor, One International Finance Centre,  
1 Harbour View Street, Central, Hong Kong

Telephone number: +852 2840 3861

Fax number: +852 2868 4270

Email address: info@hkex.com.hk

### Secretarial Services

Name: Mr Joseph Mau, Company Secretary,  
Head of Secretarial Services Department

Address: 12th Floor, One International Finance Centre,  
1 Harbour View Street, Central, Hong Kong

Telephone number: +852 2840 3872

Fax number: +852 2878 7029

Email address: ssd@hkex.com.hk

## HKEx's Registrar and Transfer Office

Name: Hong Kong Registrars Limited

Address: 46th Floor and Rooms 1712-1716, 17th Floor, Hopewell Centre,  
183 Queen's Road East, Wanchai, Hong Kong

Telephone number: +852 2862 8555

Fax number: +852 2865 0990/+852 2529 6087



# GLOSSARY

2007 AGM	Annual general meeting held on 26 April 2007
2008 AGM	Annual general meeting to be held on 24 April 2008
AGM	Annual general meeting of HKEx
AMS/3	The Third Generation Automatic Order Matching and Execution System
Articles of Association	Articles of Association of HKEx
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
CHIS	Computershare Hong Kong Investor Services Limited
CNS	Continuous Net Settlement
CSRC	China Securities Regulatory Commission
DCASS	The Derivatives Clearing and Settlement System
Director(s)	Director(s) of HKEx
DCP	Direct Clearing Participant
DI	Disclosure of Interests
DIW	Designated Issuer Website
DW(s)	Derivative Warrant(s)
eIPO	Electronic IPO
EDP	Electronic Disclosure Project
EDS	Electronic Disclosure System
Elected Directors	Directors elected by the Shareholders at general meetings
ELI	Equity Linked Instrument
EP(s) or Participant(s)	Exchange Participant(s)
ETF(s)	Exchange Traded Fund(s)
Exchange, Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of the Government
FRC	Financial Reporting Council
FTP	File Transfer Protocol
GBS	Gold Bauhinia Star
GCP(S)	General Clearing Participant(s)
GEM	The Growth Enterprise Market
GEM Listing Rules	Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
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
HFI	Hang Seng China H-Financials Index
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKFRS(s)	Hong Kong Financial Reporting Standard(s)
HKFE or Futures Exchange	Hong Kong Futures Exchange Limited
HKICPA	Hong Kong Institute of Certified Public Accountants
HKICS	The Hong Kong Institute of Chartered Secretaries
HKMA	The Hong Kong Management Association
HKSCC	Hong Kong Securities Clearing Company Limited

Hong Kong or HKSAR	Hong Kong Special Administrative Region of the People's Republic of China
H-shares Index	Hang Seng China Enterprises Index
HSI	Hang Seng Index
ICAC	Independent Commission Against Corruption
IIS	Issuer Information Feed System
INED(s)	Independent Non-executive Director(s) of HKEx
IP(s)	Investor Participant(s)
IPO(s)	Initial Public Offering(s)
ISC	Investment Service Centre on the HKEx website
ISI(s)	Investor SI(s)
JP	Justice of the Peace
Listing Committees	Listing Committee and the GEM Listing Committee
Listing Rules	Main Board Listing Rules and GEM Listing Rules
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDF	Market Datafeed System
MAPs	Market Access Products
MH	Medal of Honour
MIS	Management Information System
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MOU(s)	Memorandum of Understanding(s)
MWS	Multi-workstation System
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
OG	Open Gateway
PRS	Price Reporting System
QDII	Qualified Domestic Institutional Investor
RDDS	Realtime Digital Data Service
REIT(s)	Real Estate Investment Trust(s)
SAR	Special Administrative Region of the People's Republic of China
Senior Management	Senior executives of HKEx as referred to in the section "Senior Management" as set out on pages 30 to 33 of this Annual Report
SBS	Silver Bauhinia Star
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
SI(s)	Settlement Instruction(s)
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
SMS	Short Message Service
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
SSA(s)	Stock Segregated Account(s)
TPC	Third Party Clearing
WFE	World Federation of Exchanges
WPIP(s)	Web Proof Information Pack(s)
\$/HKD	Hong Kong Dollar



## **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](http://www.hkex.com.hk)

E-mail: [info@hkex.com.hk](mailto:info@hkex.com.hk)