HKEX

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

Quarterly Report 2007

For the three months ended 31 March

Stock Code: 388

CONTENTS

(Financial figures in this report are expressed in Hong Kong Dollars)

FINANCIAL HIGHLIGHTS

	Three months ended 31 Mar 2007	Three months ended 31 Mar 2006	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	**$52.9 billion**	$31.2 billion	70%
Average daily number of derivatives contracts traded on the Futures Exchange	**144,216**	87,755	64%
Average daily number of stock options contracts traded on the Stock Exchange	**124,662**	61,863	102%

	Unaudited Three months ended 31 Mar 2007 $'000	Unaudited Three months ended 31 Mar 2006 $'000	
RESULTS			
Income	**1,398,939**	854,127	64%
Operating expenses	**322,643**	292,527	10%
Operating profit	**1,076,296**	561,600	92%
Share of profits of associates	**5,587**	3,220	74%
Profit before taxation	**1,081,883**	564,820	92%
Taxation	**(159,346)**	(85,981)	85%
Profit attributable to shareholders	**922,537**	478,839	93%
Basic earnings per share	**$0.87**	$0.45	93%
Diluted earnings per share	**$0.86**	$0.45	91%

	Unaudited at 31 Mar 2007 $'000	Audited at 31 Dec 2006 $'000	
KEY BALANCE SHEET ITEMS			
Shareholders' funds	**6,195,762**	5,257,586	18%
Total assets *	**43,564,940**	40,453,298	8%
Net assets per share #	**$5.81**	$4.94	18%

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

Based on 1,065,538,846 shares as at 31 March 2007, being 1,066,796,846 shares issued and fully paid less 1,258,000 shares held for the Share Award Scheme (31 December 2006: 1,064,190,346 shares, being 1,065,448,346 shares issued and fully paid less 1,258,000 shares held for the Share Award Scheme)

CORPORATE INFORMATION

Board of Directors

Independent Non-executive Chairman

ARCULLI, Ronald Joseph* GBS, JP

Executive Director, Chief Executive

CHOW Man Yiu, Paul SBS, JP

Independent Non-executive Directors

CHA May-Lung, Laura* SBS, JP

CHENG Mo Chi, Moses* GBS, JP

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

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

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

KWOK Chi Piu, Bill

LEE Kwan Ho, Vincent Marshall

LOH Kung Wai, Christine

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

WEBB, David Michael

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

* Government Appointed Directors

Committees

Audit Committee

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

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

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

CHENG Mo Chi, Moses

LEE Kwan Ho, Vincent Marshall

WEBB, David Michael
(appointment effective 27 April 2007)

Executive Committee

ARCULLI, Ronald Joseph (Chairman)

CHOW Man Yiu, Paul

FONG Hup
(re-appointment effective 27 April 2007)

KWOK Chi Piu, Bill

LEE Kwan Ho, Vincent Marshall

Investment Advisory Committee

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

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

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

CHA May-Lung, Laura

SUN Tak Kei, David

WEBB, David Michael

Nomination Committee

ARCULLI, Ronald Joseph (Chairman)

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

FONG Hup
(retired on 26 April 2007)

LEE Kwan Ho, Vincent Marshall

STRICKLAND, John Estmond
(appointment effective 27 April 2007)

WEBB, David Michael

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

Panel Member Nomination Committee

CHA May-Lung, Laura (Chairman)

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**

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

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

FONG Hup**

HE Guangbei**

KWOK Chi Piu, Bill

LUI Kei Kwong, Keith**

YUE Wai Man, Eddie**

** Appointed by the Financial Secretary

Company Secretary

MAU Kam Shing, Joseph

Authorised Representatives

CHOW Man Yiu, Paul

MAU Kam Shing, Joseph

Auditors

PricewaterhouseCoopers

Legal Advisers

Allen & Overy

Listing

Establishment of Listing Operations Department

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.

Statutory Backing to Major Listing Requirements

In February 2007, the Government and the SFC announced the conclusions to their 2005 consultations regarding the proposal to give statutory backing to some of the more important provisions in the Listing Rules, namely (i) periodic financial reporting; (ii) disclosure of price sensitive information; and (iii) certain notifiable transactions and connected transactions which require shareholders' approval. The SFC's consultation conclusions set out a revised approach to codifying the relevant parts of the Listing Rules. HKEx will continue to work with the Government and the SFC on the transitional arrangements.

Listing of Overseas Issuers

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 (mainly shareholder protection standards equivalent to those offered in Hong Kong) and providing a clear roadmap for potential issuers incorporated outside Hong Kong or the recognised/approved jurisdictions (Mainland China, Bermuda, the Cayman Islands, Australia and Canada (British Columbia)) and their advisers as they seek a primary listing in Hong Kong.

Electronic Disclosure Project

On 23 March 2007, HKEx announced that straight-through electronic disclosure and the abolition of the requirement for Main Board issuers to publish paid announcements in newspapers ("Electronic Disclosure Project") would commence on 25 June 2007. For a six month transitional period (Phase 1), a Main Board listed issuer will be required to publish a notification in newspapers whenever it publishes an announcement on the HKEx website and its own website. From 25 December 2007 onwards, Main Board issuers will no longer be required to publish notifications in newspapers. Main Board issuers without their own website must publish full announcements in newspapers in addition to publication on the HKEx website until 12 months after commencement of Phase 1. From 25 June 2008 onwards, every issuer must have its own website where the public must be able to access documents free of charge.

Operational and system preparations for the Electronic Disclosure Project are progressing smoothly. Registration of users of the ESS is completed. Briefing sessions were held for ESS registered users in Hong Kong and the Mainland in January and February 2007 and hands-on familiarisation sessions were held in March and early April 2007. Over 90 per cent of listed issuers participated in these sessions.

Major efforts have been and will continue to be made to improve investor education and communication. HKEx has issued a Communication Paper to inform the market and stakeholders of the impact of the Electronic Disclosure Project.

Report on Implementation of CG Code

On 30 March 2007, HKEx published a report on the findings from its review of the corporate governance practices disclosed in listed issuers' 2005 annual reports. The review, which covered 621 issuers' annual reports, was aimed at determining how effectively the CG Code of the Listing Rules is being implemented. The report has been posted on the HKEx website.

GEM Review

The proposal on the revised GEM Model was endorsed by the Listing Committees subject to a few amendments. The Board will be consulted on the consultation paper on the development of GEM before its release in the middle of the year.

Cash Market

Market Performance

There were 13 newly listed companies on the Main Board (none on GEM) in the first quarter of 2007 with total capital raised, including post-listing funds, reaching $52.6 billion. As at 31 March 2007, 983 and 197 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about $13,551 billion. In addition, there were 2,396 derivative warrants, nine ETFs, six REITs, 41 CBBCs and 178 debt securities listed as at the end of March 2007. The average daily turnover in the first quarter of 2007 was about $52.6 billion on the Main Board and about $307 million on GEM. On 28 February 2007, the turnover value of the Cash Market reached a record high of $80,859 million.

Market Infrastructure Improvements

HKEx has been in touch with Mainland brokers who are interested in setting up offices in Hong Kong and provided them with the necessary support in their applications to be EPs. Five Mainland brokers have been approved to set up offices in Hong Kong and have subsequently been admitted as the SEHK EPs since January 2007.

A new scheme which facilitates the sale and purchase of trading rights was implemented on 7 March 2007. Under which, a trading right application will be opened for tender by all existing trading right holders, and the lowest auctioned price will be chosen. If no tender is received, HKEx will issue a new non-transferable trading right to the applicant at $500,000 each.

On 21 March 2007, HKEx published a consultation paper on "The Introduction of a Closing Auction Session" to invite market views and comments. Similar to the current pre-opening session for securities, the proposed closing auction session will offer a single-price auction that matches buy and sell orders at the price that maximises transactions. The proposal is aimed at improving the price discovery process for determining closing prices for all listed securities, reducing price volatility towards the close of the trading day, enhancing market liquidity and facilitating trading at market close.

Product Enhancements

In late February 2007, HKEx informed structured product issuers that iShares FTSE/Xinhua A50 China Tracker was eligible to be the underlying for the issue of derivative warrants. On 12 March 2007, the first day of trading, a total of 19 such derivative warrants were issued on the Exchange with total turnover of about $68 million. Pursuant to HKEx's strategic plan, the issuance and trading of more structured products on Mainland-related underlying assets will be facilitated.

Six new ETFs were listed and began trading in April 2007, bringing the total number of ETFs listed in Hong Kong from nine to 15. The launch of the six new ETFs provides more choice for investors in Hong Kong and further enhances HKEx's ETF platform as a leading one in the region. The ETF market in Hong Kong has been growing rapidly with an average daily turnover of over $500 million in the first quarter of 2007, the highest in Asia-Pacific excluding Japan.

Derivatives Market

Market Performance

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

	Daily Volume		Open Interest	
Products	**Date**	**Number of Contracts**	**Date**	**Number of Contracts**
HSI Options	5 Mar	62,909	28 Mar	424,874
Mini-HSI Futures	26 Jan	20,425	–	–
Mini-HSI Options	9 Feb	2,403	27 Mar	4,513
H-shares Index Futures	28 Mar	91,499	28 Mar	112,026
H-shares Index Options	6 Mar	33,126	28 Mar	166,238
Stock Futures	28 Mar	27,966	14 Mar	25,956
Stock Options	29 Mar	414,243	28 Mar	4,089,426

Market Infrastructure Improvements

The pre-market opening arrangements for both HSI Futures and Mini-HSI Futures markets have been in place since 2000. As the mechanism has proved to be useful in establishing an orderly market open and enhancing market efficiency, it was extended to the Hang Seng China Enterprises ("H-shares") Index Futures market on 8 January 2007, and since then, has been actively used by market participants.

To keep pace with market growth and development, in particular with the increasing trading and hedging needs of EPs and their clients, a new delta-based position limit for H-shares Index Futures and Options was implemented to adjust limits of 6,000 open futures contracts in any one contract month or 6,000 open option contracts in any one option series to 12,000 delta for all contract months combined effective 30 March 2007. This new delta-based position limit allows netting of positions with opposite market direction. The position limits for all equity index futures and options are now calculated in accordance with a standardised methodology.

Regulatory approval was obtained for introducing a third calendar quarter expiry month or any other longer-dated expiry months in selected stock option classes to cope with the growing demand for longer-dated expiry months in the stock options market. A third calendar quarter expiry month in five active stock option classes came into effect on 2 April 2007. On the same day, HKEx also revised the market making obligations in its stock options and stock futures markets to enable market makers to better manage their risks and to improve the market making quality.

Product Development

On 19 March 2007, HKEx expanded the range of China-related products and started offering trading of options and futures on three more stocks. HKEx also obtained regulatory approval to introduce Hang Seng China H-Financials Index ("HFI") Futures on 16 April 2007. HFI Futures is a trading and hedging tool specific to Mainland financial stocks, complementing the recent significant trading demand from investors in this particular group of stocks.

In February 2007, HKEx proceeded with the process for conducting a feasibility study on the trading of commodities derivatives and emission-related products in Hong Kong. A Selection Committee was formed by the Board to shortlist consultants and to invite them to submit full proposals by 11 May 2007.

Education and Marketing

HKEx was one of the sponsors of a product promotion programme conducted between December 2006 and February 2007 for the investing public. The programme, consisting of a series of interviews, radio promotional sessions, article insertions in magazines and a one-day investment expo which attracted 1,700 people, served to increase retail investors' knowledge of Mainland-related equity futures and options.

The Options Reference Educator, an interactive education tool for options, on the HKEx website was revised on 9 January 2007 to enable easier navigation by users. A refined simplified Chinese version is now also available. Respective interactive training courses were conducted for staff of Options Trading EPs.

Clearing

Improvements to CCASS Nominee Services

As of 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 during the same business day. 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.

Enhancements to SSA with Statement Service

HKSCC introduced new features to its SSA with Statement Service on 2 January 2007. After streamlining the account opening procedures, CCASS broker and custodian participants are now provided with online functions to open SSAs and maintain detailed profiles. SSA users can choose to receive physical statements in either English or Chinese. They can also 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 alert message via short message service ("SMS") and/or by email when there is any movement in the SSA.

HKSCC will continue to improve the SSA with Statement Service. Further enhancements, including introduction of electronic voting, share movement affirmation and money settlement services, and removal of the limit on the number of SSA that can be opened by a CCASS participant, will be launched in mid-2007.

Third Party Clearing ("TPC")

HKSCC plans to introduce TPC to the securities market to help ensure that the securities clearing infrastructure in Hong Kong conforms to international standards and is in line with developments in other major financial markets. The proposed TPC model has been presented to interested clearing service providers and CCASS participants, and is being finalised for implementation by the end of 2007.

Risk Management Measures

The insurance and guarantee facilities for the Guarantee and Reserve Funds of the three clearing houses, totalling $848 million, have been discontinued upon their expiry on 31 December 2006. This resulted in an annual saving of approximately $10 million.

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.

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

Business Development

Promotion Activities for Prospective Mainland and Hong Kong Issuers

HKEx continued offering its promotional activities to prospective Mainland issuers in the Mainland and Hong Kong. Since the beginning of 2007, HKEx representatives had attended conferences in Beijing, Shanxi, Shaanxi, Jiangxi, Jiangsu, Shanghai, Sichuan, Jilin, Fujian and Hong Kong to promote listing in Hong Kong to over 2,500 attendees from the Mainland.

On 25 April 2007, HKEx co-organised a listing seminar in Guangzhou with the Economic and Trade Commission of the Guangdong Province, State-owned Assets Supervision and Administration Commission of Guangdong Provincial People's Government and the Financial Service Office of the Guangdong Province. Over 300 attendees, including senior government officials and prospective issuers, from the Mainland participated and 31 intermediaries from Hong Kong joined HKEx in the event.

During the period, HKEx co-organised a seminar with six universities in Hong Kong and Hong Kong Science and Technology Parks to introduce to their members and incubatees the benefits of listing in Hong Kong. In addition, HKEx also participated in two seminars organised by local business organisations to promote listing in Hong Kong to local entrepreneurs and companies.

Listing Promotion to the Rest of Asia and Other Parts of the World

Following marketing work in 2006, HKEx visited other regions and countries to promote listing in Hong Kong. Since the beginning of 2007, HKEx representatives had made two trips to Moscow, Russia and visited Hanoi and Ho Chi Minh City, Vietnam; Kaohsiung and Taipei, Taiwan; Seoul, South Korea; Bangkok, Thailand; and Almaty, Kazakhstan. In nine conferences, HKEx representatives delivered presentations and speeches to over 1,000 participants and held more than 40 meetings with prospective issuers, intermediary firms as well as government officials. In April 2007, HKEx co-organised a conference with the Korean Chamber of Commerce in Hong Kong to introduce new developments of Hong Kong securities market to Korean companies and intermediaries.

On 28 March 2007, HKEx signed a Memorandum of Understanding with the Abu Dhabi Securities Market on cooperation and the exchange of information.

Information Services

IIS – Better Service and Lower Fee

On 26 March 2007, HKEx launched the new version of its IIS, the datafeed service for transmitting issuer disclosures electronically to the market via information vendors. The new version provides a higher capacity to cater for the increasing volume of issuer news. The new FTP (File Transfer Protocol) file retrieval function allows more robust and efficient retrieval of news announcements and helps shorten the time for delivery of large IIS documents by at least 90 per cent compared to the old, message-based technology.

With effect from 1 June 2007, the IIS standard fee on information vendors will be reduced by more than 50 per cent from $96,000 per quarter to $45,000 per quarter. The number of information vendors is envisaged to rise as a result of the IIS fee reduction, and thus facilitating the accessibility and availability of real-time issuer information for investors.

New Measures for Delayed Market Data

The delay for HKEx delayed market data has been shortened to 15 minutes from 60 minutes for the Cash Market and 30 minutes for the Derivatives Market with effect from 2 April 2007.

Effective 1 January 2008, information vendors licensed for redistribution of delayed securities market data only will be subject to a flat fee of $5,000 per month.

Derivatives Market Data on HKEx Website

To improve the transparency of the Derivatives Market, more information is now available on the HKEx website, including the 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.

Enhancement of Issuer News Alert Service

The Issuer News Alert Service has been enhanced since 2 April 2007 to provide better service to investors. Subscribers of the service will receive alerts from HKEx by email and/or SMS whenever there is publication of a document from or a disclosure of interests notice relating to one of their designated listed companies on the HKEx website. 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 of issuing the alerts from one hour to 30 minutes.

Information Technology

Production Systems Stability and Reliability

Up to the end of March 2007, all major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets achieved 100 per cent operational system uptime. HKEx will continue its efforts to uphold system stability and reliability.

System Capacity Planning and Upgrade

On 27 January 2007, a market-wide rehearsal was conducted to validate that AMS/3 is capable of handling at least 1.5 million trades in a trading day, and to enable our EPs and information vendors to review and verify the capacity and performance of their systems and trading facilities amid high market activity.

HKEx is upgrading the CCASS/3 mainframe machine for the Cash Market clearing and settlement and the HKATS, DCASS and PRS hardware for the Derivatives Market to support the future business initiatives and market activities.

Technology Development and Upgrade

The CCASS/3 Middle-tier system software was replaced and upgraded in March 2007. The upgraded software is cost effective and can run on an open platform which provides technology flexibility in the future.

All the OG and MWS installed at EPs' premises were upgraded in April 2007 to address the technology obsolescence as well as to prepare for further AMS/3 system capacity expansion.

System Consolidation and Operational Efficiency

Enhancements were made to AMS/3 during the period as part of HKEx's continuous effort to improve the overall operational efficiency of the market. These included: (i) reducing the dissemination time for closing prices to about three minutes after market close; (ii) increasing the maximum outstanding orders per price queue from 10,000 for the pre-opening session and 8,000 for the continuous trading session to 20,000 for both sessions; (iii) removing the maximum limit of 4,000 outstanding orders per broker ID; and (iv) raising the maximum order size from 600 to 3,000 board lots per order (with a newly introduced consideration limit check to safeguard against erroneous order input).

The SDNet, a new Optical Ethernet network for the securities and derivatives markets, project commenced in January 2005 with its entire network infrastructure completed in September 2005. The first three phases of the migration to the SDNet have been successfully completed (Phase 1: Derivatives Market circuits migrated in October 2005; Phase 2: CCASS/3 circuits migrated in June 2006; and Phase 3: Market Datafeed circuits migrated in December 2006). The last phase of AMS/3 circuits' migration is in good progress. AMS/3 optical circuit installations for all EPs have been completed. Large scale connectivity tests and market rehearsal are in progress. The cutover to SDNet is scheduled to take place in batches during mid-2007.

Redevelopment of Derivatives Market risk management systems was completed and launched in early April 2007 to improve their operational efficiency.

Treasury

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling $36.2 billion on average for the three months ended 31 March 2007 (2006 average: $22.4 billion).

As compared with 31 December 2006, the overall size of funds available for investment as at 31 March 2007 increased by 11 per cent or $3.3 billion to $33.3 billion (2006: $30.0 billion). Details of the asset allocation of the investments as at 31 March 2007 against those as at 31 December 2006 are set out below.

	Investment Fund Size $ billion		**Bonds**		**Cash or Bank Deposits**		**Global Equities**	
	Mar 2007	Dec 2006	**Mar 2007**	Dec 2006	**Mar 2007**	Dec 2006	**Mar 2007**	Dec 2006
Corporate Funds	**7.0**	5.9	**55%**	52%	**39%**	41%	**6%**	7%
Margin Funds	**24.5**	21.8	**63%**	51%	**37%**	49%	**0%**	0%
Clearing House Funds	**1.8**	2.3	**11%**	14%	**89%**	86%	**0%**	0%
Total	**33.3**	30.0	**59%**	48%	**40%**	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 ($0.4 billion as at 31 March 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 March 2007 ($32.9 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**	
	Mar 2007	Dec 2006	**Mar 2007**	Dec 2006	**Mar 2007**	Dec 2006	**Mar 2007**	Dec 2006	**Mar 2007**	Dec 2006	**Mar 2007**	Dec 2006
Corporate Funds	**6.6**	5.5	**21%**	24%	**30%**	16%	**20%**	30%	**19%**	20%	**10%**	10%
Margin Funds	**24.5**	21.8	**36%**	32%	**7%**	22%	**55%**	46%	**2%**	0%	**0%**	0%
Clearing House Funds	**1.8**	2.3	**82%**	86%	**7%**	0%	**11%**	14%	**0%**	0%	**0%**	0%
Total	**32.9**	29.6	**35%**	35%	**12%**	19%	**46%**	40%	**5%**	4%	**2%**	2%

Credit exposure is well diversified. The Group's bond portfolio is of investment grade and, as at 31 March 2007, had a weighted average credit rating of Aa2 (31 December 2006: Aa2) and a weighted average maturity of 0.7 year (31 December 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 the first quarter of 2007 and the fourth quarter of 2006 was as follows:

	Average VaR $ million		**Highest VaR** $ million		**Lowest VaR** $ million	
	Jan-Mar 2007	Oct-Dec 2006	**Jan-Mar 2007**	Oct-Dec 2006	**Jan-Mar 2007**	Oct-Dec 2006
Corporate Funds	**17.0**	15.3	**19.0**	15.9	**14.4**	14.5
Margin Funds	**12.6**	8.6	**14.3**	9.3	**10.1**	8.1
Clearing House Funds	**0.2**	0.3	**0.2**	0.3	**0.1**	0.2

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

Investment in Associate

CHIS

As at 31 March 2007, the Group had a 30 per cent interest in CHIS. The cost of the investment in CHIS was $52 million (31 December 2006: $52 million) and the book value was $67 million (31 December 2006: $68 million).

On 29 March 2007, the Group entered into an agreement to sell all of its 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 and was recognised in the profit and loss account in April 2007.

FINANCIAL REVIEW

Overall Performance

	Unaudited Three months ended 31 Mar 2007 $'000	Unaudited Three months ended 31 Mar 2006 $'000
RESULTS		
Income:		
Income affected by market turnover	**826,659**	493,276
Stock Exchange listing fees	**143,401**	109,693
Income from sale of information	**127,612**	85,517
Investment income	**223,143**	112,959
Other income	**78,124**	52,682
	1,398,939	854,127
Operating expenses	**322,643**	292,527
Operating profit	**1,076,296**	561,600
Share of profits of associates	**5,587**	3,220
Profit before taxation	**1,081,883**	564,820
Taxation	**(159,346)**	(85,981)
Profit attributable to shareholders	**922,537**	478,839
Basic earnings per share	**$0.87**	$0.45
Diluted earnings per share	**$0.86**	$0.45

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KEY BALANCE SHEET ITEMS		
Shareholders' funds	**6,195,762**	5,257,586
Total assets *	**43,564,940**	40,453,298
Net assets per share #	**$5.81**	$4.94

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

\# Based on 1,065,538,846 shares as at 31 March 2007, being 1,066,796,846 shares issued and fully paid less 1,258,000 shares held for the Share Award Scheme (31 December 2006: 1,064,190,346 shares, being 1,065,448,346 shares issued and fully paid less 1,258,000 shares held for the Share Award Scheme)

The Group achieved record high quarterly results in the first quarter of 2007 mainly due to the buoyant Cash and Derivatives Markets, and recorded a profit attributable to shareholders of $923 million compared with $479 million for the same period in 2006.

The rise in profit in the first quarter of 2007 was primarily attributable to the higher turnover-related income resulting from the increase in level of activities in the Cash and Derivatives Markets and growth in investment income from higher interest income and an increase in fair value gains of Corporate Fund investments in 2007.

Total operating expenses increased by 10 per cent during the period mainly due to higher staff costs and premises expenses.

Income

Income Affected by Market Turnover

	Unaudited Three months ended 31 Mar 2007 $'000	Unaudited Three months ended 31 Mar 2006 $'000	Change
Trading fees and trading tariff	**504,413**	297,553	70%
Clearing and settlement fees	**261,504**	154,620	69%
Depository, custody and nominee services fees	**60,742**	41,103	48%
Total	**826,659**	493,276	68%

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

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

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

Key market indicators

	Three months ended 31 Mar 2007	Three months ended 31 Mar 2006	Change
Average daily turnover value on the Stock Exchange	**$52.9 billion**	$31.2 billion	70%
Average daily number of derivatives contracts traded on the Futures Exchange	**144,216**	87,755	64%
Average daily number of stock options contracts traded on the Stock Exchange	**124,662**	61,863	102%

Stock Exchange Listing Fees

	Unaudited Three months ended 31 Mar 2007 $'000	Unaudited Three months ended 31 Mar 2006 $'000	Change
Annual listing fees	**72,416**	66,775	8%
Initial and subsequent issue listing fees	**69,586**	41,540	68%
Others	**1,399**	1,378	2%
Total	**143,401**	109,693	31%

The increase in annual listing fees was attributable to the higher number of listed securities. The rise in initial listing and subsequent issue listing fees was due to the substantial increase in number of newly listed derivative warrants.

Key drivers for annual listing fees

	As at 31 Mar 2007	As at 31 Mar 2006	Change
Number of companies listed on Main Board	**983**	940	5%
Number of companies listed on GEM	**197**	201	(2%)
Total	**1,180**	1,141	3%

Key drivers for initial and subsequent issue listing fees

	Three months ended 31 Mar 2007	Three months ended 31 Mar 2006	Change
Number of newly listed derivative warrants	**1,107**	546	103%
Number of newly listed companies on Main Board	**13**	12	8%
Number of newly listed companies on GEM	**–**	3	(100%)
Total equity funds raised on Main Board	**$50.8 billion**	$30.5 billion	67%
Total equity funds raised on GEM	**$1.8 billion**	$2.3 billion	(22%)

Income from Sale of Information

	Unaudited Three months ended 31 Mar 2007 $'000	Unaudited Three months ended 31 Mar 2006 $'000	Change
Income from sale of information	**127,612**	85,517	49%

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

Investment Income

	Unaudited Three months ended 31 Mar 2007 $'000	Unaudited Three months ended 31 Mar 2006 $'000	Change
Gross investment income	**370,299**	203,349	82%
Interest expenses	**(147,156)**	(90,390)	63%
Investment income	**223,143**	112,959	98%

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

	Three months ended 31 Mar 2007 $ billion	Three months ended 31 Mar 2006 $ billion	Change
Corporate Funds	**6.0**	4.4	36%
Margin Funds	**28.0**	16.5	70%
Clearing House Funds	**2.2**	1.5	47%
Total	**36.2**	22.4	62%

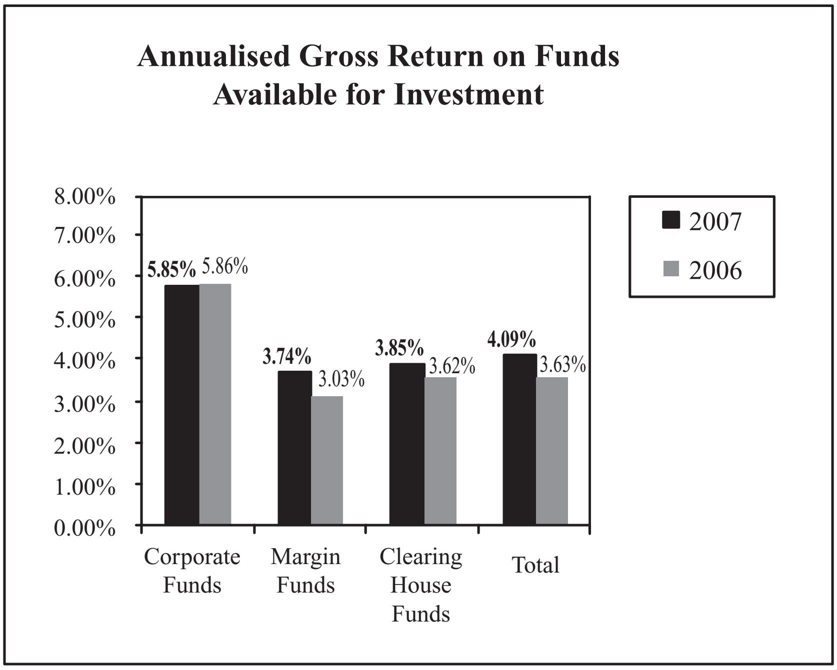
The increase in average amount of Corporate Funds during the period was mainly due to the profit net of dividends paid.

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

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

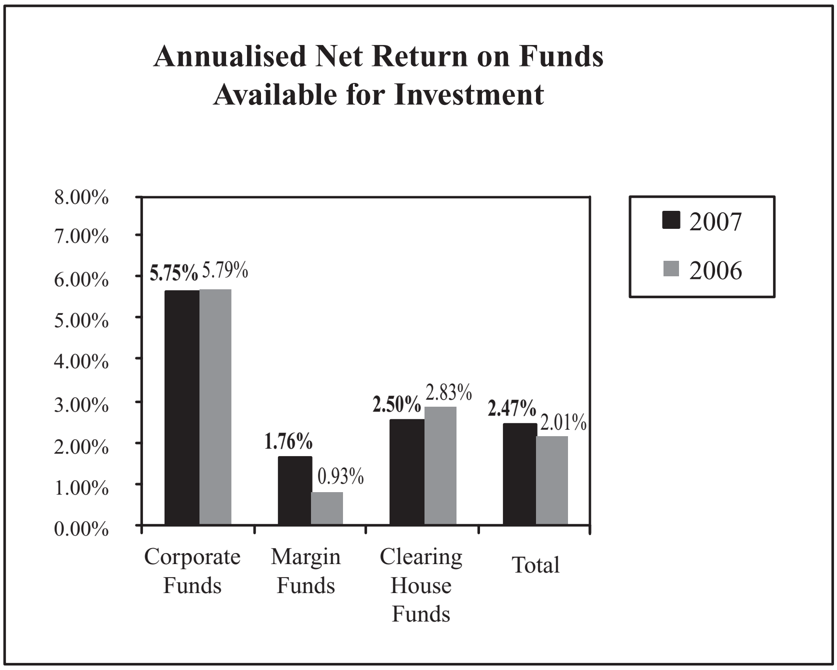
The higher investment income was primarily due to the significant increase in net interest income of all funds available for investment arising from an increase in fund size and higher fair value gains of Corporate Fund investments, reflecting market movements, during the first quarter of 2007 as compared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

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



The increase in gross return on Margin Fund investments was attributable to an increase in investment in debt securities for higher yield and a decrease in the proportion of margin funds denominated in Japanese Yen during the first quarter of 2007 as compared with the corresponding period in 2006. The higher gross return on Clearing House Fund investments was mainly due to increases in the interest rate of overnight deposits.

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



The lower net return on Corporate Funds was due to a higher proportion of Corporate Funds, mainly marks, being entitled to interest in 2007. The net return on Clearing House Fund investments also decreased as a higher proportion of the Clearing House Fund contributions was eligible for interest in 2007.

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

Other Income

	Unaudited Three months ended 31 Mar 2007 $'000	Unaudited Three months ended 31 Mar 2006 $'000	Change
Network, terminal user, dataline and software sub-license fees	**53,061**	35,198	51%
Participants' subscription and application fees	**8,480**	8,515	(0%)
Brokerage on direct IPO applications	**8,347**	3,264	156%
Trading booth user fees	**2,394**	1,980	21%
Fair value gain of an investment property	**500**	600	(17%)
Accommodation income	**1,841**	358	414%
Miscellaneous income	**3,501**	2,767	27%
Total	**78,124**	52,682	48%

Network, terminal user, dataline and software sub-license fees rose due to an increase in sales of OG and AMS/3 terminals and sales of additional throttles.

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

Operating Expenses

	Unaudited Three months ended 31 Mar 2007 $'000	Unaudited Three months ended 31 Mar 2006 $'000	Change
Staff costs and related expenses	**182,305**	159,126	15%
Information technology and computer maintenance expenses	**51,301**	46,464	10%
Premises expenses	**32,410**	26,633	22%
Product marketing and promotion expenses	**2,479**	2,861	(13%)
Legal and professional fees	**1,374**	4,847	(72%)
Depreciation	**23,162**	24,940	(7%)
Other operating expenses	**29,612**	27,656	7%
Total	**322,643**	292,527	10%

Staff costs and related expenses increased by $23 million, primarily due to the increase in salary costs and provident fund contributions as a result of the increase in headcount and salary adjustment in 2007, and an increase in performance bonus accruals on account of the improved performance of the Group.

Information technology and computer maintenance expenses of the Group, after excluding goods and services directly consumed by the Participants of $17 million (2006: $14 million), were $34 million (2006: $32 million). The increase in costs directly consumed by Participants was primarily due to the increase in the purchase of the AMS/3 hardware and software by the Participants to replace their outdated terminals.

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

Legal and professional fees dropped primarily due to the legal fee provision for judicial review of the New World case in the first quarter of 2006.

Depreciation decreased as certain fixed assets became fully depreciated.

Other operating expenses increased, mainly attributable to higher bank charges due to increased eIPOs and higher index license fees as a result of the rise in derivative transactions.

Share of Profits of Associates

	Unaudited Three months ended 31 Mar 2007 $'000	Unaudited Three months ended 31 Mar 2006 $'000	Change
Share of profits of associates	**5,587**	3,220	74%

Share of profits of associates increased due to the higher profitability of CHIS.

Taxation

	Unaudited Three months ended 31 Mar 2007 $'000	Unaudited Three months ended 31 Mar 2006 $'000	Change
Taxation	**159,346**	85,981	85%

Taxation increased mainly attributable to an increase in operating profit, but partly offset by an increase in non-taxable investment income.

Working Capital

Working capital increased by $957 million or 22 per cent to $5,228 million as at 31 March 2007 (31 December 2006: $4,271 million). The increase was primarily due to the profit generated during the first quarter of 2007 of $923 million and the reclassification of the investment in CHIS of $67 million as a current asset, and the decrease in other working capital of $33 million.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 35(a)(i) – Foreign exchange risk to the condensed consolidated accounts of this quarterly report.

Contingent Liabilities

Details of contingent liabilities are included in note 32 to the condensed consolidated accounts of this quarterly report.

Changes since 31 December 2006

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

It is the Group's plan to declare dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the first quarter ended 31 March 2007 (first quarter of 2006: $Nil).

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

PROSPECTS

The Cash and Derivatives Markets continued to be vigorous in the first quarter of 2007. The turnover value of the Cash Market reached $80,859 million on 28 February 2007, the highest level ever in Hong Kong. The average daily turnover value of the Cash Market amounted to $52,884 million for the first three months of 2007, while a total of 16.67 million contracts were traded in the Derivatives Market in the quarter.

Locally listed Mainland enterprises remained a prominent driver of growth in the Cash Market. The contribution of Mainland enterprises continued to grow notably in the first quarter of 2007. They accounted for 64.5 per cent of the total equity market turnover and 49.6 per cent of the total market capitalisation as at 31 March 2007.

With the steady growth of the Mainland economy, Mainland enterprises have continued to seek both listing and post-listing funds to bolster their business development and expansion. The progressive relaxation of RMB capital and revenue accounts provides a favourable medium to long term environment for the development of financial products in Hong Kong. The agreement by the Central Government in early 2007 to allow authorised Mainland financial institutions to issue RMB bonds in Hong Kong further provides market participants with ample opportunities to develop RMB-related business. We welcome the listing of RMB bonds on the Stock Exchange. We have also seen the opening up of channels with the QDII (Qualified Domestic Institutional Investor) and QFII (Qualified Foreign Institutional Investor) schemes arising from China's relaxation of restrictions on investments and capital movements. In particular, in April 2007 the China Banking Regulatory Commission announced a relaxation of the investment restrictions under which up to half of QDII quotas may be invested in equity funds authorised by the SFC. In addition, the China Insurance Regulatory Commission recently gave approval to a Mainland major insurance company to enter into a strategic partnership in Hong Kong for the purpose of managing the foreign currency assets of the insurance company.

It is highlighted in the Report on Economic Summit on "China's 11th Five-Year Plan and the Development of Hong Kong" that Hong Kong should be further developed as China's international financial centre of global significance. We would use our best efforts to implement the recommendations in the Action Agenda of the Report to strengthen Hong Kong's status and competitiveness as an economic centre.

Looking ahead, Hong Kong will continue to play its role as the Mainland's premier fund raising centre as well as an investment centre for Mainland investors in the further liberalisation of the Mainland market. We are also proactive to capture the opportunities arising from economic development in other markets, particularly in Asia to reinforce Hong Kong's position as a major international financial centre.

In the midst of the various business initiatives which we are pursuing, we remain committed to maintaining a robust market infrastructure and enhancing market quality. We strongly believe that an orderly, informed and fair marketplace is the key to securing investor confidence and HKEx's continued success and growth.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	**Unaudited Three months ended 31 Mar 2007 $'000**	Unaudited Three months ended 31 Mar 2006 $'000
INCOME	2		
Trading fees and trading tariff	4	**504,413**	297,553
Stock Exchange listing fees	5	**143,401**	109,693
Clearing and settlement fees		**261,504**	154,620
Depository, custody and nominee services fees		**60,742**	41,103
Income from sale of information		**127,612**	85,517
Investment income	6	**223,143**	112,959
Other income	7	**78,124**	52,682
	3	**1,398,939**	854,127
OPERATING EXPENSES			
Staff costs and related expenses	8	**182,305**	159,126
Information technology and computer maintenance expenses	9	**51,301**	46,464
Premises expenses		**32,410**	26,633
Product marketing and promotion expenses		**2,479**	2,861
Legal and professional fees		**1,374**	4,847
Depreciation		**23,162**	24,940
Other operating expenses	10	**29,612**	27,656
	3	**322,643**	292,527
OPERATING PROFIT	3	**1,076,296**	561,600
SHARE OF PROFITS OF ASSOCIATES	3	**5,587**	3,220
PROFIT BEFORE TAXATION	3	**1,081,883**	564,820
TAXATION	3/11	**(159,346)**	(85,981)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	3/29	**922,537**	478,839
Basic earnings per share	12(a)	**$0.87**	$0.45
Diluted earnings per share	12(b)	**$0.86**	$0.45

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Share capital, share premium and shares held for Share Award Scheme (note 25) $'000	Employee share-based compensation reserve (note 26) $'000	Revaluation reserves (note 27) $'000	Hedging reserve $'000	Designated reserves (note 28) $'000	Retained earnings (note 29) $'000	Total equity $'000
At 1 Jan 2007	**1,200,093**	**52,119**	**10,569**	**–**	**668,262**	**3,326,543**	**5,257,586**
Change in fair value of available-for-sale financial assets	–	–	(12,746)	–	–	–	(12,746)
Realisation of change in fair value of available-for-sale financial assets on maturity and disposal	–	–	(926)	–	–	–	(926)
Cash flow hedges:							
– fair value losses of hedging instruments	–	–	–	(84)	–	–	(84)
– transfer to profit and loss account as information technology and computer maintenance expenses	–	–	–	42	–	–	42
Deferred tax arising from change in fair value of available-for-sale financial assets	–	–	2,061	–	–	–	2,061
Net losses recognised directly in equity	–	–	(11,611)	(42)	–	–	(11,653)
Profit attributable to shareholders	–	–	–	–	–	922,537	922,537
Total recognised (losses)/profit	–	–	(11,611)	(42)	–	922,537	910,884
Shares issued under employee share option schemes	21,113	–	–	–	–	–	21,113
Employee share-based compensation benefits	–	6,132	–	–	–	–	6,132
Share of reserves of an associate	–	47	–	–	–	–	47
Transfer of reserves	5,979	(5,979)	–	–	14,611	(14,611)	–
At 31 Mar 2007	**1,227,185**	**52,319**	**(1,042)**	**(42)**	**682,873**	**4,234,469**	**6,195,762**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Share capital, share premium and shares held for Share Award Scheme $'000	Employee share-based compensation reserve $'000	Revaluation reserves $'000	Designated reserves $'000	Retained earnings $'000	Total equity $'000
At 1 Jan 2006	1,183,132	34,980	(37,086)	700,641	2,455,804	4,337,471
Change in fair value of available-for-sale financial assets	–	–	9,151	–	–	9,151
Realisation of change in fair value of available-for-sale financial assets on maturity and disposal	–	–	2,414	–	–	2,414
Deferred tax arising from realisation of change in fair value of available-for-sale financial assets on maturity and disposal	–	–	(15)	–	–	(15)
Net gain recognised directly in equity	–	–	11,550	–	–	11,550
Profit attributable to shareholders	–	–	–	–	478,839	478,839
Total recognised profit	–	–	11,550	–	478,839	490,389
Shares issued under employee share option schemes	4,596	–	–	–	–	4,596
Shares purchased for Share Award Scheme	(71)	–	–	–	–	(71)
Employee share-based compensation benefits	–	7,220	–	–	–	7,220
Share of reserves of an associate	–	9	–	–	–	9
Transfer of reserves	–	–	–	(54,932)	54,932	–
At 31 Mar 2006	1,187,657	42,209	(25,536)	645,709	2,989,575	4,839,614

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited at 31 Mar 2007 $'000**	Audited at 31 Dec 2006 $'000
NON-CURRENT ASSETS			
Fixed assets	13	**219,412**	210,161
Investment property	14	**19,800**	19,300
Lease premiums for land		**93,438**	93,575
Investment in an associate	15	**–**	68,377
Clearing House Funds	16	**1,831,817**	2,270,531
Compensation Fund Reserve Account	17	**41,002**	40,535
Available-for-sale financial assets	18	**23,210**	–
Time deposit with maturity over one year		**39,071**	38,886
Deferred tax assets		**3,758**	3,330
Other financial assets		**19,480**	18,583
Other assets		**3,212**	3,212
		2,294,200	2,766,490
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	19	**9,820,560**	10,201,562
Lease premiums for land		**548**	548
Margin Funds on derivatives contracts	20	**24,482,739**	21,666,474
Financial assets at fair value through profit or loss	21	**2,908,386**	2,878,224
Available-for-sale financial assets	18	**1,270,149**	539,132
Time deposits with original maturities over three months		**239,923**	185,611
Cash and cash equivalents		**2,481,924**	2,215,257
		41,204,229	37,686,808
Non-current asset held for sale	22	**66,511**	–
		41,270,740	37,686,808
CURRENT LIABILITIES			
Margin deposits from Clearing Participants on derivatives contracts	20	**24,482,739**	21,666,474
Accounts payable, accruals and other liabilities	23	**10,870,240**	11,107,200
Financial liabilities at fair value through profit or loss	21	**3,248**	7,505
Participants' admission fees received		**2,100**	1,700
Deferred revenue		**269,631**	318,468
Taxation payable		**386,733**	287,368
Provisions	24	**28,358**	26,712
		36,043,049	33,415,427
NET CURRENT ASSETS		**5,227,691**	4,271,381
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,521,891**	7,037,871

	Note	Unaudited at 31 Mar 2007 $'000	Audited at 31 Dec 2006 $'000
NON-CURRENT LIABILITIES			
Participants' admission fees received		**79,900**	79,750
Participants' contributions to Clearing House Funds	16	**1,190,003**	1,642,495
Deferred tax liabilities		**12,189**	14,003
Financial guarantee contract	32(b)	**19,909**	19,909
Provisions	24	**24,128**	24,128
		1,326,129	1,780,285
NET ASSETS		**6,195,762**	5,257,586
CAPITAL AND RESERVES			
Share capital	25	**1,066,797**	1,065,448
Share premium	25	**211,685**	185,942
Shares held for Share Award Scheme	25	**(51,297)**	(51,297)
Employee share-based compensation reserve	26	**52,319**	52,119
Revaluation reserves	27	**(1,042)**	10,569
Hedging reserve		**(42)**	–
Designated reserves	28	**682,873**	668,262
Retained earnings	29	**2,966,478**	2,060,156
Proposed dividend	29	**1,267,991**	1,266,387
SHAREHOLDERS' FUNDS		**6,195,762**	5,257,586
SHAREHOLDERS' FUNDS PER SHARE		**$5.81**	$4.94

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Note	**Unaudited Three months ended 31 Mar 2007 $'000**	Unaudited Three months ended 31 Mar 2006 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	30(a)	**923,135**	952,540
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		**(33,768)**	(18,361)
Proceeds from sales of fixed assets		**100**	333
Proceeds from liquidation of an associate		**–**	1,312
Dividends received from an associate		**7,500**	5,284
(Increase)/decrease in time deposits with original maturities more than three months		**(54,497)**	50,782
Net increase in available-for-sale financial assets of the Corporate Funds		**(750,466)**	–
Interest received from available-for-sale financial assets		**153,015**	22,997
Net cash (outflow)/inflow from investing activities		**(678,116)**	62,347
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		**21,113**	4,596
Purchase of shares for Share Award Scheme		**–**	(71)
Admission fees received from less refunded to Participants		**550**	(100)
Dividends paid		**(15)**	–
Net cash inflow from financing activities		**21,648**	4,425
Net increase in cash and cash equivalents		**266,667**	1,019,312
Cash and cash equivalents at 1 Jan		**2,215,257**	1,359,133
Cash and cash equivalents at 31 Mar		**2,481,924**	2,378,445
Analysis of cash and cash equivalents			
Time deposits with original maturities within three months		**1,610,261**	1,730,359
Cash at bank and in hand		**871,663**	648,086
Cash and cash equivalents at 31 Mar		**2,481,924**	2,378,445

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED)

1. Basis of Preparation and Accounting Policies

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

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

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

2. Turnover

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

3. Segment Information

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

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

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

3. Segment Information (continued)

The **Cash Market** business mainly refers to the operations of the Stock Exchange, which covers all products traded on the Cash Market platforms, such as equities, debt securities, unit trusts, callable bull/bear contracts, warrants and rights. Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market ("GEM"). The major sources of income of the business are trading fees, trading tariff and listing fees. Costs of the Listing Function are treated as segment costs under the Cash Market. Costs of the Listing Function are further explained in note 5.

The **Derivatives Market** business refers to the derivatives products traded on the Futures Exchange and stock options traded on the Stock Exchange, which includes the provision and maintenance of trading platforms for a range of derivatives products, such as equity and interest rate futures and options. Its income mainly comprises trading fees and investment income on the Margin Funds invested.

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

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

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

4. Trading Fees and Trading Tariff

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

5. Stock Exchange Listing Fees

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

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

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

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

6. Investment Income

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

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

7. Other Income

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

8. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

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

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

9. Information Technology and Computer Maintenance Expenses

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

10. Other Operating Expenses

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

11. Taxation

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

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

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

12. Earnings Per Share

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

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

13. Fixed Assets

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

14. Investment Property

The Group's investment property was revalued as at 31 March 2007 on the basis of its open market value by Jones Lang LaSalle, an independent firm of qualified property valuers. The fair value gain during the three months ended 31 March 2007 of $500,000 (2006: $600,000) was credited to the condensed consolidated profit and loss account under other income (note 7).

15. Investment in an Associate

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

(a) Goodwill

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

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

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

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

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

16. Clearing House Funds

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

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

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

17. Compensation Fund Reserve Account

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

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

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

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

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

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

18. Available-for-sale Financial Assets

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

19. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits amounted to $9,820,560,000 (31 December 2006: $10,201,562,000). These mainly represented the Group's CNS money obligations receivable under the T+2 settlement cycle, which accounted for 94 per cent (31 December 2006: 94 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 30 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits would mature within three months.

20. Margin Funds on Derivatives Contracts

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

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

	At 31 Mar 2007 $'000	At 31 Dec 2006 $'000
Analysis of financial assets at fair value through profit or loss:		
Held for trading		
Equity securities, at market value		
– listed in Hong Kong	**177,759**	186,658
– listed outside Hong Kong	**216,769**	194,267
	394,528	380,925
Held for trading		
Debt securities, at market value		
– listed in Hong Kong	**87,102**	70,539
– listed outside Hong Kong	**1,312,909**	1,255,022
– unlisted	**1,113,668**	1,169,592
	2,513,679	2,495,153
Held for trading		
Derivative financial instruments, at market value		
– forward foreign exchange contracts	**179**	2,146
	2,908,386	2,878,224
Analysis of financial liabilities at fair value through profit or loss:		
Held for trading		
Derivative financial instruments, at market value		
– forward foreign exchange contracts	**3,248**	7,505

22. Non-current Asset Held for Sale

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

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

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

On 29 March 2007, the Group entered into an agreement to sell all of its 7,317 fully paid Class A ordinary shares (equivalent to 30% interest) of CHIS for a consideration of $270,320,000 as the board of directors considered that the sale represented a good opportunity for the Group to realise a gain on the investment. The net proceeds of the sale substantially exceeded the carrying amount of the investment in associate and accordingly, no impairment loss was required on the reclassification of the investment in associate as held for sale. After CHIS had declared and paid a further dividend of $2,160,000 on 3 April 2007, the sale transaction was completed and the Group ceased to have significant influence over CHIS on that date. The accounting profit on disposal of the investment, after deducting stamp duty of $270,000 and eliminating the carrying value of the investment (less the Group's share of CHIS's reserves and the further dividend) stated above, amounted to $206,317,000 and was recognised in the profit and loss account in April 2007.

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

23. Accounts Payable, Accruals and Other Liabilities

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

24. Provisions

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

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

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

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

Issued and fully paid:

	Number of shares of $1 each	**Share capital** $'000	**Share premium** $'000	**Shares held for Share Award Scheme** $'000	**Total** $'000
At 1 Jan 2006	1,061,796,846	1,062,755	150,405	(30,028)	1,183,132
Shares issued under employee share option schemes (note a)	2,693,500	2,693	28,202	–	30,895
Transfer from employee share-based compensation reserve (note 26)	–	–	7,335	–	7,335
Shares purchased for Share Award Scheme (note b)	(300,000)	–	–	(21,269)	(21,269)
At 31 Dec 2006	1,064,190,346	1,065,448	185,942	(51,297)	1,200,093
At 1 Jan 2007	**1,064,190,346**	**1,065,448**	**185,942**	**(51,297)**	**1,200,093**
Shares issued under employee share option schemes (note a)	**1,348,500**	**1,349**	**19,764**	**–**	**21,113**
Transfer from employee share-based compensation reserve (note 26)	**–**	**–**	**5,979**	**–**	**5,979**
At 31 Mar 2007	**1,065,538,846**	**1,066,797**	**211,685**	**(51,297)**	**1,227,185**

(a) During the period, employee share options granted under the Pre-Listing Share Option Scheme ("Pre-Listing Scheme") and the Post-Listing Share Option Scheme ("Post-Listing Scheme") were exercised to subscribe for 1,348,500 shares (year ended 31 December 2006: 2,693,500 shares) in HKEx at an average consideration of $15.66 per share (year ended 31 December 2006: $11.47 per share), of which $1.00 per share was credited to share capital and the balance was credited to the share premium account.

(b) During the year ended 31 December 2006, The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust") acquired 300,000 HKEx shares through purchases on the open market and held the shares for the Employees' Share Award Scheme adopted by the Board on 14 September 2005 and subsequently amended on 16 August 2006 ("Share Award Scheme") (note 26(c)). The total amount paid to acquire the shares during the year ended 31 December 2006 was $21,269,000 and had been deducted from shareholders' equity. No shares were acquired during the three months ended 31 March 2007.

26. Employee Share-based Compensation Reserve

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

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

(b) Share options

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

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

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

26. Employee Share-based Compensation Reserve (continued)

(b) Share options (continued)

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

	Three months ended 31 Mar 2007		Year ended 31 Dec 2006	
	Average exercise price per share $	**Number of shares issuable under options granted**	Average exercise price per share $	Number of shares issuable under options granted
Pre-Listing Scheme				
Outstanding at 1 Jan	**6.88**	**788,000**	6.88	2,126,000
Exercised	**6.88**	**(76,000)**	6.88	(1,338,000)
Outstanding at 31 Mar 2007/ 31 Dec 2006	**6.88**	**712,000**	6.88	788,000
Post-Listing Scheme				
Outstanding at 1 Jan	**15.68**	**14,593,500**	15.80	16,574,000
Exercised	**16.18**	**(1,272,500)**	16.00	(1,355,500)
Forfeited	**12.49**	**(984,000)**	18.32	(625,000)
Outstanding at 31 Mar 2007/ 31 Dec 2006	**15.88**	**12,337,000**	15.68	14,593,500
Total	**15.39**	**13,049,000**	15.23	15,381,500

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

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

26. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares

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

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

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

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

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

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

26. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

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

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

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

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

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

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

27. Revaluation Reserves

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

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

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

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

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

28. Designated Reserves

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

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

29. Retained Earnings (Including Proposed/Declared Dividends)

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

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

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

30. Notes to the Condensed Consolidated Cash Flow Statement

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

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

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

31. Commitments

Commitments in respect of capital expenditures:

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

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

32. Contingent Liabilities

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

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

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

32. Contingent Liabilities (continued)

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

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

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

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

33. Non-cash Collateral Received from Participants

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

As at 31 March 2007, the amount of non-cash collateral received from Participants and the amount utilised for covering part of their Clearing House Fund contributions and Margin Fund obligations were as follows:

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

* $352,516,000 (31 December 2006: $286,494,000) of equity securities received were used to cover call options issued by SEOCH Participants whose underlying stocks were the same as the collateral received. Under the Operational Clearing Procedures for Options Trading Exchange Participants of SEOCH, such call options issued are not marginable positions (ie, no margin requirements). Hence, the amount is not treated as having been utilised for covering Margin Fund obligations.

34. Material Related Party Transactions

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

34. Material Related Party Transactions (continued)

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

(a) Related companies with common directors

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

On 16 February 2005, the Futures Exchange as the tenant renewed the lease in respect of the tenancy of an office premises ("Lease") with Shine Hill as the landlord for a term of two years commencing 1 January 2005. The Futures Exchange is a wholly-owned subsidiary of HKEx. When the Lease was renewed, Shine Hill was a subsidiary of Great Eagle Holdings Limited ("Great Eagle"), and Dr LO Ka Shui, an Independent Non-executive Director of HKEx retired on 26 April 2006, was the deputy chairman, managing director and substantial shareholder of Great Eagle. The Lease was an arm's length transaction entered into on normal commercial terms.

(b) Transactions with associates

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

(c) Key management personnel compensation

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

34. Material Related Party Transactions (continued)

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

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

(e) Post-retirement benefit plans

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

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

35. Financial Risk Management

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

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

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

(a) Market risk

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

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

35. Financial Risk Management (continued)

(a) Market risk (continued)

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

(i) Foreign exchange risk

Foreign exchange risk is the risk that the value of an asset, liability or highly probable forecast transaction denominated in foreign currency will fluctuate because of changes in foreign exchange rates. When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency cash and bank deposits have been used to hedge the currency exposure of the Group's non-HKD investments, highly probable forecast transactions and liabilities to mitigate risks arising from fluctuations in exchange rates.

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

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

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

35. Financial Risk Management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

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

Cash flow hedges

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

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

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

Fair value hedges

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

35. Financial Risk Management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Fair value hedges (continued)

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

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

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

(ii) Equity and commodity price risk

The Group is exposed to equity price risk as equities are held as part of the Corporate Fund's investments. Equity price risk is capped by an asset allocation limit. The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's investment policy.

(iii) Interest rate risks

There are two types of interest rate risk:

- Fair value interest rate risk – the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and
- Cash flow interest rate risk – the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to both fair value and cash flow interest rate risks as the Group has significant assets and liabilities which are interest-bearing.

(iv) Risk management

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

35. Financial Risk Management (continued)

(a) Market risk (continued)

(iv) Risk management (continued)

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

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

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

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

(b) Liquidity risk

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

35. Financial Risk Management (continued)

(b) Liquidity risk (continued)

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. In addition, banking facilities have been put in place for contingency purposes. As at 31 March 2007, the Group's total available banking facilities amounted to $3,058 million (31 December 2006: $1,558 million), of which $3,000 million (31 December 2006: $1,500 million) were repurchase facilities to augment the liquidity of the Margin Funds.

(c) Credit risk

(i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's investments and trade receivables. Impairment provisions are made for losses that have been incurred at the balance sheet date. The Group limits its exposure to credit risk by rigorously selecting the counterparties (ie deposit-takers, bond issuers and debtors) and by diversification. As at 31 March 2007, the bonds held were of investment grade and had a weighted average credit rating of Aa2 (31 December 2006: Aa2), and there were no financial assets whose terms were renegotiated (31 December 2006: $Nil). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time. All investments are subject to a maximum concentration limit approved by the Board and there was no significant concentration risk to a single counterparty. The Group mitigates its exposure to risks relating to accounts receivable from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

(ii) Clearing and settlement-related risk

In the normal course of business, the clearing houses of the Group, HKSCC, SEOCH and HKCC, act as the counterparties to eligible trades concluded on the Stock Exchange and the Futures Exchange through the novation of the obligations of the buyers and sellers. HKSCC is also responsible for the good title to the securities deposited and accepted in the CCASS depository. As a result, the Group has considerable market risk and credit risk since the Participants' ability to honour their obligations in respect of their trades and securities deposited may be adversely impacted by economic conditions affecting the Cash and Derivatives Markets. If the Participants default on their obligations on settlement or there are defects in the title of securities deposited and accepted in the CCASS depository, the Group could be exposed to potential risks not otherwise accounted for in these accounts.

35. Financial Risk Management (continued)

(c) Credit risk (continued)

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

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

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

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

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

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

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

* No provision for impairment losses has been made against trade receivables amounting to $8,510,000 (31 December 2006: $8,510,000) as the balances can be recovered from the Clearing House Funds.

The fair value of cash deposits placed by the related trade debtors with the Group was $6,717,000 (31 December 2006: $6,088,000).

35. Financial Risk Management (continued)

(c) Credit risk (continued)

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

As at 31 March 2007, trade receivables of the Group amounting to $4,616,000 (31 December 2006: $4,679,000) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days as at the balance sheet date or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired were disclosed in the 2006 annual accounts. No cash deposits had been placed by the related trade debtors with the Group (31 December 2006: $Nil).

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

As soon as a loan or receivable becomes impaired, the Group may continue to provide services or facilities to the debtors concerned but no further accounts receivable will be recognised on balance sheet as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when received. As at 31 March 2007, the amount of doubtful deferred revenue amounted to $43,722,000 (31 December 2006: $44,242,000).

36. Comparative Figures

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

Board of Directors

Mr John Estmond Strickland and Mr Wong Sai Hung, Oscar were successfully re-elected by Shareholders at the 2007 AGM and their service terms will be approximately three years from 26 April 2007 until the conclusion of the annual general meeting to be held in 2010. On the same day, the Financial Secretary re-appointed Mr Cheung Kin Tung, Marvin, Mr Fan Hung Ling, Henry and Mr Fong Hup as Government Appointed Directors each for a term of approximately two years from 26 April 2007 until the conclusion of the annual general meeting to be held in 2009.

Committees and Consultative Panels

After the 2007 AGM, changes were made to the composition of various Committees.

Audit Committee

Mr Cheung Kin Tung, Marvin was appointed the chairman to succeed Mr John Estmond Strickland. Mr David Michael Webb was appointed a member to succeed Mr Cheung Kin Tung, Marvin who has taken up the position as the chairman.

Investment Advisory Committee

Mr John Estmond Strickland was appointed the chairman to succeed Mr Fan Hung Ling, Henry.

Nomination Committee

Mr Fan Hung Ling, Henry and Mr John Estmond Strickland were appointed members to succeed Mr Fong Hup and Mr Wong Sai Hung, Oscar.

Remuneration Committee

Mr Ronald Joseph Arculli was appointed the chairman to succeed Mr Cheung Kin Tung, Marvin. Mrs Cha May-Lung, Laura was appointed a member to succeed Mr Fong Hup.

Risk Management Committee

Mr Cheung Kin Tung, Marvin was appointed a member to succeed Mr Fan Hung Ling, Henry.

Other members of the Committees and Consultative Panels remain unchanged.

The term of service of each Director with each Committee or Consultative Panel shall be coterminous with the individual's term of directorship with HKEx. The membership information is available on HKEx's corporate website.

Senior Executive

On 14 February 2007, the Board approved the appointment of Mr Gerald Dale Greiner, former Deputy Chief Operating Officer, as the Chief Operating Officer of HKEx and the Chief Executive of the Stock Exchange and such appointments took effect from 16 February 2007 upon the SFC's approval.

On 16 April 2007, Ms Bonnie Chan joined HKEx as Senior Vice President, Listing Division to lead the IPO Transactions Department. She succeeds Mr Peter Curley who has taken a leave of absence and will spend a year at the Massachusetts Institute of Technology in the US as a Sloan Fellow.

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. Both schemes 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 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.

Details of the share options granted under the Share Option Schemes and which remained outstanding as at 31 March 2007 were as follows:

Pre-Listing Scheme

		Number of shares issuable under the options				
Date of grant	**Exercise price**	**As at 1 Jan 2007**	**Issued upon subscription during the three months ended 31 Mar 2007** (note 1)	**Lapsed during the three months ended 31 Mar 2007**	**As at 31 Mar 2007**	**Exercise period** (note 2)
Employees (note 3)						
20 Jun 2000	$6.88	788,000	76,000	–	712,000	6 Mar 2002 – 30 May 2010

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

Post-Listing Scheme

Date of grant	Exercise price	Number of shares issuable under the options: As at 1 Jan 2007	Issued upon subscription during the three months ended 31 Mar 2007 (note 4)	Lapsed during the three months ended 31 Mar 2007	As at 31 Mar 2007	Exercise period (note 5)
Director (note 6)						
2 May 2003	$8.28	2,460,000	–	–	2,460,000	2 May 2005 – 1 May 2013
Employees (note 3)						
14 Aug 2003	$12.45	547,000	–	–	547,000	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	19,000	–	4,065,500	31 Mar 2006 – 30 Mar 2014
17 May 2004	$15.91	150,000	–	–	150,000	17 May 2006 – 16 May 2014
26 Jan 2005	$19.25	5,054,000	486,500	–	4,567,500	26 Jan 2007 – 25 Jan 2015

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

No options granted under these two share option schemes were cancelled during the three months ended 31 March 2007.

Notes:

1. The weighted average closing price immediately before the dates on which the options were exercised was $72.76.
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 $85.52.
5. Options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of grant.
6. The option was granted to Mr Chow Man Yiu, Paul, a Director and the Chief Executive of HKEx.
7. HKEx adopts the Binomial Option Pricing Model for estimating the fair value of options issued under the Post-Listing Scheme. The assumptions used in the model for the following factors are:
   - Risk-free rate of return – the yield of 10-year Exchange Fund Notes
   - Expected volatility of share price – annualised volatility for one year immediately preceding the grant date
   - Expected dividend yields – annual dividend (excluding special dividend) of the most recent financial year and the closing price on grant date

   The amortised fair value of the share options charged to the profit and loss account for the three months ended 31 March 2007 was $2,782,000 (31 March 2006: $5,199,000).

   The Binomial Option Pricing Model was developed to estimate the fair value of American style options. It is one of the commonly used models to estimate the fair value of an option which can be exercised before the expiry of the option period. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

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 purposes and objectives are to recognise the contributions by certain employees of the Group and to give them an incentive to remain for the continual operation and development of the Group, and to attract suitable personnel for further 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 shares of HKEx in issue as at the Adoption Date.

Pursuant to the rules of the Share Award Scheme, the Board or the trustee of the Share Award Scheme (as the case may be) shall select the employees of the Group for participation in the Share Award Scheme, and determine the number of Awarded Shares. On 16 August 2006, the Board approved an amendment to the rules and the related trust deed of the Share Award Scheme under which the Board will approve the lump sum for acquiring the Awarded Shares instead of approving a fixed number of Awarded Shares. The amended and restated rules and trust deed are posted on HKEx's corporate website.

The trustee acquires the relevant Awarded Shares from the market at the cost of HKEx and holds them in trust for those selected employees until the end of each vesting period. Awarded Shares and the income derived therefrom are subject to a vesting scale 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. Vested shares will be transferred at no cost to the relevant selected employees of HKEx.

Since its adoption, a total of 1,232,465 shares have been awarded to the selected employees. Details of the awards are set out below:

Date of award	Number of Awarded Shares	Average fair value per share	Vesting period
19 Dec 2005	960,000	$31.20 (note 1)	19 Dec 2007 – 19 Dec 2010
15 Jan 2007	272,465	$72.28 (note 2)	13 Dec 2008 – 13 Dec 2011

Notes:

1. The fair value of the Awarded Shares was based on the market value at the date of award.
2. As a result of the amendments to the rules of the Share Award Scheme which took effect from 16 August 2006, the fair value of the Awarded Shares was based on the average purchase cost per share.
3. The amortised fair value of the Awarded Shares charged to the profit and loss account for the three months ended 31 March 2007 was $3,350,000 (31 March 2006: $2,021,000).

As at 31 March 2007, taking into account the further shares acquired by reinvesting the dividend income, there were a total of 1,258,000 shares held upon trust by the trustee under the Share Award Scheme, with an aggregate of 29,629 shares as returned shares (ie shares were not vested and/or forfeited and/or unallocated in accordance with the terms of the Share Award Scheme). The trustee shall hold these returned shares and future related income for the benefit of one or more employees of the Group as it determines at its discretion, after taking into consideration the recommendations of the Board. During the period, no Awarded Shares lapsed and none were vested.

Directors' and Chief Executive's Interests and Short Positions

As at 31 March 2007, the Directors, the Chief Executive and their respective associates had the following interests in the shares and underlying shares of HKEx, as recorded in the register maintained by HKEx pursuant to Section 352 of the SFO, or as otherwise notified to HKEx and the Stock Exchange pursuant to the Model Code:

Interests in the shares and underlying shares of HKEx

	Number of shares/underlying shares held					
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**	**% of the issued share capital**
Chow Man Yiu, Paul	3,291,528 (note 1)	–	–	–	3,291,528	0.31
Lee Kwan Ho, Vincent Marshall	–	–	1,761,000 (note 2)	505,500 (note 3)	2,266,500	0.21
John Estmond Strickland	18,000 (note 4)	–	–	–	18,000	0.00
David Michael Webb	2 (note 5)	2 (note 6)	6 (note 7)	–	10	0.00

Notes:

1. The interests included Mr Chow's beneficial interests in 820,000 shares, 11,528 Awarded Shares and 2,460,000 underlying shares in respect of the share option granted to him pursuant to the Post-Listing Scheme on 2 May 2003 (details of which are set out in note 6 under Share Option Schemes). The number of shares issuable under the option granted and the exercise price had been adjusted in accordance with the resolution passed by Shareholders at the annual general meeting held in 2004. The beneficial interest of the relevant Awarded Shares and income derived therefrom are subject to a vesting scale 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.
2. This represented Mr Lee's interests in 671,000 shares and 1,090,000 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.
3. This represented Mr Lee's interests in 205,500 shares and 300,000 underlying shares through listed equity derivatives (physically settled options) held by a corporation, controlled by Lee Tung Hai Family Trust, a discretionary trust of which Mr Lee is a beneficiary.
4. The shares were held by Mr Strickland as beneficial owner.
5. The shares were held by Mr Webb as beneficial owner.
6. The shares were owned by the spouse of Mr Webb.
7. 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 March 2007, Mr Lee Kwan Ho, Vincent Marshall was interested in an aggregate short positions of 660,000 underlying shares in HKEx, representing 0.06 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 March 2007, none of the Director or the Chief Executive of HKEx or their respective associates had any interest and 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.

Apart from the Share Option Schemes and the Share Award Scheme, at no time during the period was HKEx or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, HKEx or any body corporate. Save for the disclosed, none of the Directors or the Chief Executive (including their spouses and children under the age of 18) during the three months ended 31 March 2007 held any interest in, or were granted any right to subscribe for, the securities of HKEx and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Discloseable Interests and Short Positions of Shareholders under the SFO

As at 31 March 2007, the following corporation had interests in five per cent or more of the issued share capital of HKEx as recorded in the register required to be kept under Section 336 of the SFO.

Details of the interests and short positions in the shares or underlying shares of HKEx as notified to HKEx are set out below:

Long positions in the shares of HKEx

Name	Capacity	Number of shares held	Total	% of the issued share capital
JPMorgan Chase & Co	Beneficial owner	7,802,026	58,201,423 (note 1)	5.46
	Investment manager	15,018,810		
	Custodian corporation/ approved lending agent	35,380,587		

Short positions in the 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	146,838,650	146,838,650 (note 2)	13.76

Notes:

1. It included 35,380,587 shares in the lending pool.
2. It represented interests held through certain unlisted equity derivatives (physically settled – 8,077,050 underlying shares and cash settled – 138,761,600 underlying shares).

Minority Controllers

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

The SFC has so far 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 March 2007, the five approved Minority Controllers were in aggregate holding 58.62 per cent of the issued share capital of HKEx (31 March 2006: 61.60 per cent).

Corporate Governance

The Articles of Association were amended in 2005 to specify that all Directors (Government Appointed Directors and Elected Directors), other than the Chief Executive who is an ex-officio Director and whose term of service on the Board is subject to the term of his employment contract with HKEx, are appointed for a term of not more than three years, but shall be eligible for re-appointment upon retirement.

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

GovernanceMetrics International, a corporate governance research and ratings agency, continued to assign high ratings to HKEx in recognition of its high corporate governance standards. As of 15 February 2007, the Global Rating and Home Market Rating remained at 7.5 and 10.0 respectively out of the maximum of 10.0.

On 24 April 2007, The Asset announced that HKEx has been named as one of the best companies in Hong Kong in terms of corporate governance in The Asset Magazine's annual Corporate Governance Rankings 2007.

Compliance with the Model Code

HKEx has adopted the Model Code. All Directors have confirmed, following specific enquiry by HKEx, that they fully complied with the Model Code throughout the review period.

Review of Accounts

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2007 in conjunction with HKEx's external auditors.

Management has appointed the external auditors to carry out certain agreed-upon procedures in accordance with Hong Kong Standards on Related Services 4400 "Engagements to perform agreed-upon procedures regarding financial information" issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated financial statements for the three months ended 31 March 2007.

Purchase, Sale or Redemption of HKEx's Listed Securities

During the three months ended 31 March 2007, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold, any of HKEx's listed securities.

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

Hong Kong, 9 May 2007

GLOSSARY

2007 AGM	Annual general meeting held on 26 April 2007
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
DCASS	The Derivatives Clearing and Settlement System
Director(s)	Director(s) of HKEx
eIPO	Electronic IPO service
Elected Director(s)	Director(s) elected by the Shareholders at general meetings
EP(s) or Participant(s)	Exchange Participant(s)
ESS	Electronic Submission System
ETF(s)	Exchange Traded Fund(s)
Exchange, Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of Hong Kong
Futures Exchange	Hong Kong Futures Exchange Limited
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
Government	The Government of Hong Kong
Government Appointed Directors	Directors appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx	Hong Kong Exchanges and Clearing Limited
HKSCC	Hong Kong Securities Clearing Company Limited
Hong Kong	Hong Kong Special Administrative Region of the People's Republic of China
HSI	Hang Seng Index
IIS	Issuer Information *feed* Service System
IPO(s)	Initial Public Offering(s)
JP	Justice of the Peace
Listing Committees	Listing Committee and the GEM Listing Committee
Listing Rules	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited

Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MH	Medal of Honour
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MWS	Multi-workstation System
OG	Open Gateway
Post-Listing Scheme	Post-Listing Share Option Scheme approved by the Shareholders on 31 May 2000 which was subsequently amended by the Shareholders on 17 April 2002
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by the Shareholders on 31 May 2000
PRS	Price Reporting System
REIT(s)	Real Estate Investment Trust(s)
RMB	Renminbi
SBS	Silver Bauhinia Star
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	Shareholders of HKEx
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended by the Board on 16 August 2006
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
SSA(s)	Stock Segregated Account(s)
$/HKD	Hong Kong dollars

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