HKEX

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

Quarterly Report 2008

For the three months ended 31 March

Stock Code: 388

CONTENTS

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

FINANCIAL HIGHLIGHTS

	Three months ended 31 Mar 2008	Three months ended 31 Mar 2007	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	**$98.7 billion**	$52.9 billion	87%
Average daily number of derivatives contracts traded on the Futures Exchange	**205,853**	144,216	43%
Average daily number of stock options contracts traded on the Stock Exchange	**266,199**	124,662	114%

	Unaudited Three months ended 31 Mar 2008 $'000	Unaudited Three months ended 31 Mar 2007 $'000	Change
RESULTS			
Income	**2,284,644**	1,398,939	63%
Operating expenses	**382,559**	322,643	19%
Operating profit	**1,902,085**	1,076,296	77%
Share of profit of an associate	**–**	5,587	(100%)
Profit before taxation	**1,902,085**	1,081,883	76%
Taxation	**(252,344)**	(159,346)	58%
Profit attributable to shareholders	**1,649,741**	922,537	79%
Basic earnings per share	**$1.54**	$0.87	77%
Diluted earnings per share	**$1.53**	$0.86	78%

	Unaudited at 31 Mar 2008	Audited at 31 Dec 2007	Change
KEY ITEMS IN CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds ($'000)	**10,058,035**	8,377,348	20%
Total assets * ($'000)	**96,143,823**	87,944,189	9%
Net assets per share #	**$9.40**	$7.83	20%

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

Based on 1,070,093,214 shares as at 31 March 2008, being 1,071,304,846 shares issued and fully paid less 1,211,632 shares held for the Share Award Scheme (31 December 2007: 1,069,228,714 shares, being 1,070,285,346 shares issued and fully paid less 1,056,632 shares held for the Share Award Scheme)

CORPORATE INFORMATION

Board of Directors

Independent Non-executive Chairman

ARCULLI, Ronald Joseph* GBS, JP
(re-appointed as Director on 24 April 2008
and as Chairman on 29 April 2008)

Executive Director, Chief Executive

CHOW Man Yiu, Paul SBS, JP

Independent Non-executive Directors

CHA May-Lung, Laura* SBS, JP
(re-appointment effective 24 April 2008)

CHENG Mo Chi, Moses* GBS, JP
(re-appointment effective 24 April 2008)

CHEUNG Kin Tung, Marvin* SBS, JP

FAN Hung Ling, Henry* SBS, JP

FONG Hup* MH

KWOK Chi Piu, Bill
(re-elected on 24 April 2008)

LEE Kwan Ho, Vincent Marshall
(re-elected on 24 April 2008)

LOH Kung Wai, Christine

STRICKLAND, John Estmond GBS, JP

WEBB, David Michael

WONG Sai Hung, Oscar

* Government Appointed Directors

Committees

Audit Committee

CHEUNG Kin Tung, Marvin (Chairman)

FONG Hup (Deputy Chairman)

CHENG Mo Chi, Moses
(re-appointment effective 25 April 2008)

LEE Kwan Ho, Vincent Marshall
(re-appointment effective 25 April 2008)

WEBB, David Michael

Executive Committee

ARCULLI, Ronald Joseph (Chairman)
(re-appointment effective 29 April 2008)

CHOW Man Yiu, Paul

FONG Hup

KWOK Chi Piu, Bill
(re-appointment effective 25 April 2008)

LEE Kwan Ho, Vincent Marshall
(re-appointment effective 25 April 2008)

Investment Advisory Committee

STRICKLAND, John Estmond (Chairman)

WONG Sai Hung, Oscar (Deputy Chairman)

CHA May-Lung, Laura
(re-appointment effective 25 April 2008)

SUN Tak Kei, David

WEBB, David Michael

Nomination Committee

ARCULLI, Ronald Joseph (Chairman)
(re-appointment effective 25 April 2008)

FAN Hung Ling, Henry

LEE Kwan Ho, Vincent Marshall
(re-appointment effective 25 April 2008)

STRICKLAND, John Estmond

WEBB, David Michael

Panel Member Nomination Committee

CHA May-Lung, Laura (Chairman)
(re-appointment effective 25 April 2008)

FONG Hup

KWOK Chi Piu, Bill
(re-appointment effective 25 April 2008)

LEE Kwan Ho, Vincent Marshall
(re-appointment effective 25 April 2008)

WONG Sai Hung, Oscar

Remuneration Committee

ARCULLI, Ronald Joseph (Chairman)
(re-appointment effective 25 April 2008)

CHA May-Lung, Laura
(re-appointment effective 25 April 2008)

CHENG Mo Chi, Moses
(re-appointment effective 25 April 2008)

LEE Kwan Ho, Vincent Marshall
(re-appointment effective 25 April 2008)

LOH Kung Wai, Christine

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

ARCULLI, Ronald Joseph (Chairman)
(re-appointment effective 29 April 2008)

CHAN Ka-lok**

CHEUNG Kin Tung, Marvin

FONG Hup**

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

KWOK Chi Piu, Bill
(re-appointment effective 25 April 2008)

LAU Ying Pan, Edmond**

LUI Kei Kwong, Keith**

** Appointed by the Financial Secretary

Company Secretary

MAU Kam Shing, Joseph

Authorised Representatives

CHOW Man Yiu, Paul

MAU Kam Shing, Joseph

Auditor

PricewaterhouseCoopers

Legal Advisers

Allen & Overy

Listing

Implementation of Electronic Disclosure Project

With the successful implementation of the electronic disclosure regime since June 2007, SEHK announced on 1 February 2008 transitional arrangements that allow issuers to publish all types of announcements, not only financial results announcements, during the lunchtime publication window between 12:30pm and 2:00pm. Furthermore, effective 10 March 2008, an issuer's securities would not be subject to suspension if that issuer publishes an announcement containing price sensitive information between 6:00am and 9:00am or during the lunchtime publication window.

To strengthen Hong Kong's market infrastructure for issuers' disclosure, SEHK launched HKExnews (www.hkexnews.hk), a bilingual website designated for issuers' regulatory filings, on 4 February 2008. The website is a one-stop platform for electronic disclosure of issuers' information and is also a central issuer document archive that allows the investing public to access issuers' information in a more convenient and timely manner.

WPIP

On 1 January 2008, SEHK launched a pilot scheme for posting a WPIP on the HKEx website prior to the issue of an IPO prospectus. No major defects were identified during the operation of the pilot scheme which ended on 31 March 2008. Upon completion of a review of the effectiveness of the pilot scheme, the requirement to post a WPIP is expected to be codified in the Listing Rules this year.

2008 Combined Consultation Paper

SEHK published a 2008 Combined Consultation Paper on 11 January 2008 to seek the market's comments on 18 substantive policy and corporate governance issues, issues pertaining to initial listing criteria and proposed amendments to the Listing Rules. The consultation ended on 7 April 2008 with 100 submissions. The Exchange is in the process of analysing the submissions and will publish the consultation conclusions in due course.

Report on Implementation of CG Code set out in the Listing Rules

On 29 February 2008, SEHK published a report on the findings from its second annual review of listed issuers' corporate governance practices. The review revealed that listed issuers have been continuing to improve their corporate governance practices by not only choosing to comply with the CG Code's code provisions, but also commonly adopting many of the recommended best practices. The Exchange will conduct a review of the CG Code to identify areas for enhancement during the year.

Joint Consultation Paper on Issue of Paper Application Forms with Electronic Prospectuses

On 1 April 2008, the SFC and SEHK published a joint consultation paper on a proposal to allow the issue of paper application forms for public offers which have electronic prospectuses available on certain prescribed websites. The proposal allows distribution of paper application forms for public offers at receiving banks, without enclosing hard-copy prospectuses if electronic prospectuses are available online and other requirements aimed at investor protection are being met. The consultation will end on 30 May 2008.

GEM Review

Following a detailed analysis of the submissions received from the GEM revamp consultation, the Exchange, in consultation with the SFC, has taken the view that the appropriate way forward is to reposition GEM as a second board and as a stepping stone to the Main Board. Certain new rules will be introduced to reflect the new role of the market but GEM will largely retain its existing structure. The Exchange published the consultation conclusions of the Review on 2 May 2008. Substantially all the proposals outlined in the consultation paper issued in July 2007 – in a small number of cases, with modifications – will be implemented.

Introduction of Depositary Receipts

In order to facilitate listing of overseas companies, on 9 May 2008, SEHK announced details of amendments to the Main Board Listing Rules to permit the use of depositary receipts by listing applicants as a mechanism for listing on the Exchange within the existing Listing Rules framework.

Consultation on Periodic Financial Reporting

SEHK published a consultation paper on 31 August 2007 regarding proposed amendments to the Listing Rules in relation to periodic financial reporting. The market's responses are posted on the HKEx website. The Exchange is studying respondents' comments and aims to publish the consultation conclusions in the second quarter of this year.

Issuer Marketing

In the first quarter of 2008, HKEx extended its marketing efforts to Ukraine, as well as San Francisco, Palo Alto and other locations in Silicon Valley in the US through participation in conferences organised by international and/or local market intermediaries.

Our staff has also participated in over 50 meetings with potential listing applicants, intermediaries and government bodies to discuss Hong Kong listings as well as the development of Hong Kong's securities market.

Beijing Representative Office

Promotional Activities in the Mainland

As part of our efforts to improve cooperation and coordination with the Mainland authorities, our Chairman visited the senior government officials of the Hebei Provincial Government in Shijiazhuang in February 2008. A roundtable meeting was also organised to promote listing in Hong Kong.

In the first quarter of 2008, our staff visited more than 10 cities in the Mainland, and gave presentations on the Hong Kong securities market and listing requirements to over 1,000 attendees.

Cash Market

Market Performance

In the first quarter of 2008, 10 companies were newly listed on the Main Board (none on GEM). Three companies were delisted from the Main Board and four from GEM (including three transferred to the Main Board). Total capital raised, including post-listing funds, reached $73.5 billion. As at 31 March 2008, 1,055 and 189 companies were listed on the Main Board (including two secondary listings) and GEM respectively with a total market capitalisation of about $16,937.9 billion.

In addition, there were 214 CBBCs, 5,000 DWs, 174 debt securities, 17 ETFs and seven REITs listed as at 31 March 2008. Average daily turnover in the first quarter of 2008 was about $98.4 billion on the Main Board and about $356 million on GEM.

Amongst the various products, the CBBC market has grown substantially since its launch on 12 June 2006. The average daily turnover has increased from below $100 million in the first 12 months after the launch of the market to about $1.4 billion in the first quarter of 2008. Meanwhile, the number of newly listed CBBCs has surged from 29 in the third quarter of 2006 to 323 in the first quarter of 2008.

New Format for CBBC Chinese Short Names

In response to market feedback, the CBBC Chinese short names were modified to provide a better distinction between CBBCs and DWs and determine whether a CBBC is a bull contract or a bear contract effective 13 May 2008.

MAPs

HKEx has been facilitating the listing of MAPs which are structured products issued on non-Hong Kong-listed underlying assets under the Main Board Listing Rules. MAPs can take the form of zero/low strike or higher strike DW, CBBC and ELI. MAPs in the form of zero/low strike DW tend to closely track the performance of the underlying asset. MAPs can carry various degrees of leverage or no leverage, and can be of different duration.

As at 31 March 2008, there were 79 listed MAPs, including 51 newly listed since the beginning of January 2008. The total turnover in the first quarter of 2008 amounted to $623 million. The underlying assets of these MAPs range from regional and international equity indices to foreign currencies, commodities and single overseas-listed stocks. In particular, investors can now trade gold and a wide range of commodities-related structured products. As at 31 March 2008, there were a total of 18 of them, comprising 10 on gold, four on silver, two on platinum, one on oil and one on wheat.

Launch of Five-Digit Stock Codes

With the support of EPs, Clearing Participants, information vendors and other market users, five-digit stock codes were successfully rolled out on 7 April 2008. More stock codes are now available to support the increasing number of listed securities, and to enable differentiation of the various types of products traded in the Cash Market.

Five-digit stock codes within the range of 10000 to 29999 have been assigned to new issues of DWs listed on or after 7 April 2008, and the range of 30000 to 32499 has been assigned to new issues of CBBCs listed on or after 13 May 2008. HKEx's stock code allocation plan has been posted on the HKEx website for market participants' reference.

Introduction of Closing Auction Session

HKEx will introduce a closing auction session in the Cash Market on 26 May 2008 subject to market readiness. The relevant system development and testing and market rehearsals for all EPs and information vendors have been successfully completed. To increase public knowledge of the new arrangement, HKEx will provide the relevant information through briefing sessions, circulars, newspapers and the HKEx website.

Removal of Parallel Trading Arrangement

HKEx announced that, subject to market readiness, the parallel trading arrangement in the Cash Market will be removed on 3 November 2008. After discussing with Exchange and Clearing Participants, custodian banks, share registrars, advisors and issuers, HKEx found that market participants generally supported removing the parallel trading arrangement as it would simplify operations and eliminate the possibility of split liquidity and confusion when the same stock is traded under two different stock codes under the parallel trading arrangement.

Participant Services

In the first quarter of 2008, HKEx organised 11 Continuous Professional Training courses jointly with the Hong Kong Securities Institute, with over 400 attendees.

In the first quarter of 2008, six new SEHK Participants were admitted, including those from Hong Kong, Switzerland and the Mainland. As at 31 March 2008, there were a total of 445 SEHK Participants (excluding 36 non-trading EPs), of which 140 were originated outside of Hong Kong.

Derivatives Market

Market Performance

Some products achieved record highs in the first quarter of 2008, as shown in the following table.

	Record High			
	Daily Volume		Open Interest	
Products	**Date**	**Number of Contracts**	**Date**	**Number of Contracts**
HSI Futures	26 Feb (25 Sep 07)	204,878 (201,717)	–	–
Mini HSI Futures	24 Jan (22 Jan 08)	63,991 (57,554)	–	–
H-shares Index Futures	26 Mar (29 Jan 08)	179,041 (156,801)	26 Mar (29 Jan 08)	156,841 (156,015)
Stock Options	27 Mar (26 Mar 08)	805,947 (749,867)	–	–
Total Futures and Options	26 Mar (17 Aug 07)	1,180,005 (773,545)	–	–

Note: Previous record highs are shown in brackets

Flexible Position Limits

With effect from 3 January 2008, EPs and their affiliates who demonstrate a relevant business need to facilitate the provision of services to clients may apply to the SFC for position limits that exceed the statutory prescribed limits for HSI Futures and Options and H-shares Index Futures and Options contracts by up to 50 per cent. Subject to SFC's approval, major players are hence able to hold more positions when necessary.

Enhanced Block Trade Execution Arrangement

Effective 28 April 2008, aggregation of orders on block trades for one side or both sides is allowed upon fulfilment of certain criteria. The new measures are expected to facilitate EPs' execution of client orders of large sizes.

Introduction of Mini H-shares Index Futures

In response to retail investors' request for an effective trading and hedging tool that tracks the H-shares market, HKEx introduced the Mini H-shares Index Futures contract for trading on 31 March 2008. The contract value of the Mini H-shares Index Futures is one-fifth of the contract size of the standard H-shares Index Futures. The mini contracts and the standard contracts are fungible, ie the positions and margin requirements could be netted between the two types of contracts. Up to the end of April 2008, the average daily turnover of Mini H-shares Index Futures was 1,263 contracts.

Launch of Cash-settled Gold Futures

Subject to SFC's approval and market readiness, a cash-settled gold futures contract will be launched in the second half of 2008. The product will have a contract size of 100 troy ounces and will be traded in the US dollar. It will be traded from 8:30am to 12:00 noon and 1:30pm to 5:00pm on trading days in Hong Kong. The final cash settlement will be based on the fixing determined by the London Gold Market Fixing Limited and published by the London Bullion Market Association on the last trading day. Liquidity providers will be available to provide two-way quotes.

Participant Services

In the first quarter of 2008, HKEx and 12 EPs organised a joint promotion programme for Mainland equity-related futures and options to improve retail investors' understanding of the products. The programme included a series of weekly radio interviews and a large investment exhibition at the Hong Kong Convention and Exhibition Centre. More than 2,600 people attended the exhibition which featured two public seminars and 12 workshops, as well as EP exhibition booths.

Before the launch of the Mini H-shares Index Futures, HKEx organised briefing sessions for EPs to facilitate their promotion of the new product to their clients. To further reach out to retail investors, HKEx also sponsored prizes for online simulation games on the product organised by EPs.

There were five new HKFE Participants admitted in the first quarter of 2008, of which two were from the Mainland under the Closer Economic Partnership Arrangement III (CEPA III). As at 31 March 2008, there were a total of 143 HKFE Participants.

Clearing

Stock Withdrawal Fee Concession

Effective 14 January 2008, CCASS Participants may apply for a stock withdrawal fee concession if the shares to be withdrawn were previously deposited into the CCASS Depository in a jumbo certificate by the same CCASS Participant and on behalf of the same underlying client, or if the withdrawal is for the purpose of making a requisition to convene a special general meeting. For each successful application, the normal stock withdrawal fee of $3.5 per board lot will be reduced to a single flat fee of $1,000 per application plus out-of-pocket scrip fee of $2.5 per certificate payable to the share registrar for re-registration of the deposited shares.

CCASS Service Enhancements

Since 28 April 2008, the number of Stock Segregated Accounts used by CCASS Clearing and Custodian Participants for internal control and reconciliation purposes has been increased from nine to 15, and the use of digital certificate by listed issuers for downloading Participant Shareholding Reports has been replaced by user IDs and passwords.

Increased CCASS Shareholding Transparency

HKEx has introduced a new CCASS Shareholding Disclosure service to the public since 28 April 2008. The shareholding information of CCASS Participants (other than those non-consenting IPs) in Hong Kong-listed companies kept by HKSCC is made available free of charge to the public via the HKExnews website. The shareholding of those IPs who have not consented to such disclosure will be shown in aggregate.

Lowering In-The-Money ("ITM") Triggering Percentage for Automatic Generation of Stock Options Exercise Requests

On an expiry day of stock options, DCASS will automatically generate for the SEOCH Participants exercise requests in respect of each open long spot month contract which is ITM by or above the prescribed percentage ("ITM Triggering Percentage"). The ITM Triggering Percentage was lowered from 3 per cent to 1.5 per cent effective 30 January 2008, the first expiry day of stock options in 2008. As a result, more open long spot month contracts could be exercised automatically, thereby reducing the operational workload of SEOCH Participants.

Risk Management

Risk Management Measures

HKEx has reviewed the holiday margin arrangements of the two derivatives clearing houses. The new arrangements, which will simplify the triggering condition for margin increase and refine the existing calculation by adopting a more precise methodology to determine holiday margin levels, are expected to be implemented in the second half of 2008.

After considering comments from CCASS Participants, HKSCC expanded the scope of buy-in exemption grounds and capped the default fee at $100,000 for each short position effective 23 January 2008. Unless the prescribed buy-in exemption grounds are met, Exchange trades which are not settled on T+2 will be subject to buy-in and default fee.

Default of Participants

On 3 April 2003, HKSCC declared Tai Wah Securities Limited ("TW") a defaulter. TW is currently in liquidation. Recovery from the HKSCC Guarantee Fund will be made if the outstanding balance of about $1.8 million cannot be fully settled upon completion of the liquidation process.

On 2 October 2003, HKFE suspended participantship of Yicko Futures Limited ("YF") for its failure to meet its obligation to HKCC. YF is currently in liquidation. Recovery from the HKCC Reserve Fund will be made if the outstanding balance of about $7.8 million cannot be fully settled upon completion of the liquidation process.

On 31 August 2007, HKSCC declared Man Lung Hong Securities Limited ("MLH") a defaulter and closed out its unsettled positions in CCASS following the issuance of a restriction notice by the SFC. The High Court has appointed administrators for MLH. HKSCC will proceed to recover the balance of the closing-out losses of about $178,000.

Information Services

Review of Vendor Licensing Procedures and Requirements

To maintain an orderly, informed and fair market, HKEx attaches great importance to making sure that its information vendors are capable of providing quality information services to investors. To this end, HKEx recently reviewed its requirements for real-time information vendors and strengthened them in three aspects, namely (i) technical requirements; (ii) market transparency in respect of available services to end users; and (iii) financial requirement.

First, the technical requirements for direct connection MDF vendors were tightened to ensure that their systems are capable of properly receiving our market data. Similar technical requirements are also being developed for HKEx's other market data services, including PRS for derivatives market data and IIS for the regulatory disclosures of issuers.

Second, information vendors are required to provide their customers with the detailed technical requirements for their information services. HKEx will add a list of all approved real-time services offered by information vendors and their key features on the HKEx website for public reference before the third quarter of 2008.

Third, HKEx's application procedures for real-time information vendors have been tightened and formalised to improve efficiency and to increase the predictability of the process. HKEx endeavours to inform a potential licensee of its application result no more than four weeks after it has submitted a properly completed licence application form and paid the applicable deposit. The minimum paid-up capital requirement has been increased from $5 million to $7.5 million for vendor applicants which are non-EPs.

The new requirements and vendor application procedures were published at the end of March 2008 and took immediate effect. A grace period until September 2008 has been allowed for existing real-time data vendors.

OTFS

Effective 1 February 2008, the OTFS was carried out for two EP subscribers, providing each of them with its own orders, all trade tickers reported by AMS/3 as well as the best bid/ask prices for each stock at the end of each trading day. The OTFS will facilitate EPs to analyse their trading activities and perform in-house risk management and compliance functions. Further promotion of the OTFS to our EPs will be made during the year.

Information Technology

Production Systems Stability and Reliability

All major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets operated by HKEx continued to maintain 100 per cent operational system uptime. HKEx will continue its efforts to uphold system stability and reliability.

System Capacity Planning and Upgrade

The AMS/3 and MDF capacity and technology upgrades were successfully completed on 28 January 2008. CCASS/3 and SMARTS were also upgraded on 25 March 2008 and 31 March 2008 respectively for alignment of processing capacity. As a result, HKEx's Cash Market infrastructure is now capable of supporting five million trades per day, up from 1.5 million trades per day before upgrade.

The MDF was also enhanced in March 2008 to increase the number of linked securities from 200 to 500. The "linked securities" function enables information vendors to identify securities such as DWs of the same underlying stocks so that related market data could be put together for their clients' ease of reference.

To cope with the rapid rise in the number of stock counters and the corresponding growth in data traffic for stock price updates, HKEx will expand the network bandwidth of EP circuits to support the increase of the update rate from 300 stocks per second to 500. Preparation work is in progress and the new data dissemination rate is expected to be effective in mid-2008.

After the review of the system capacity for the Derivatives Market, HKEx has commenced increasing the capacity of DCASS and PRS to cope with planned business initiatives and projected increase in business volume. Upon completion, DCASS and PRS will be able to handle two million trades per day and 2,200 messages per second respectively by mid-2008.

Obsolete Technology Replacement and Upgrade

On 3 March 2008, HKATS and DCASS were upgraded to Release 19.1 to offer new functional and technical features, such as new access controls, enhanced trade give-ups and improved report distributions, for the further development of the Derivatives Market. The upgraded software also enables HKEx to achieve alignment with the product roadmap of its supplier for the HKATS and DCASS software to secure its quality support, and thereby safeguarding the reliability and stability of critical applications.

HKEx Corporate Website Revamp

HKEx published a Request for Proposal on 21 April 2008 to seek a qualified consultant to provide consultancy service for the revamp of the HKEx corporate website. The appointed consultant would be responsible for reviewing the HKEx website, making recommendations for improvements and implementing the recommendations approved by HKEx. HKEx aims to benchmark its website with local and international best practices and deliver a revamped website comparable to the best of its peers.

Treasury

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling $82.5 billion on average for the three months ended 31 March 2008 (31 March 2007: $36.2 billion).

As compared with 31 December 2007, the overall size of funds available for investment as at 31 March 2008 increased by 10 per cent or $7.1 billion to $76.2 billion (31 December 2007: $69.1 billion). Details of the asset allocation of the investments as at 31 March 2008 against those as at 31 December 2007 are set out below.

	Investment Fund Size $ billion		Bonds		Cash or Bank Deposits		Global Equities	
	Mar 2008	Dec 2007	**Mar 2008**	Dec 2007	**Mar 2008**	Dec 2007	**Mar 2008**	Dec 2007
Corporate Funds	**12.8**	11.5	**45%**	50%	**53%**	47%	**2%**	3%
Margin Funds	**61.7**	55.4	**30%**	30%	**70%**	70%	**0%**	0%
Clearing House Funds	**1.7**	2.2	**24%**	16%	**76%**	84%	**0%**	0%
Total	**76.2**	69.1	**33%**	33%	**67%**	66%	**0%**	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 ($0.2 billion as at 31 March 2008 and $0.3 billion as at 31 December 2007), which have no maturity date, the maturity profiles of the remaining investments as at 31 March 2008 ($76.0 billion) and 31 December 2007 ($68.8 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 2008	Dec 2007	**Mar 2008**	Dec 2007	**Mar 2008**	Dec 2007	**Mar 2008**	Dec 2007	**Mar 2008**	Dec 2007	**Mar 2008**	Dec 2007
Corporate Funds	**12.6**	11.2	**25%**	33%	**38%**	13%	**20%**	36%	**12%**	12%	**5%**	6%
Margin Funds	**61.7**	55.4	**59%**	41%	**10%**	26%	**30%**	32%	**1%**	1%	**0%**	0%
Clearing House Funds	**1.7**	2.2	**70%**	84%	**14%**	0%	**16%**	16%	**0%**	0%	**0%**	0%
Total	**76.0**	68.8	**54%**	41%	**15%**	23%	**28%**	32%	**2%**	3%	**1%**	1%

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 31 March 2008, had a weighted average credit rating of Aa1 (31 December 2007: Aa1) and a weighted average maturity of 0.6 year (31 December 2007: 0.6 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 2008 and the fourth quarter of 2007 was as follows:

	Average VaR $ million		Highest VaR $ million		Lowest VaR $ million	
	Jan-Mar 2008	Oct-Dec 2007	**Jan-Mar 2008**	Oct-Dec 2007	**Jan-Mar 2008**	Oct-Dec 2007
Corporate Funds	**17.7**	14.0	**19.2**	19.1	**15.2**	11.3
Margin Funds	**26.5**	19.2	**31.3**	25.7	**20.4**	11.7
Clearing House Funds	**0.4**	0.5	**0.4**	0.6	**0.3**	0.4

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

FINANCIAL REVIEW

Overall Performance

	Unaudited Three months ended 31 Mar 2008 $'000	Unaudited Three months ended 31 Mar 2007 $'000
RESULTS		
Income:		
Income affected by market turnover	**1,351,136**	826,659
Stock Exchange listing fees	**191,112**	143,401
Income from sale of information	**185,061**	127,612
Net investment income	**368,070**	223,143
Gain on disposal of properties	**68,641**	–
Other income	**120,624**	78,124
	2,284,644	1,398,939
Operating expenses	**382,559**	322,643
Operating profit	**1,902,085**	1,076,296
Share of profit of an associate	**–**	5,587
Profit before taxation	**1,902,085**	1,081,883
Taxation	**(252,344)**	(159,346)
Profit attributable to shareholders	**1,649,741**	922,537

The Group recorded a profit attributable to shareholders of $1,650 million in the first quarter of 2008 compared with $923 million for the same period in 2007.

The rise in profit in the first quarter of 2008 was primarily attributable to higher turnover-related income resulting from the increase in activities in the Cash and Derivatives Markets, and growth in net investment income from higher net interest income in 2008. Moreover, the Group disposed of two properties during the first quarter of 2008 and generated a gain of $69 million.

Total operating expenses increased by 19 per cent during the period mainly due to higher staff costs and information technology and computer maintenance expenses.

Income

(A) Income affected by market turnover

	Unaudited Three months ended 31 Mar 2008 $'000	Unaudited Three months ended 31 Mar 2007 $'000	Change
Trading fees and trading tariff	**866,110**	504,413	72%
Clearing and settlement fees	**420,807**	261,504	61%
Depository, custody and nominee services fees	**64,219**	60,742	6%
Total	**1,351,136**	826,659	63%

The increase in trading fees and trading tariff was mainly due to the higher market turnover in the Cash and Derivatives Markets in the first quarter of 2008 against that in the corresponding period last year.

Clearing and settlement fees are derived predominantly from Cash Market transactions. The increase in clearing and settlement fees in 2008 was mainly due to the higher market turnover in the Cash Market. Despite being mostly ad valorem fees, clearing and settlement fees are subject to a minimum and a maximum fee per transaction and may not always move exactly with changes in the Cash Market turnover. Clearing and settlement fees did not increase linearly with Cash Market turnover as a higher proportion of the value of transactions was subject to the maximum fee and a lower proportion of the value of transactions was subject to the minimum fee in 2008.

Depository, custody and nominee services fees increased mainly due to higher corporate action fees, stock custody fees and stock withdrawal fees which were partly offset by the decrease in scrip fees and electronic-IPO handling charges. The fees are influenced by the level of Cash Market activities but do not move proportionately with changes in Cash Market turnover as they vary mostly with the number of board lots in the system rather than the value or turnover of the securities concerned and many are subject to a maximum fee. Moreover, scrip fees are only chargeable on the net increase in individual Participants' aggregate holdings of the securities from one book closing date to the next, and thus are unusually large on the first book closing date after a new listing.

Key market indicators

	Three months ended 31 Mar 2008	Three months ended 31 Mar 2007	Change
Average daily turnover value on the Stock Exchange	**$98.7 billion**	$52.9 billion	87%
Average daily number of derivatives contracts traded on the Futures Exchange	**205,853**	144,216	43%
Average daily number of stock options contracts traded on the Stock Exchange	**266,199**	124,662	114%

(B) Stock Exchange listing fees

	Unaudited Three months ended 31 Mar 2008 $'000	Unaudited Three months ended 31 Mar 2007 $'000	Change
Annual listing fees	**84,046**	72,416	16%
Initial and subsequent issue listing fees	**105,779**	69,586	52%
Others	**1,287**	1,399	(8%)
Total	**191,112**	143,401	33%

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 the number of newly listed DWs.

Key drivers for annual listing fees

	As at 31 Mar 2008	As at 31 Mar 2007	Change
Number of companies listed on Main Board	**1,055**	983	7%
Number of companies listed on GEM	**189**	197	(4%)
Total	**1,244**	1,180	5%

Key drivers for initial and subsequent issue listing fees

	Three months ended 31 Mar 2008	Three months ended 31 Mar 2007	Change
Number of newly listed DWs	**1,719**	1,107	55%
Number of newly listed companies on Main Board	**10**	13	(23%)
Total equity funds raised on Main Board	**$71.7 billion**	$51.0 billion	41%
Total equity funds raised on GEM	**$1.8 billion**	$1.7 billion	6%

(C) Income from sale of information

	Unaudited Three months ended 31 Mar 2008 $'000	Unaudited Three months ended 31 Mar 2007 $'000	Change
Income from sale of information	**185,061**	127,612	45%

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

(D) Net investment income

	Unaudited Three months ended 31 Mar 2008 $'000	Unaudited Three months ended 31 Mar 2007 $'000	Change
Gross investment income	**438,111**	370,299	18%
Interest expenses	**(70,041)**	(147,156)	(52%)
Net investment income	**368,070**	223,143	65%

The average amount of funds available for investment is set out below:

	Three months ended 31 Mar 2008 $ billion	Three months ended 31 Mar 2007 $ billion	Change
Corporate Funds	**10.3**	6.0	72%
Margin Funds	**70.3**	28.0	151%
Clearing House Funds	**1.9**	2.2	(14%)
Total	**82.5**	36.2	128%

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

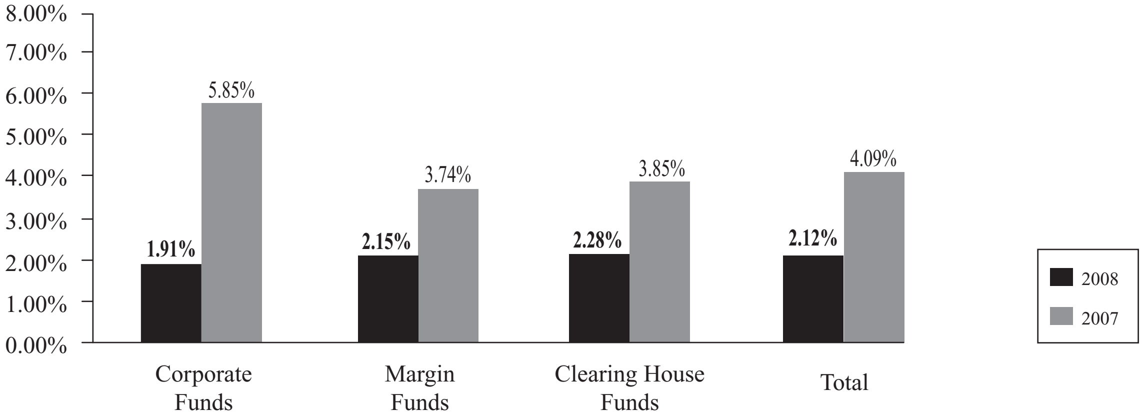
The significant rise in average amount of Margin Funds available for investment during the period was primarily due to increased open interest in futures and options contracts and the higher margin rate required per contract.

The lower average amount of Clearing House Funds was mainly due to the decrease 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 Corporate Funds and Margin Funds arising from an increase in fund size during the first quarter of 2008 as compared with that of the corresponding period in 2007, but was partly offset by the decrease in interest rates and the decrease in fair value gains of Corporate Fund investments, reflecting market movements.

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

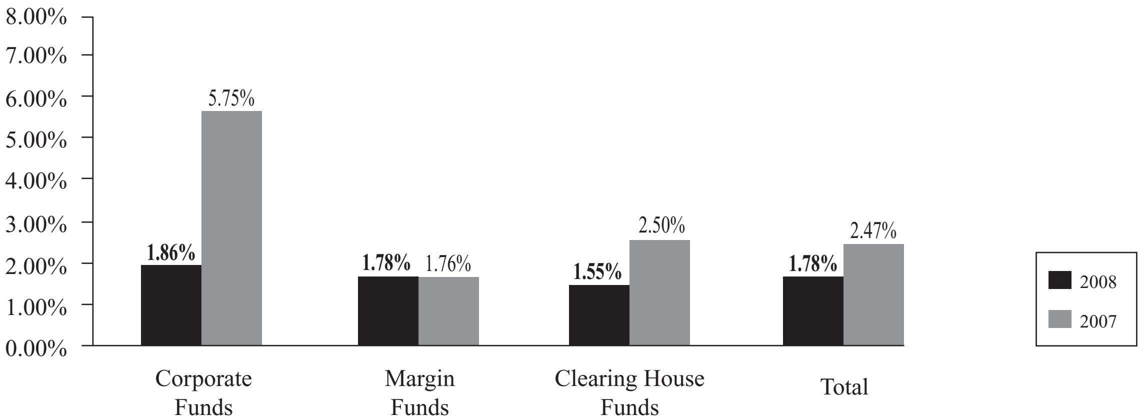
Annualised Gross Return on Funds Available for Investment



The decrease in return of all funds was due to the decrease in interest rates. The drop in return of the Corporate Funds was also affected by fair value losses of the Corporate Fund investments incurred during the first quarter of 2008, reflecting market movements. The decrease in return of Margin Funds was also attributable to an increase in the proportion of Margin Funds denominated in Japanese Yen.

The annualised net return on funds available for investment after the deduction of interest expenses during the first quarter is set out below:

Annualised Net Return on Funds Available for Investment



The net return of the Margin Funds remained at a level similar to that of the corresponding period last year as the decrease in gross return was partly offset by the drop in the interest rate (savings rate) payable to margin depositors. The decrease in net return on Clearing House Fund investments was lower than the decrease in gross return due to the lower proportion of Clearing House Fund contributions eligible for interest in 2008.

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

(E) Gain on disposal of properties

	Unaudited Three months ended 31 Mar 2008 $'000	Unaudited Three months ended 31 Mar 2007 $'000	Change
Gain on disposal of properties	**68,641**	–	N/A

The Group sold the investment property and one of the leasehold properties during the first quarter of 2008 generating a gain of $68,641,000.

(F) Other income

	Unaudited Three months ended 31 Mar 2008 $'000	Unaudited Three months ended 31 Mar 2007 $'000	Change
Network, terminal user, dataline and software sub-license fees	**89,851**	53,061	69%
Participants' subscription and application fees	**8,528**	8,480	1%
Brokerage on direct IPO allotments	**3,734**	8,347	(55%)
Trading booth user fees	**2,397**	2,394	0%
Fair value gain of an investment property	–	500	(100%)
Accommodation income	**8,916**	1,841	384%
Sale of Trading Rights	**3,000**	–	N/A
Miscellaneous income	**4,198**	3,501	20%
Total	**120,624**	78,124	54%

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

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

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 2008 $'000	Unaudited Three months ended 31 Mar 2007 $'000	Change
Staff costs and related expenses	**228,900**	182,305	26%
Information technology and computer maintenance expenses	**61,583**	51,301	20%
Premises expenses	**33,960**	32,410	5%
Product marketing and promotion expenses	**3,560**	2,479	44%
Legal and professional fees	**3,590**	1,374	161%
Depreciation	**23,663**	23,162	2%
Other operating expenses	**27,303**	29,612	(8%)
Total	**382,559**	322,643	19%

Staff costs and related expenses increased by $47 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 2008, 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 $24 million (2007: $17 million), were $38 million (2007: $34 million). The increase in costs directly consumed by Participants was primarily due to the increase in purchases of AMS/3 hardware and software and higher line rentals incurred by the Participants. Costs consumed by Participants were mostly recovered from the Participants and the income was included as part of network, terminal user, dataline and software sub-license fees under Other income. The increase in costs consumed by the Group was mainly due to higher maintenance costs and line rentals.

Legal and professional fees increased mainly due to the increase in legal fees incurred for listing-related issues.

Other operating expenses decreased mainly attributable to the one-off initial contribution to the Financial Reporting Council of $5 million incurred in the first quarter of 2007 but were partly offset by the increase in index license fees as a result of the rise in the number of derivative transactions and higher fees paid to a custodian in the first quarter of 2008.

Share of Profit of an Associate

	Unaudited Three months ended 31 Mar 2008 $'000	Unaudited Three months ended 31 Mar 2007 $'000	Change
Share of profit of an associate	–	5,587	(100%)

The Group disposed of its entire interest in the associate in April 2007 and hence there was no share of profit in 2008.

Taxation

	Unaudited Three months ended 31 Mar 2008 $'000	Unaudited Three months ended 31 Mar 2007 $'000	Change
Taxation	**252,344**	159,346	58%

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

Working Capital

Working capital increased by $1,583 million or 21 per cent to $8,999 million as at 31 March 2008 (31 December 2007: $7,416 million). The increase was primarily due to the profit generated during the first quarter of 2008 of $1,650 million and the decrease in other working capital of $67 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 32(a)(i) – Foreign exchange risk to the condensed consolidated accounts of this quarterly report.

Contingent Liabilities

Details of contingent liabilities are included in note 29 to the condensed consolidated accounts of this quarterly report.

Changes since 31 December 2007

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 2007.

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 2008 (first quarter of 2007: $Nil).

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

PROSPECTS

As an international financial centre, Hong Kong has been unavoidably affected by global financial woes stemming from the US credit crisis, the US and European liquidity crunch, falling US dollar, rising commodity prices and escalating inflation, as well as the decline of the Mainland equity market. High volatility was experienced by investors in the first quarter of 2008. Weakened investor confidence was reflected in the lower average daily turnover in the Cash Market in the first quarter of \$98.7 billion against \$134.5 billion in the fourth quarter of 2007. As of 31 March 2008, the HSI and H-shares Index had dropped by approximately 18 per cent and 25 per cent respectively and our total equity market capitalisation had dropped by approximately 18 per cent from the last quarter-end.

Even though the US Government and the Federal Reserve have taken unprecedented measures to tackle financial problems in the US in the wake of the subprime mortgage crisis, the slowdown of the US economy and fears of a worsening situation are likely to continue to cast a shadow over the global economy.

In the Mainland, Premier Wen Jiabao in March this year indicated that 2008 might be a difficult year for the Mainland economy, and that the most daunting challenge is to control inflation. After five years of rapid expansion featuring double-digit gross domestic product growth and low inflation, the battle against rising inflation, which has surpassed 8 per cent, is said to be the Mainland's top priority in 2008. The Central Government's stated commitment to tighten monetary policy to curb overheating will have an impact on the performance of the Mainland stock market.

Amid uncertainties in the global financial markets, 10 companies were newly listed on the Main Board, including three companies transferred from GEM (the first quarter of 2007: 13, including one company transferred from GEM), and various products achieved record highs in the Derivatives Market in the first quarter of 2008. HKEx is firmly proceeding with its Strategic Plan 2007-2009 in order to achieve sustainable growth. HKEx is focusing on facilitating the use of our platform for investment of Mainland funds through the Qualified Domestic Institutional Investor (QDII) scheme, and attracting overseas issuers to list in Hong Kong. The revamped GEM Board and the introduction of a depositary receipts regime in the third quarter of 2008 will give potential issuers and investors more choice.

HKEx will also continue to improve its key operating systems to maximise operational efficiency and enhance risk management. We will continue to pursue our objectives of further developing Hong Kong's financial markets and strengthening Hong Kong as an international financial centre.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	**Unaudited Three months ended 31 Mar 2008 $'000**	Unaudited Three months ended 31 Mar 2007 $'000
INCOME	2		
Trading fees and trading tariff	4	**866,110**	504,413
Stock Exchange listing fees	5	**191,112**	143,401
Clearing and settlement fees		**420,807**	261,504
Depository, custody and nominee services fees		**64,219**	60,742
Income from sale of information		**185,061**	127,612
Net investment income	6	**368,070**	223,143
Gain on disposal of properties	19	**68,641**	–
Other income	7	**120,624**	78,124
	3	**2,284,644**	1,398,939
OPERATING EXPENSES			
Staff costs and related expenses	8	**228,900**	182,305
Information technology and computer maintenance expenses	9	**61,583**	51,301
Premises expenses		**33,960**	32,410
Product marketing and promotion expenses		**3,560**	2,479
Legal and professional fees		**3,590**	1,374
Depreciation		**23,663**	23,162
Other operating expenses	10	**27,303**	29,612
	3	**382,559**	322,643
OPERATING PROFIT	3	**1,902,085**	1,076,296
SHARE OF PROFIT OF AN ASSOCIATE	3	**–**	5,587
PROFIT BEFORE TAXATION	3	**1,902,085**	1,081,883
TAXATION	11	**(252,344)**	(159,346)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	26	**1,649,741**	922,537
Basic earnings per share	12(a)	**$1.54**	$0.87
Diluted earnings per share	12(b)	**$1.53**	$0.86

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Three months ended 31 Mar 2008 $'000	Unaudited Three months ended 31 Mar 2007 $'000
Profit attributable to shareholders	**1,649,741**	922,537
Other comprehensive income:		
Available-for-sale financial assets:		
Change in fair value	**56,821**	(12,746)
Realisation of change in fair value on maturity	**(15,155)**	(926)
Less: Reclassification adjustment:		
Gains included in profit or loss on disposal	**(4,678)**	–
Deferred tax	**(5,828)**	2,061
	31,160	(11,611)
Cash flow hedges:		
Fair value losses of hedging instruments	**–**	(84)
Less: Reclassification adjustment:		
Losses reclassified to profit or loss as information technology and computer maintenance expenses	**–**	42
	–	(42)
Other comprehensive income attributable to shareholders, net of tax	**31,160**	(11,653)
Total comprehensive income attributable to shareholders	**1,680,901**	910,884

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Share capital, share premium and shares held for Share Award Scheme (note 22) $'000	Employee share-based compensation reserve (note 23) $'000	Other comprehensive income		Designated reserves (note 25) $'000	Retained earnings (note 26) $'000	Total equity $'000
			Revaluation reserves (note 24) $'000	Hedging reserve $'000			
At 1 Jan 2008	**1,288,652**	**49,669**	**56,036**	**–**	**694,853**	**6,288,138**	**8,377,348**
Total comprehensive income attributable to shareholders	**–**	**–**	**31,160**	**–**	**–**	**1,649,741**	**1,680,901**
Shares issued under employee share option schemes	**18,806**	**–**	**–**	**–**	**–**	**–**	**18,806**
Shares purchased for Share Award Scheme	**(25,298)**	**–**	**–**	**–**	**–**	**–**	**(25,298)**
Employee share-based compensation benefits	**–**	**6,278**	**–**	**–**	**–**	**–**	**6,278**
Transfer of reserves	**5,102**	**(5,102)**	**(3,155)**	**–**	**7,162**	**(4,007)**	**–**
At 31 Mar 2008	**1,287,262**	**50,845**	**84,041**	**–**	**702,015**	**7,933,872**	**10,058,035**

	Unaudited						
	Share capital, share premium and shares held for Share Award Scheme $'000	Employee share-based compensation reserve $'000	Other comprehensive income		Designated reserves $'000	Retained earnings $'000	Total equity $'000
			Revaluation reserves $'000	Hedging reserve $'000			
At 1 Jan 2007, as previously reported	1,200,093	52,119	10,569	–	668,262	3,326,543	5,257,586
Effect of reclassification of Compensation Fund Reserve Account ("CFRA")	–	–	–	–	(40,446)	40,446	–
At 1 Jan 2007, as restated	1,200,093	52,119	10,569	–	627,816	3,366,989	5,257,586
Total comprehensive income attributable to shareholders	–	–	(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 reserve of an associate	–	47	–	–	–	–	47
Transfer of reserves	5,979	(5,979)	–	–	14,070	(14,070)	–
At 31 Mar 2007, as restated	1,227,185	52,319	(1,042)	(42)	641,886	4,275,456	6,195,762

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited at 31 Mar 2008 $'000**	Audited at 31 Dec 2007 $'000
NON-CURRENT ASSETS			
Fixed assets	13	**299,923**	317,065
Lease premiums for land		**60,580**	60,708
Clearing House Funds	14	**1,659,320**	2,192,204
Available-for-sale financial assets	15	**127,000**	25,270
Deferred tax assets		**4,232**	3,610
Other financial assets		**19,704**	19,177
Other assets		**3,212**	3,212
		2,173,971	2,621,246
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	16	**19,674,947**	18,364,129
Lease premiums for land		**509**	509
Tax recoverable		**–**	148
Margin Funds on derivatives contracts	17	**61,560,323**	55,428,888
Financial assets at fair value through profit or loss	18	**2,963,990**	2,996,555
Available-for-sale financial assets	15	**2,966,726**	3,041,737
Time deposits with original maturities over three months		**1,390,228**	682,174
Cash and cash equivalents		**5,413,129**	4,744,711
		93,969,852	85,258,851
Non-current assets held for sale	19	**–**	64,092
		93,969,852	85,322,943
CURRENT LIABILITIES			
Margin deposits from Clearing Participants on derivatives contracts	17	**61,560,323**	55,428,888
Accounts payable, accruals and other liabilities	20	**22,171,048**	21,375,909
Financial liabilities at fair value through profit or loss	18	**25,068**	6,149
Participants' admission fees received		**2,900**	3,050
Deferred revenue		**342,200**	375,174
Taxation payable		**838,228**	687,726
Provisions	21	**31,111**	29,630
		84,970,878	77,906,526
NET CURRENT ASSETS		**8,998,974**	7,416,417
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,172,945**	10,037,663

	Note	**Unaudited at 31 Mar 2008 $'000**	Audited at 31 Dec 2007 $'000
NON-CURRENT LIABILITIES			
Participants' admission fees received		**82,050**	82,550
Participants' contributions to Clearing House Funds	14	**956,289**	1,496,855
Deferred tax liabilities		**32,554**	36,873
Financial guarantee contract	29(b)	**19,909**	19,909
Provisions	21	**24,108**	24,128
		1,114,910	1,660,315
NET ASSETS		**10,058,035**	8,377,348
CAPITAL AND RESERVES			
Share capital	22	**1,071,305**	1,070,285
Share premium	22	**289,058**	266,170
Shares held for Share Award Scheme	22	**(73,101)**	(47,803)
Employee share-based compensation reserve	23	**50,845**	49,669
Revaluation reserves	24	**84,041**	56,036
Designated reserves	25	**702,015**	694,853
Retained earnings	26	**7,933,872**	6,288,138
SHAREHOLDERS' FUNDS		**10,058,035**	8,377,348
TOTAL ASSETS		**96,143,823**	87,944,189
TOTAL LIABILITIES		**86,085,788**	79,566,841
SHAREHOLDERS' FUNDS PER SHARE		**$9.40**	$7.83

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Unaudited Three months ended 31 Mar 2008 $'000**	Unaudited Three months ended 31 Mar 2007 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	27(a)	**1,104,060**	924,009
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		**(140,354)**	(33,768)
Net proceeds from sales of properties		**132,733**	–
Proceeds from sales of fixed assets		**–**	100
Dividends received from an associate		**–**	7,500
Increase in time deposits with original maturities more than three months		**(708,054)**	(54,497)
Net decrease/(increase) in available-for-sale financial assets of the Corporate Funds		**115,132**	(750,481)
Interest received from available-for-sale financial assets		**172,046**	152,939
Net cash outflow from investing activities		**(428,497)**	(678,207)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		**18,806**	21,113
Purchase of shares for Share Award Scheme		**(25,298)**	–
Net admission fees (refunded to)/received from Participants		**(650)**	550
Dividends paid		**(3)**	(15)
Net cash (outflow)/inflow from financing activities		**(7,145)**	21,648
Net increase in cash and cash equivalents		**668,418**	267,450
Cash and cash equivalents at 1 Jan 2008/1 Jan 2007, as previously reported		**4,744,711**	2,215,257
Effect of reclassification of CFRA		**–**	8,653
Cash and cash equivalents at 31 Mar		**5,413,129**	2,491,360
Analysis of cash and cash equivalents			
Time deposits with original maturities within three months		**3,178,941**	1,619,089
Cash at bank and in hand		**2,234,188**	872,271
Cash and cash equivalents at 31 Mar		**5,413,129**	2,491,360

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 2007 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 2007.

Hong Kong Exchanges and Clearing Limited ("HKEx") and its subsidiaries ("Group") manage a significant portfolio of investments. Securities and derivative financial instruments (ie, forward foreign exchange contracts, futures and options contracts) held for trading purposes (such as those of the Corporate Funds managed by external fund managers), and securities or bank deposits with embedded derivatives of the Margin Funds and the Corporate Funds whose economic characteristics and risks are not closely related to the host investments ("structured securities" or "structured deposits"), if any, are classified as financial assets/liabilities at fair value through profit or loss with changes in fair value recognised in profit or loss. Securities not held for trading (such as those of the Corporate Funds managed internally and those held for the Clearing House Funds 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 other comprehensive income and recorded in the investment revaluation reserve.

2. Turnover

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

3. Operating Segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group has four reportable segments. The segments are managed separately as each business offers different products and services and requires different information technology systems and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

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

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

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

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

3. Operating Segments (continued)

An analysis of the Group's reportable segment profit before tax for the period by operating segment is as follows:

	Three months ended 31 Mar 2008				
	Cash Market $'000	**Derivatives Market $'000**	**Clearing Business $'000**	**Information Services $'000**	**Group $'000**
Income from external customers	**961,489**	**181,793**	**519,451**	**185,200**	**1,847,933**
Net investment income	**30,081**	**318,757**	**19,134**	**98**	**368,070**
Gain of disposal of properties	**33,442**	**11,580**	**19,116**	**4,503**	**68,641**
Total income	**1,025,012**	**512,130**	**557,701**	**189,801**	**2,284,644**
Operating expenses					
Direct costs	**148,621**	**36,967**	**89,726**	**14,094**	**289,408**
Indirect costs	**45,405**	**15,893**	**25,918**	**5,935**	**93,151**
	194,026	**52,860**	**115,644**	**20,029**	**382,559**
Reportable segment profit before tax	**830,986**	**459,270**	**442,057**	**169,772**	**1,902,085**

	Three months ended 31 Mar 2007				
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Group $'000
Income from external customers	580,497	123,421	342,864	128,514	1,175,296
Net investment income	37,593	138,908	46,439	203	223,143
Fair value gain of an investment property	500	–	–	–	500
Total 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
Operating profit	469,634	215,944	279,114	111,604	1,076,296
Share of profit of an associate	–	–	5,587	–	5,587
Reportable segment profit before tax	469,634	215,944	284,701	111,604	1,081,883

(a) The accounting policies of the reportable segments are the same as the Group's accounting policies. Central income (mainly net investment income of the Corporate Funds) and central costs (mainly costs of support functions that centrally provide services to all of the operating segments) are allocated to the operating segments as they are included in the measure of the segments' profit that is used by the chief operating decision-makers for the purposes of resource allocation and assessment of segment performance. Performance is measured based on segment profit before tax. Taxation charge/(credit) is not allocated to reportable segments.

There were no inter-segment sales during the period (2007: $Nil).

3. Operating Segments (continued)

(b) Reportable segment assets

The assets of the Group are allocated based on the operations of the segments. Central assets are generally allocated to the segments, but deferred tax assets and tax recoverable are not allocated to the segments. An analysis of the Group's reportable segment assets by operating segment is as follows:

	At 31 Mar 2008				
	Cash Market $'000	**Derivatives Market $'000**	**Clearing Business $'000**	**Information Services $'000**	**Group $'000**
Reportable segment assets	**7,609,698**	**62,977,876**	**25,441,147**	**110,870**	**96,139,591**

	At 31 Dec 2007				
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Group $'000
Reportable segment assets (excluding non-current assets held for sale)	4,664,621	56,877,568	26,219,215	114,935	87,876,339
Non-current assets held for sale	29,880	9,588	20,567	4,057	64,092
Reportable segment assets	4,694,501	56,887,156	26,239,782	118,992	87,940,431

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

	At 31 Mar 2008 $'000	At 31 Dec 2007 $'000
Reportable segment assets	**96,139,591**	87,940,431
Unallocated assets:		
Tax recoverable	–	148
Deferred tax assets	**4,232**	3,610
Total assets per condensed consolidated statement of financial position	**96,143,823**	87,944,189

4. Trading Fees and Trading Tariff

	Three months ended 31 Mar 2008 $'000	Three months ended 31 Mar 2007 $'000
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	**671,032**	370,966
Derivatives contracts traded on the Derivatives Market	**195,078**	133,447
	866,110	504,413

5. Stock Exchange Listing Fees

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

	Three months ended 31 Mar 2008				Three months ended 31 Mar 2007			
	Equity		Debt		Equity		Debt	
	Main Board	GEM	& Derivatives	Total	Main Board	GEM	& Derivatives	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Stock Exchange Listing Fees								
Annual listing fees	**77,030**	**6,393**	**623**	**84,046**	65,915	6,067	434	72,416
Initial and subsequent issue listing fees	**15,869**	**1,170**	**88,740**	**105,779**	12,387	590	56,609	69,586
Prospectus vetting fees	**570**	**75**	**10**	**655**	585	30	40	655
Other listing fees	**406**	**226**	**–**	**632**	658	86	–	744
Total	**93,875**	**7,864**	**89,373**	**191,112**	79,545	6,773	57,083	143,401
Costs of Listing Function								
Direct costs								
Staff costs and related expenses	**47,640**	**9,278**	**3,617**	**60,535**	35,630	6,510	2,705	44,845
Information technology and computer maintenance expenses	**1,107**	**225**	**74**	**1,406**	438	105	–	543
Premises expenses	**4,518**	**863**	**208**	**5,589**	4,322	766	228	5,316
Legal and professional fees	**1,483**	**18**	**–**	**1,501**	186	53	–	239
Depreciation	**991**	**267**	**240**	**1,498**	473	94	9	576
Other operating expenses	**1,547**	**402**	**209**	**2,158**	1,040	367	35	1,442
Total direct costs	**57,286**	**11,053**	**4,348**	**72,687**	42,089	7,895	2,977	52,961
Total indirect costs	**9,056**	**1,596**	**2,780**	**13,432**	7,445	1,289	1,905	10,639
Total costs	**66,342**	**12,649**	**7,128**	**86,119**	49,534	9,184	4,882	63,600
Contribution to Cash Market Segment Profit before Tax	**27,533**	**(4,785)**	**82,245**	**104,993**	30,011	(2,411)	52,201	79,801

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

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

6. Net Investment Income

	Three months ended 31 Mar 2008 $'000	Three months ended 31 Mar 2007 $'000
Interest income		
– bank deposits	**247,454**	153,324
– listed available-for-sale financial assets	**2,526**	8,384
– unlisted available-for-sale financial assets	**189,001**	148,792
	438,981	310,500
Interest expenses	**(70,041)**	(147,156)
Net interest income	**368,940**	163,344
Net realised and unrealised (losses)/gains and interest income on financial assets and financial liabilities at fair value through profit or loss, held for trading		
– listed securities	**(25,429)**	32,411
– unlisted securities	**18,194**	13,905
– exchange differences	**1,906**	11,605
	(5,329)	57,921
Realised gains on disposal of unlisted available-for-sale financial assets	**1,437**	–
Dividend income		
– listed financial assets at fair value through profit or loss	**1,450**	1,712
Other exchange differences on loans and receivables	**1,572**	166
Net investment income	**368,070**	223,143
Net investment income was derived from:		
Corporate Funds	**48,234**	85,652
Margin Funds	**312,614**	123,391
Clearing House Funds	**7,222**	14,100
	368,070	223,143

7. Other Income

	Three months ended 31 Mar 2008 $'000	Three months ended 31 Mar 2007 $'000
Network, terminal user, dataline and software sub-license fees	**89,851**	53,061
Participants' subscription and application fees	**8,528**	8,480
Brokerage on direct IPO allotments	**3,734**	8,347
Trading booth user fees	**2,397**	2,394
Fair value gain of an investment property	**–**	500
Accommodation income on securities deposited by Participants as alternatives to cash deposits of the Margin Funds	**8,916**	1,841
Sale of Trading Rights	**3,000**	–
Miscellaneous income	**4,198**	3,501
	120,624	78,124

8. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Three months ended 31 Mar 2008 $'000	Three months ended 31 Mar 2007 $'000
Salaries and other short-term employee benefits	**207,601**	162,633
Employee share-based compensation benefits (note 23)	**6,278**	6,132
Termination benefits	**34**	173
Retirement benefit costs (note a):		
– ORSO Plan	**14,855**	13,257
– MPF Scheme	**132**	110
	228,900	182,305

(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 income statement represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees. The contribution payable to the MPF Scheme as at 31 March 2008 was $115,000 (31 December 2007: $104,000) and no contribution to the ORSO Plan was outstanding as at 31 March 2008 (31 December 2007: $Nil).

9. Information Technology and Computer Maintenance Expenses

	Three months ended 31 Mar 2008 $'000	Three months ended 31 Mar 2007 $'000
Costs of services and goods:		
– consumed by the Group	**37,666**	33,708
– directly consumed by Participants	**23,917**	17,593
	61,583	51,301

10. Other Operating Expenses

	Three months ended 31 Mar 2008 $'000	Three months ended 31 Mar 2007 $'000
Reversal of provision for impairment losses of trade receivables	**(96)**	(63)
Insurance	**1,172**	1,196
Financial data subscription fees	**1,119**	1,006
Custodian and fund management fees	**3,116**	2,193
Bank charges	**3,033**	3,490
Repair and maintenance expenses	**2,172**	1,756
License fees	**4,835**	3,845
Communication expenses	**1,096**	1,250
Other miscellaneous expenses	**10,856**	14,939
	27,303	29,612

11. Taxation

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

	Three months ended 31 Mar 2008 $'000	Three months ended 31 Mar 2007 $'000
Provision for Hong Kong Profits Tax for the period (note a)	**263,113**	159,527
Deferred taxation	**(10,769)**	(181)
	252,344	159,346

(a) Hong Kong Profits Tax has been provided for at 17.5 per cent (2007: 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 2008	Three months ended 31 Mar 2007
Profit attributable to shareholders ($'000)	**1,649,741**	922,537
Weighted average number of shares in issue less shares held for Share Award Scheme	**1,069,784,647**	1,065,201,786
Basic earnings per share	**$1.54**	$0.87

(b) Diluted earnings per share

	Three months ended 31 Mar 2008	Three months ended 31 Mar 2007
Profit attributable to shareholders ($'000)	**1,649,741**	922,537
Weighted average number of shares in issue less shares held for Share Award Scheme	**1,069,784,647**	1,065,201,786
Effect of employee share options	**7,873,868**	11,314,431
Effect of Awarded Shares	**1,118,822**	1,185,988
Weighted average number of shares for the purpose of calculating diluted earnings per share	**1,078,777,337**	1,077,702,205
Diluted earnings per share	**$1.53**	$0.86

13. Fixed Assets

The Group is heavily reliant on the capability and reliability of its computer systems for its business operations, including those required for its electronic trading platforms and for post-trading clearing and settlement services. The total cost of additions to fixed assets of the Group during the three months to 31 March 2008 was $6,521,000 (2007: $32,413,000) of which $3,718,000 (2007: $30,571,000) or 57 per cent (2007: 94 per cent) was on computer systems, hardware and software. The total cost and net book value of disposals and write-offs of fixed assets during the three months to 31 March 2008 were $4,868,000 and $Nil respectively (2007: $925,000 and $Nil respectively).

14. Clearing House Funds

	At 31 Mar 2008 $'000	At 31 Dec 2007 $'000
Net assets of the Clearing House Funds were as follows:		
HKSCC Guarantee Fund	**360,954**	362,015
SEOCH Reserve Fund	**719,746**	1,263,056
HKCC Reserve Fund	**578,620**	567,133
	1,659,320	2,192,204
Net assets of the Clearing House Funds were composed of:		
Available-for-sale financial assets:		
Unlisted debt securities, at market value	**404,422**	361,506
Time deposits with original maturities over three months	**21,391**	–
Cash and cash equivalents	**1,249,567**	1,841,508
	1,675,380	2,203,014
Less: Other liabilities	**(16,060)**	(10,810)
	1,659,320	2,192,204
The Clearing House Funds were funded by:		
Clearing Participants' cash contributions (note a)	**956,289**	1,496,855
Designated reserves (note 25):		
– Clearing houses' contributions	**320,200**	320,200
– Forfeiture of a defaulted Clearing Participant's contributions	**1,928**	1,928
– Accumulated net investment income net of expenses attributable to:		
– Clearing Participants' contributions	**286,554**	282,213
– Clearing houses' contributions	**93,333**	90,512
	702,015	694,853
Revaluation reserve (note 24(d))	**1,016**	496
	1,659,320	2,192,204
The maturity profile of the net assets of the Clearing House Funds was as follows:		
Amounts maturing within twelve months	**1,659,320**	2,192,204

(a) Amount included Participants' additional deposits of $567,889,000 (31 December 2007: $1,116,555,000).

14. Clearing House Funds (continued)

(b) The Clearing House Funds were established to support the respective clearing houses (ie, HKSCC, HKCC and SEOCH) to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Clearing Participants arising from depositing defective securities into the Central Clearing and Settlement System ("CCASS").

15. Available-for-sale Financial Assets

	At 31 Mar 2008 $'000	At 31 Dec 2007 $'000
Unlisted debt securities, at market value	**3,093,726**	3,067,007
Analysis of available-for-sale financial assets:		
Non-current portion maturing after twelve months	**127,000**	25,270
Current portion maturing within twelve months	**2,966,726**	3,041,737
	3,093,726	3,067,007

16. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits amounted to $19,674,947,000 (31 December 2007: $18,364,129,000). These mainly represented the Group's Continuous Net Settlement ("CNS") money obligations receivable under the T+2 settlement cycle, which accounted for 96 per cent (31 December 2007: 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.

17. Margin Funds on Derivatives Contracts

	At 31 Mar 2008 $'000	At 31 Dec 2007 $'000
The Margin Funds comprised:		
SEOCH Clearing Participants' Margin Funds	**7,638,759**	9,741,149
HKCC Clearing Participants' Margin Funds	**53,921,564**	45,687,739
	61,560,323	55,428,888
The net assets of the Margin Funds comprised:		
Available-for-sale financial assets:		
Debt securities, at market value:		
– listed outside Hong Kong	**205,335**	243,047
– unlisted	**18,333,997**	16,491,959
Time deposits with original maturities over three months	**1,304,488**	2,508,559
Cash and cash equivalents	**41,857,989**	36,182,526
Margin receivable from Clearing Participants	**3,514**	3,068
	61,705,323	55,429,159
Less: Other liabilities	**(145,000)**	(271)
	61,560,323	55,428,888
The Group's liabilities in respect of the Margin Funds were as follows:		
Margin deposits from SEOCH and HKCC Participants on derivatives contracts	**61,560,323**	55,428,888
The maturity profile of the net assets of Margin Funds was as follows:		
Amounts maturing after more than twelve months	**358,602**	456,396
Amounts maturing within twelve months	**61,201,721**	54,972,492
	61,560,323	55,428,888

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

	At 31 Mar 2008 $'000	At 31 Dec 2007 $'000
Analysis of financial assets at fair value through profit or loss:		
Held for trading		
Equity securities, at market value		
– listed in Hong Kong	**33,759**	49,559
– listed outside Hong Kong	**113,777**	177,591
	147,536	227,150
Held for trading		
Debt securities, at market value		
– listed in Hong Kong	**57,526**	47,569
– listed outside Hong Kong	**1,392,600**	1,363,356
– unlisted	**1,277,248**	1,258,030
	2,727,374	2,668,955
Held for trading		
Mutual funds, at market value		
– listed outside Hong Kong	**87,819**	96,778
Held for trading		
Derivative financial instruments, at market value		
– equity index futures contracts, listed outside Hong Kong (note a)	**–**	159
– forward foreign exchange contracts	**1,261**	3,513
	1,261	3,672
	2,963,990	2,996,555
Analysis of financial liabilities at fair value through profit or loss:		
Held for trading		
Derivative financial instruments, at market value		
– equity index futures contracts, listed outside Hong Kong (note a)	**788**	–
– forward foreign exchange contracts	**24,280**	6,149
	25,068	6,149

(a) The total notional amount of the futures contracts outstanding was $55,934,000 (31 December 2007: $6,964,000).

19. Non-current Assets Held for Sale

	At **31 Mar 2008** **$'000**	At 31 Dec 2007 $'000
Leasehold building	–	7,524
Investment property	–	24,200
Lease premium for land of leasehold property	–	32,368
	–	64,092
Reserves associated with assets held for sale recognised in other comprehensive income (leasehold buildings revaluation reserve (note 24))	–	3,155

On 19 September 2007, the Board approved the disposal of one of the leasehold properties and the investment property held by the Group as the Board resolved to restructure the Group's property portfolio. No impairment losses were recognised on the reclassification of the properties as held for sale.

In January 2008, the Group entered into agreements with two third parties to sell the leasehold property and the investment property for a consideration of $103,380,000 and $30,400,000 respectively. The sale transactions were completed on 18 February 2008. The accounting profit on the disposal of properties, after deducting related selling expenses of $1,047,000, amounted to $68,641,000 ($62,709,000 for the leasehold property and $5,932,000 for the investment property) and was recognised in the condensed consolidated income statement during the first quarter ended 31 March 2008.

20. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities amounted to $22,171,048,000 (31 December 2007: $21,375,909,000). These mainly represented the Group's CNS money obligations payable under the T+2 settlement cycle, which accounted for 85 per cent (31 December 2007: 81 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.

21. Provisions

	Reinstatement costs $'000	Employee benefit costs $'000	Total $'000
At 1 Jan 2008	**24,128**	**29,630**	**53,758**
Provision for the period	–	**12,621**	**12,621**
Amount used during the period	–	**(10,885)**	**(10,885)**
Amount paid during the period	–	**(275)**	**(275)**
At 31 Mar 2008	**24,128**	**31,091**	**55,219**

	At 31 Mar 2008 $'000	At 31 Dec 2007 $'000
Analysis of provisions:		
Current	**31,111**	29,630
Non-current	**24,108**	24,128
	55,219	53,758

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

	At 31 Mar 2008 $'000	At 31 Dec 2007 $'000
Authorised:		
2,000,000,000 shares of $1 each	**2,000,000**	2,000,000

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

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 2007	1,064,190,346	1,065,448	185,942	(51,297)	1,200,093
Shares issued under employee share option schemes (note a)	4,837,000	4,837	61,215	–	66,052
Transfer from employee share-based compensation reserve (note 23)	–	–	19,013	–	19,013
Vesting of shares of Share Award Scheme (note c)	243,868	–	–	8,373	8,373
Shares purchased for Share Award Scheme (note b)	(42,500)	–	–	(4,879)	(4,879)
At 31 Dec 2007	1,069,228,714	1,070,285	266,170	(47,803)	1,288,652
At 1 Jan 2008	**1,069,228,714**	**1,070,285**	**266,170**	**(47,803)**	**1,288,652**
Shares issued under employee share option schemes (note a)	**1,019,500**	**1,020**	**17,786**	**–**	**18,806**
Transfer from employee share-based compensation reserve (note 23)	**–**	**–**	**5,102**	**–**	**5,102**
Shares purchased for Share Award Scheme (note b)	**(155,000)**	**–**	**–**	**(25,298)**	**(25,298)**
At 31 Mar 2008	**1,070,093,214**	**1,071,305**	**289,058**	**(73,101)**	**1,287,262**

(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 1,019,500 shares (year ended 31 December 2007: 4,837,000 shares) in HKEx at an average consideration of $18.45 per share (year ended 31 December 2007: $13.66 per share), of which $1.00 per share was credited to share capital and the balance was credited to the share premium account.

(b) During the period, the HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust") acquired 155,000 HKEx shares (year ended 31 December 2007: 42,500 shares) through purchases on the open market for the Share Award Scheme (note 23(c)). The total amount paid to acquire the shares during the period was $25,298,000 (year ended 31 December 2007: $4,879,000) and had been deducted from shareholders' equity.

(c) During the year ended 31 December 2007, the HKEx Employee Share Trust transferred 243,868 HKEx shares to the awardees upon vesting of certain HKEx shares awarded ("Awarded Shares"). The total cost of the related vested shares was $8,373,000. No Awarded Shares were vested during the three months ended 31 March 2008.

23. Employee Share-based Compensation Reserve

	2008 **$'000**	2007 $'000
At 1 Jan	**49,669**	52,119
Employee share-based compensation benefits (note a)	**6,278**	24,362
Transfer to share premium upon exercise of employee share options (note 22)	**(5,102)**	(19,013)
Vesting of shares of Share Award Scheme	–	(7,286)
Share of reserve of an associate		
– during the period/year	–	47
– eliminated through disposal of associate	–	(560)
At 31 Mar 2008/31 Dec 2007	**50,845**	49,669

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

(b) Share options

(i) HKEx operates two share option schemes, the Pre-Listing Scheme and the Post-Listing Scheme, under which the Board may, at its discretion, offer any employee (including any Executive Director) of HKEx or its subsidiaries, options to subscribe for shares in HKEx subject to the terms and conditions stipulated in the two schemes. Both schemes were approved by the shareholders of HKEx on 31 May 2000 and have a life of 10 years until 30 May 2010. Amendments to the Post-Listing Scheme, including, inter alia, the abolition of granting options at a discounted price, were approved by the shareholders of HKEx on 17 April 2002 so as to comply with the new requirements of Chapter 17 of the Main Board Listing Rules which came into effect on 1 September 2001.

The options granted under the Pre-Listing Scheme are exercisable, subject to a vesting scale which commenced on 6 March 2002 in tranches of 25 per cent per annum and reaching 100 per cent on 6 March 2005, not later than 30 May 2010, providing the grantees remain under the employ of the Group. Share options granted under the Post-Listing Scheme are exercisable, subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and reaching 100 per cent on the fifth anniversary of the date of grant, not later than 10 years from the date of grant, providing that the grantees remain under the employ of the Group.

23. Employee Share-based Compensation Reserve (continued)

(b) Share options (continued)

(i) (continued)

No share options were granted after 26 January 2005 and no further share options will be granted following the adoption of the Share Award Scheme in September 2005 (note 23(c)).

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

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

	Three months ended 31 Mar 2008		Year ended 31 Dec 2007	
	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**	**379,000**	6.88	788,000
Exercised	–	–	6.88	(409,000)
Outstanding at 31 Mar 2008/ 31 Dec 2007	**6.88**	**379,000**	6.88	379,000
Post-Listing Scheme				
Outstanding at 1 Jan	**16.67**	**9,089,500**	15.68	14,593,500
Exercised	**18.45**	**(1,019,500)**	14.28	(4,428,000)
Forfeited	–	–	13.01	(1,076,000)
Outstanding at 31 Mar 2008/ 31 Dec 2007	**16.45**	**8,070,000**	16.67	9,089,500
Total	**16.02**	**8,449,000**	16.28	9,468,500

23. Employee Share-based Compensation Reserve (continued)

(b) Share options (continued)

(iii) Had all the outstanding employee share options been fully exercised on 31 March 2008, the Group would have received $135,353,000 in proceeds. The market value of the shares issued based on the closing price of $133.60 per share on that date would have been $1,128,787,000. The theoretical gains made by the employees or Executive Director concerned would have been as follows:

	Number of shares issuable under options granted as at 31 Mar 2008	Exercise price $	Gain per share $	Aggregate gain $'000
Pre-Listing Scheme				
– granted to employees on 20 Jun 2000	**379,000**	**6.88**	**126.72**	**48,027**
Post-Listing Scheme				
– granted to an Executive Director on 2 May 2003	**1,240,000**	**8.28**	**125.32**	**155,397**
– granted to an employee on 14 Aug 2003	**273,500**	**12.45**	**121.15**	**33,135**
– granted to an employee on 15 Jan 2004	**273,500**	**17.30**	**116.30**	**31,808**
– granted to employees on 31 Mar 2004	**2,739,000**	**16.96**	**116.64**	**319,477**
– granted to an employee on 17 May 2004	**100,000**	**15.91**	**117.69**	**11,769**
– granted to employees on 26 Jan 2005	**3,444,000**	**19.25**	**114.35**	**393,821**
Total	**8,449,000**			**993,434**

(c) Awarded Shares

(i) On 14 September 2005 ("Adoption Date"), the Board approved the Share Award Scheme under which Awarded Shares may be awarded to an Executive Director and employees of the Group in accordance with the terms and conditions of the Share Award Scheme. Pursuant to the rules of the Share Award Scheme, the Group has set up a trust, HKEx Employee Share Trust, for the purpose of administering the Share Award Scheme and holding the Awarded Shares before they vest. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of 15 years commencing on the Adoption Date provided that no contribution will be made by HKEx to the HKEx Employee Share Trust on or after the tenth anniversary of the Adoption Date. Awarded Shares awarded and the dividends derived therefrom are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and reaching 100 per cent on the fifth anniversary of the date of approval of the award by the Board or the date as determined by the Board at its discretion, providing that the awardees remain under the employ of the Group. Vested shares will be transferred at no cost to the relevant awardees.

23. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

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 (“Trustee”). With effect from 16 August 2006, the rules of the Share Award Scheme have been amended and the Board will thereafter approve a monetary amount for each award (“Awarded Sum”) plus transaction costs to be incurred, with which the Trustee will then purchase the maximum number of board lots of HKEx shares from the market within 20 business days after receiving the Awarded Sum and transaction costs from HKEx. The Awarded Shares purchased will then be allocated to each awardee based on the monetary amount awarded to him/her, rounded down to the nearest share.

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

960,000 Awarded Shares were awarded on 19 December 2005 to a number of employees which will be transferred to the employees at nil consideration upon vesting between 19 December 2007 and 19 December 2010. The Trustee acquired 958,000 HKEx shares at a total cost (including related transaction costs) of $30,028,000 in December 2005 and the remaining 2,000 shares at a total cost (including related transaction costs) of $70,000 in January 2006. The fair value of the shares was $31.20 per share. 232,375 Awarded Shares at a cost of $7,286,000 were vested on 19 December 2007 and transferred to the employees at nil consideration.

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

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

23. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

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

On 12 December 2007, the Board approved and awarded an Awarded Sum of $26,300,000 to certain employees. Subsequently, the Trustee purchased 151,000 Awarded Shares at a total cost (including related transaction costs) of $24,721,000 (ie, average fair value of $163.72 per share) in January 2008, and 150,965 Awarded Share were allocated to eligible employees on 4 February 2008. The Awarded Shares will be transferred to the employees at nil consideration upon vesting between 12 December 2009 and 12 December 2012.

On 18 February 2008, the Board approved and awarded an Awarded Sum of $612,000 to the Chief Executive of HKEx. Subsequently, the Trustee purchased 4,000 Awarded Shares at a total cost (including related transaction costs) of $577,000 in March 2008 and 200 Awarded Shares at a total cost (including related transaction costs) of $30,000 in April 2008, which were allocated to the Chief Executive on 7 April 2008. The average fair value of the Awarded Shares was $144.18 per share. The Awarded Shares will be transferred to the Chief Executive at nil consideration upon vesting between 18 February 2010 and 18 February 2013.

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

23. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

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

	Three months ended 31 Mar 2008	Year ended 31 Dec 2007
	Number of Awarded Shares awarded	Number of Awarded Shares awarded
Outstanding at 1 Jan	**1,024,262**	955,906
Awarded *	**150,965** # ^	284,965
Forfeited	–	(1,800)
Vested	–	(232,375)
Dividends reinvested:		
– allocated to awardees	–	29,132
– allocated to awardees but subsequently forfeited	–	(73)
– vested	–	(11,493)
Outstanding at 31 Mar 2008/31 Dec 2007	**1,175,227**	1,024,262

* Average fair value per share of $163.72 (year ended 31 December 2007: $73.08)

Included 150,965 Awarded Shares purchased for the Awarded Sum of $26,300,000 approved by the Board on 12 December 2007, which were allocated to the awardees upon the completion of share purchase by the Trustee on 4 February 2008.

^ Excluded 4,000 Awarded Shares purchased in March 2008 for the Awarded Sum of $612,000 approved by the Board on 18 February 2008, which were allocated to the Chief Executive upon the completion of share purchase by the Trustee on 7 April 2008.

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

(iii) As at 31 March 2008, 36,405 forfeited or unallocated shares were held by the HKEx Employee Share Trust, of which 4,000 shares were allocated to the Chief Executive on 7 April 2008, and the remaining shares would be allocated to awardees in future (31 December 2007: 32,370 forfeited or unallocated shares, which would be allocated to awardees in future).

(iv) Had all the outstanding Awarded Shares been fully vested on 31 March 2008, the theoretical gains of the awardees based on the closing price of $133.60 per share on that date would have been $157,010,000.

24. Revaluation Reserves

	At 31 Mar 2008 $'000	At 31 Dec 2007 $'000
Leasehold buildings revaluation reserve (notes b and c)	–	3,155
Investment revaluation reserve (note d)	**84,041**	52,881
	84,041	56,036

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

(b) Following the disposal of the leasehold property held for sale (note 19), the leasehold buildings revaluation reserve relating to this property was transferred to retained earnings during the period (note 26).

(c) The remaining leasehold building held by the Group is revalued on a yearly basis at the end of December each year.

(d) Included gross investment revaluation surplus of $1,016,000 (31 December 2007: $496,000) which was attributable to investments of the Clearing House Funds.

25. Designated Reserves

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

	At 31 Mar 2008 $'000	At 31 Dec 2007 $'000
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	**271,854**	269,635
– SEOCH Reserve Fund reserve	**104,055**	102,828
– HKCC Reserve Fund reserve	**326,106**	322,390
	702,015	694,853

26. Retained Earnings (Including Proposed/Declared Dividends)

	2008 $'000	2007 $'000
At 1 Jan	**6,288,138**	3,366,989
Profit for the period/year (note a)	**1,649,741**	6,169,278
Surplus of net investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves	**(7,162)**	(67,037)
Transfer from leasehold buildings revaluation reserve on disposal of a leasehold property (note 24(b))	**3,155**	–
	(4,007)	(67,037)
Dividends:		
2006 final dividend	–	(1,266,387)
Dividend on shares issued for employee share options exercised after 31 Dec 2006	–	(3,879)
	–	(1,270,266)
2007 interim dividend	–	(1,911,131)
Dividend on shares issued for employee share options exercised after 30 Jun 2007	–	(1,062)
	–	(1,912,193)
Unclaimed dividend forfeited	–	2,454
Vesting of shares of Share Award Scheme	–	(1,087)
At 31 Mar 2008/31 Dec 2007	**7,933,872**	6,288,138
Representing:		
Retained earnings	**4,295,555**	2,652,760
Proposed dividend	**3,638,317**	3,635,378
At 31 Mar 2008/31 Dec 2007	**7,933,872**	6,288,138

(a) The Group's profit for the period/year included the net investment income net of expenses of the Clearing House Funds of $7,162,000 (year ended 31 December 2007: $67,037,000).

27. Notes to the Condensed Consolidated Statement of Cash Flows

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

	Three months ended 31 Mar 2008 $'000	Three months ended 31 Mar 2007 $'000
Profit before taxation	**1,902,085**	1,081,883
Adjustments for:		
Net interest income	**(368,940)**	(163,344)
Net realised and unrealised losses/(gains) and interest income on financial assets and financial liabilities at fair value through profit or loss	**5,329**	(57,921)
Dividend income from financial assets at fair value through profit or loss	**(1,450)**	(1,712)
Amortisation of lease premiums for land	**128**	137
Fair value gain of an investment property	**–**	(500)
Depreciation	**23,663**	23,162
Employee share-based compensation benefits	**6,278**	6,132
Reversal of provision for impairment losses of trade receivables	**(96)**	(63)
Changes in provisions	**1,461**	1,646
Share of profit of an associate	**–**	(5,587)
Gain on disposal of properties	**(68,641)**	–
Gain on disposal of fixed assets	**–**	(100)
Net increase in financial assets and financial liabilities at fair value through profit or loss	**(408)**	(7,426)
Fair value losses of hedging instruments deferred in hedging reserve	**–**	(42)
Settlement of amounts transferred from retained earnings to Clearing House Funds	**(7,162)**	(14,070)
(Increase)/decrease in accounts receivable, prepayments and deposits	**(1,293,416)**	412,019
Increase/(decrease) in other current liabilities	**801,876**	(328,229)
Net cash inflow from operations	**1,000,707**	945,985
Interest received from bank deposits	**247,454**	153,324
Dividends received from financial assets at fair value through profit or loss	**357**	1,068
Interest received from financial assets at fair value through profit or loss	**38,455**	31,155
Interest paid	**(70,450)**	(147,361)
Hong Kong Profits Tax paid	**(112,463)**	(60,162)
Net cash inflow from operating activities	**1,104,060**	924,009

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

28. Commitments

Commitments in respect of capital expenditures:

	At 31 Mar 2008 $'000	At 31 Dec 2007 $'000
Contracted but not provided for	**36,830**	33,555
Authorised but not contracted for	**192,951**	131,349
	229,781	164,904

The commitments in respect of capital expenditures were mainly for the development and purchases of computer systems, and office and data centre relocation.

29. Contingent Liabilities

(a) The Group has a contingent liability in respect of potential calls to be made by the Securities and Futures Commission ("SFC") to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding $72 million. Up to 31 March 2008, no calls had been made by the SFC in this connection.

(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 445 trading Participants as at 31 March 2008 (31 December 2007: 439) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to $89,000,000 (31 December 2007: $87,800,000).

The carrying amount of the financial guarantee contract recognised in the condensed consolidated statement of financial position was $19,909,000 (31 December 2007: $19,909,000).

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

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

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

As at 31 March 2008, the amount of non-cash collateral received from Participants and the amount utilised for covering part of their Clearing House Fund contributions and Margin Fund obligations for derivatives contracts were as follows:

	At 31 Mar 2008		At 31 Dec 2007	
	Amount received $'000	**Amount utilised $'000**	Amount received $'000	Amount utilised $'000
Clearing House Funds				
Bank guarantees	**1,389,210**	**164,615**	1,759,650	519,137
Margin Funds				
Equity securities, listed in Hong Kong, at market value	**7,398,260**	**1,270,449***	1,847,054	–*
US Treasury Bills, at market value	**9,603,137**	**4,214,935**	8,672,944	5,935,238
Bank guarantees	**770,000**	**491,996**	854,000	607,930
	17,771,397	**5,977,380**	11,373,998	6,543,168
	19,160,607	**6,141,995**	13,133,648	7,062,305

* Certain equity securities received were used to cover call options issued by SEOCH Participants whose underlying stocks were the same as the collateral received. Under the Operational Clearing Procedures for Options Trading Exchange Participants of SEOCH, such call options issued are not marginable positions (ie, no margin requirements). Hence, the amount is not treated as having been utilised for covering Margin Fund obligations. As at 31 March 2008, $1,744,549,000 (31 December 2007: $1,307,776,000) of equity securities received were used for such purpose (including those amounts decovered but not yet released of $479,059,000 (31 December 2007: $23,066,000)).

31. 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/or (iii) Exchange Participants for buying shares on behalf of HKSCC. Securities and derivatives contracts traded by, and fees levied on, these Exchange Participants, Clearing Participants and Investor Participants, fees levied on these listed companies and fees paid to these Exchange Participants for buying shares on behalf of HKSCC are all undertaken in the ordinary course of business of the Group on the standard terms and conditions applicable to all other Exchange Participants, Clearing Participants, Investor Participants, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

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

(a) Transactions with an associate

	Three months ended 31 Mar 2008 $'000	Three months ended 31 Mar 2007 $'000
Income received and receivable from/(expenses paid and payable to) an associate, Computershare Hong Kong Investor Services Limited ("CHIS")		
– Dividend income	**–**	7,500
– Share registration service fees	**–**	(395)

On 3 April 2007, the Group disposed of all of its interest in CHIS.

(b) Key management personnel compensation

	Three months ended 31 Mar 2008 $'000	Three months ended 31 Mar 2007 $'000
Salaries and other short-term employee benefits	**20,772**	16,186
Employee share-based compensation benefits	**2,499**	2,165
Retirement benefit costs	**1,546**	1,344
	24,817	19,695

(c) Post-retirement benefit plans

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

(d) Save as aforesaid, the Group has entered into other transactions in the ordinary course of business with companies that are related parties but the amounts were immaterial.

32. Financial Risk Management

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

(a) Market risk

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

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

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

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

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

32. Financial Risk Management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk

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

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

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

As at 31 March 2008, the aggregate net open foreign currency positions amounted to HK$2,186 million, of which HK$216 million were non-USD exposures (31 December 2007: HK$4,727 million, of which HK$210 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK$3,093 million (31 December 2007: HK$2,926 million). All forward foreign exchange contracts would mature within two months (31 December 2007: two months).

(ii) Equity and commodity price risk

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

32. Financial Risk Management (continued)

(a) Market risk (continued)

(iii) Interest rate risks

There are two types of interest rate risk:

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

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

(iv) Risk management

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

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

32. Financial Risk Management (continued)

(a) Market risk (continued)

(iv) Risk management (continued)

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

	Three months ended 31 Mar 2008			Three months ended 31 Mar 2007		
	Average $'000	**Highest $'000**	**Lowest $'000**	Average $'000	Highest $'000	Lowest $'000
Foreign exchange risk	**6,231**	**7,480**	**5,175**	5,437	6,094	3,769
Equity price risk	**13,473**	**15,148**	**12,221**	13,077	15,232	11,486
Interest rate risk	**34,801**	**40,093**	**27,290**	16,349	18,452	13,703
Total VaR	**32,477**	**37,025**	**25,135**	24,854	27,446	21,423

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 liquidity requirements of the Clearing House Funds and Margin Funds. The Group also sets a limit on the minimum level of cash or bank deposits held for the Corporate Funds, and the minimum level of investments to be held that would mature the same day and the next day for the Clearing House Funds and Margin Funds.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. In addition, banking facilities have been put in place for contingency purposes. As at 31 March 2008, the Group's total available banking facilities amounted to $3,058 million (31 December 2007: $3,058 million), of which $3,000 million (31 December 2007: $3,000 million) were repurchase facilities to augment the liquidity of the Margin Funds.

32. Financial Risk Management (continued)

(c) Credit risk

(i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's investments and trade receivables. Impairment provisions are made for losses that have been incurred at the end of the reporting period. The Group limits its exposure to credit risk by rigorously selecting the counterparties (ie, deposit-takers, bond issuers and debtors) and by diversification. As at 31 March 2008, the bonds held were of investment grade and had a weighted average credit rating of Aa1 (31 December 2007: Aa1), and there were no financial assets whose terms were renegotiated (31 December 2007: $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.

32. 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 2008, bank guarantees of $6,334,200,000 (31 December 2007: $5,509,200,000) were accepted for such purpose.

In addition to the above, the Group has set aside $3,100 million (31 December 2007: $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 2008, 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 2008 $'000	At 31 Dec 2007 $'000
Up to 6 months	**82,294**	271,196
Over 6 months to 1 year	**23**	1
Over 1 year to 3 years	**2**	2
Over 3 years*	**8,651**	8,651
Total	**90,970**	279,850

* No provision for impairment losses has been made against trade receivables amounting to $8,510,000 (31 December 2007: $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 $10,681,000 (31 December 2007: $12,643,000).

32. Financial Risk Management (continued)

(c) Credit risk (continued)

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

As at 31 March 2008, trade receivables of the Group amounting to $4,512,000 (31 December 2007: $4,608,000) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days as at the end of the reporting period or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired were disclosed in the 2007 annual accounts. No cash deposits had been placed by the related trade debtors with the Group (31 December 2007: $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 the condensed consolidated statement of financial position as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when cash is received. As at 31 March 2008, the amount of doubtful deferred revenue amounted to $46,844,000 (31 December 2007: $48,955,000).

33. Comparative Figures

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

OTHER INFORMATION

Board of Directors

Dr Bill C P Kwok and Mr Vincent K H Lee were re-elected as Directors by Shareholders at the 2008 AGM and their service terms will be approximately three years from 24 April 2008 until the conclusion of the annual general meeting to be held in 2011. On the same day, the Financial Secretary re-appointed Mr Ronald J Arculli, Mrs Laura M Cha and Dr Moses M C Cheng as Government Appointed Directors each for a term of approximately two years from 24 April 2008 until the conclusion of the annual general meeting to be held in 2010. The Board subsequently on 25 April 2008 re-appointed Mr Ronald J Arculli as the Chairman of the Board and the Chief Executive of Hong Kong on 29 April 2008 approved the re-appointment.

Committees and Consultative Panels

After the 2008 AGM, the Board re-appointed Mr Ronald J Arculli, Mrs Laura M Cha, Dr Moses M C Cheng, Dr Bill C P Kwok and Mr Vincent K H Lee to various Committees and Consultative Panels. The updated member list is available on the HKEx website.

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.

Renewal of Contract with Chief Executive

On 5 March 2008, Mr Paul M Y Chow agreed to extend his employment contract as the Chief Executive of HKEx for a further year from 1 May 2009 to 30 April 2010. The extension was approved by the SFC pursuant to Section 70 of the SFO on 10 March 2008.

New Senior Executive

On 31 March 2008, Mr Kevin T King joined HKEx as the Head of Risk Management Division to oversee the risk management functions of cash clearing and derivatives clearing, the market and participant surveillance, and the enterprise risk management.

Organisational Changes

In April 2008, as part of the succession plan, the organisational structure of HKEx was further refined by restructuring the operation and composition of certain management bodies. The Senior Management Committee, the key decision-making body at the executive level of HKEx, has been expanded from six to 10 members, including four additional senior executives, namely the Head of Listing Division, Head of Risk Management Division, Head of Cash Market Department and Head of Derivatives Market Department.

Change in Board Lot Size

Following an announcement on 5 March 2008, the board lot size for trading in the HKEx shares on the Exchange was changed from 500 shares to 100 shares effective 7 April 2008. Free exchange of share certificates in the new board lot size was offered to the Shareholders until 30 April 2008. The old share certificates in board lots of 500 shares continue to be evidence of title to such shares and remain valid for transfer, delivery and settlement purposes.

Share Option Schemes

Details of the Share Option Schemes are set out in note 23(b) to the condensed consolidated accounts of this quarterly report. The share options granted under the two schemes, which remained outstanding as at 31 March 2008 are as follows:

Pre-Listing Scheme

		Number of Shares Issuable Under the Options				
Date of Grant	**Exercise Price**	**As at 1 Jan 2008**	**Issued upon Subscription during the three months ended 31 Mar 2008**	**Lapsed during the three months ended 31 Mar 2008**	**As at 31 Mar 2008**	**Exercise Period** (Note 1)
Employees (Note 2)						
20 Jun 2000	$6.88	379,000	–	–	379,000	6 Mar 2002 – 30 May 2010

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

Post-Listing Scheme

		Number of Shares Issuable Under the Options				
Date of Grant	**Exercise Price**	**As at 1 Jan 2008**	**Issued upon Subscription during the three months ended 31 Mar 2008** (Note 3)	**Lapsed during the three months ended 31 Mar 2008**	**As at 31 Mar 2008**	**Exercise Period** (Note 4)
Executive Director (Note 5)						
2 May 2003	$8.28	1,240,000	–	–	1,240,000	2 May 2005 – 1 May 2013
Employees (Note 2)						
14 Aug 2003	$12.45	273,500	–	–	273,500	14 Aug 2005 – 13 Aug 2013
15 Jan 2004	$17.30	547,000	273,500	–	273,500	15 Jan 2006 – 14 Jan 2014
31 Mar 2004	$16.96	2,827,500	88,500 (Note 6)	–	2,739,000	31 Mar 2006 – 30 Mar 2014
17 May 2004	$15.91	125,000	25,000	–	100,000	17 May 2006 – 16 May 2014
26 Jan 2005	$19.25	4,076,500	632,500	–	3,444,000	26 Jan 2007 – 25 Jan 2015

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

No options granted under the Share Option Schemes were cancelled during the three months ended 31 March 2008.

Notes:

1. 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.
2. Employees working under employment contracts that were regarded as "continuous contracts" for the purpose of the Employment Ordinance of Hong Kong.
3. The weighted average closing price immediately before the dates on which the options were exercised was $179.15.
4. 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.
5. The option was granted to Mr Paul M Y Chow, an Executive Director and the Chief Executive of HKEx.
6. This excluded 51,500 shares which were exercised on 31 March 2008 but allotted on 1 April 2008.
7. The amortised fair value of the share options charged to the condensed consolidated income statement for the three months ended 31 March 2008 was $1,961,000 (31 March 2007: $2,782,000).

Share Award Scheme

Details of the Share Award Scheme are set out in note 23(c) to the condensed consolidated accounts of this quarterly report.

In December 2007, the Board provided a sum of $26,300,000 for the purchase of HKEx shares to be awarded to senior staff (excluding the Chief Executive) as long-term rewards. With a total of 151,000 shares so purchased, the trustee of the Share Award Scheme allocated and awarded an aggregate of 150,965 shares to the eligible employees on 4 February 2008 according to the Share Award Scheme.

In February 2008, the Board further provided a sum of $612,000 for the purchase of HKEx shares to be awarded to the Chief Executive. On 7 April 2008, a total of 4,200 shares were purchased and awarded to the Chief Executive according to the Share Award Scheme.

Since the adoption of the Share Award Scheme, a total of 1,400,130 shares have been awarded to the selected employees as at the date of this quarterly report. Details of the awards are set out below:

Date of Award	**Number of Awarded Shares**	**Average Fair Value per Share** (Note 1)	**Vesting Period** (Note 2)
19 Dec 2005	960,000	$31.20	19 Dec 2007 – 19 Dec 2010
15 Jan 2007	272,465 (Note 3)	$72.28	13 Dec 2008 – 13 Dec 2011
7 Jun 2007	7,000	$81.33	16 Apr 2009 – 16 Apr 2012
17 Jul 2007	5,500	$102.29	18 Jun 2009 – 18 Jun 2012
4 Feb 2008	150,965	$163.72	12 Dec 2009 – 12 Dec 2012
7 Apr 2008	4,200	$144.18	18 Feb 2010 – 18 Feb 2013

Notes:

1. Prior to 16 August 2006, the fair value of the Awarded Shares was based on the market value at the date of award. With effect from 16 August 2006, as a result of the amendments to the rules of the Share Award Scheme, the fair value of the Awarded Shares was based on the average purchase cost per share.
2. Unless otherwise determined by the Board at its discretion, the Awarded Shares and the income derived therefrom are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of approval of the award by the Board, provided that the selected employee remains an employee of the Group at all times until the relevant vesting dates and satisfies the conditions specified under the Share Award Scheme.
3. Of these Awarded Shares, 11,528 shares were allocated and awarded to the Chief Executive of HKEx.
4. The amortised fair value of the Awarded Shares charged to the condensed consolidated income statement for the three months ended 31 March 2008 was $4,317,000 (31 March 2007: $3,350,000).

As at 31 March 2008, taking into account the shares further acquired by reinvesting the dividend income received in respect of the shares held under the trust, there were a total of 1,211,632 shares held in trust by the trustee under the Share Award Scheme, of which 1,175,227 shares were held for the benefit of the selected employees who remained under the employ by the Group, 4,000 shares as unallocated shares, and 32,405 shares as returned shares (ie, shares were not vested and/or forfeited and/or fractional shares which were not so allocated to selected employees in accordance with the terms of the Share Award Scheme). The trustee shall hold these returned shares and future related income for the benefit of one or more employees of the Group as it determines at its discretion, after taking into consideration the recommendations of the Board. During the period, no Awarded Shares lapsed and none were vested.

Interests and Short Positions of Directors and Chief Executive

As at 31 March 2008, the interests of the Directors and the Chief Executive of HKEx in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code are set out below:

Long Positions in Shares and Underlying Shares of HKEx

	Number of Shares/Underlying Shares Held					
Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% of the Issued Share Capital
Paul M Y Chow	3,291,800 (Note 1)	–	–	–	3,291,800	0.31
Vincent K H Lee	–	–	494,500 (Note 2)	–	494,500	0.05
John E Strickland	18,000 (Note 3)	–	–	–	18,000	0.00
David M Webb	2 (Note 4)	2 (Note 5)	6 (Note 6)	–	10	0.00

Notes:

1. The interests included Mr Chow's interests in 11,528 Awarded Shares and 272 shares further acquired by reinvesting the dividends received therefrom according to the Share Award Scheme, and 1,240,000 shares issuable under an option granted to him on 2 May 2003, of which 420,000 shares were vested. Details of the interests of Mr Chow in the share option and Awarded Shares are set out respectively under the Share Option Schemes and Share Award Scheme above.
2. This represented Mr Lee's interests in the underlying shares through listed equity derivatives (physically settled options) held by Pacific Trust Company Limited, in which Mr Lee holds 33.33 per cent beneficial interests.
3. The shares were held by Mr Strickland as beneficial owner.
4. The shares were held by Mr Webb as beneficial owner.
5. The shares were owned by the spouse of Mr Webb.
6. The shares were owned by Fundamental Consultants Limited, Member One Limited and Member Two Limited which are under the control of Mr Webb.

Save for those disclosed above, as at 31 March 2008, none of the Directors or the Chief Executive of HKEx had any interest or short position in the shares, underlying shares or debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to HKEx and the Exchange pursuant to the Model Code.

Apart from the Share Option Schemes and the Share Award Scheme, at no time during the period was HKEx or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, HKEx or any body corporate. Save for the disclosed, none of the Directors or the Chief Executive of HKEx (including their spouses and children under the age of 18) during the three months ended 31 March 2008 held any interest in, or were granted any right to subscribe for, the securities of HKEx and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Interests and Short Positions of Other Persons

As at 31 March 2008, interests and short positions of other persons in the shares and underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange are set out below:

Long Positions in Shares and Underlying Shares of HKEx

Name	Capacity	Number of Shares/ Underlying Shares Held	Total	% of the Issued Share Capital
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund) (Note 1)	Beneficial owner	62,919,500	62,919,500	5.87 (Note 2)

Notes:

1. This is based on a disclosure of interests filing made by the Government on 10 September 2007 which it stated was voluntary.
2. It is based on 1,071,304,846 shares issued as at 31 March 2008 (as compared to 5.88 per cent of the then issued share capital of HKEx on 7 September 2007, the date when the Government became a Minority Controller).

Minority Controllers

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

The SFC has only granted approval to five entities to be Minority Controllers of HKEx, on the basis that the shares are held by them in custody for their clients. According to the CCASS Participants Shareholding Report of HKEx as at 31 March 2008, the five approved Minority Controllers in aggregate held 56.34 per cent of the issued share capital of HKEx (31 March 2007: 58.62 per cent).

The Government has become a Minority Controller of HKEx since 7 September 2007. According to the Government, the provisions of Section 61 of the SFO do not expressly, or by necessary implication, bind the Government, and accordingly by virtue of Section 66 of the Interpretation and General Clauses Ordinance, the provisions of Section 61 of the SFO, requiring a person becoming a minority controller to obtain the approval of the SFC, do not affect the right of and are not binding on the Government.

Corporate Governance

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

GovernanceMetrics International, a corporate governance research and ratings agency, continued to assign high ratings to HKEx in recognition of its high corporate governance standards. As of 15 February 2008, the Global Rating and Home Market Rating remained at 8.0 and 10.0 respectively out of the maximum of 10.0.

HKEx believes that good management of corporate social responsibilities ("CSR") is a business imperative to meet evolving social demands in a fast-paced business environment. In order to further enhance HKEx's CSR measures, we have appointed a consultant to conduct an independent review of the existing CSR policies and measures with a view to further develop appropriate sustainable CSR solutions, and to carry out a green audit of HKEx's operations ("Review"). The Review is expected to be completed in about four months.

Compliance with Model Code

HKEx has adopted the Model Code. All Directors have confirmed, following specific enquiry by HKEx, that they fully complied with the Model Code throughout the three-month period ended on 31 March 2008.

Review of Accounts

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2008 in conjunction with HKEx's external auditor.

Management has appointed the external auditor to carry out certain agreed-upon procedures in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated financial statements for the three months ended 31 March 2008.

Purchase, Sale or Redemption of HKEx's Listed Securities

During the three months ended 31 March 2008, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold, any of HKEx's listed securities, except that the trustee of the Share Award Scheme had, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Exchange a total of 155,000 HKEx shares. The total amount paid to acquire these shares during the period was about $25,298,000.

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

Hong Kong, 14 May 2008

GLOSSARY

2008 AGM	Annual general meeting held on 24 April 2008
AMS/3	The Automatic Order Matching and Execution System/Third Generation
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 CCASS
CG Code	Code on Corporate Governance Practices
DCASS	The Derivatives Clearing and Settlement System
Director(s)	Director(s) of HKEx
DW(s)	Derivative Warrant(s)
ELI	Equity Linked Instrument
EP(s) or Participant(s)	Exchange Participant(s)
ETF(s)	Exchange Traded Fund(s)
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of Hong Kong
Futures Exchange or HKFE	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	The Hong Kong Special Administrative Region of the People's Republic of China
H-shares Index	Hang Seng China Enterprises Index
HSI	Hang Seng Index
IIS	Issuer Information Feed System
IP(s)	Investor Participant(s)
IPO(s)	Initial Public Offering(s)
JP	Justice of the Peace
Listing Rules	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MAP(s)	Market Access Product(s)
MDF	Market Datafeed System
MH	Medal of Honour
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules

OTFS	Order and Trade File Service
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)
SBS	Silver Bauhinia Star
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	Shareholders of HKEx
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended by the Board on 16 August 2006
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
SMARTS	Securities Markets Automated Research Training and Surveillance
WPIP	Web Proof Information Pack
$/HKD	The Hong Kong Dollar

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