



# 2008 Interim Report



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

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

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# FINANCIAL HIGHLIGHTS

|  | Six months ended<br>30 Jun 2008 | Six months ended<br>30 Jun 2007 | Change | Three months ended<br>30 Jun 2008 | Three months ended<br>30 Jun 2007 | Change |
|--|---------------------------------|---------------------------------|--------|-----------------------------------|-----------------------------------|--------|
| <b>KEY MARKET STATISTICS</b>   |                                 |                                 |        |                                   |                                   |        |
| Average daily turnover value on the Stock Exchange                           | \$87.3 billion                  | \$59.2 billion                  | 47%    | \$76.1 billion                    | \$65.9 billion                    | 15%    |
| Average daily number of derivatives contracts traded on the Futures Exchange | 191,179                         | 145,852                         | 31%    | 176,748                           | 147,572                           | 20%    |
| Average daily number of stock options contracts traded on the Stock Exchange | 238,970                         | 131,040                         | 82%    | 212,191                           | 137,742                           | 54%    |

|  | Unaudited<br>Six months ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Six months ended<br>30 Jun 2007<br>\$'000 | Change | Unaudited<br>Three months ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Three months ended<br>30 Jun 2007<br>\$'000 | Change |
|--|--|--|--------|--|--|--------|
| <b>RESULTS</b>   |  |  |        |  |  |        |
| Income   | 4,211,331  | 3,156,938  | 33%    | 1,926,687  | 1,757,999  | 10%    |
| Operating expenses   | 768,943  | 665,644  | 16%    | 386,384  | 343,001  | 13%    |
| Operating profit   | 3,442,388  | 2,491,294  | 38%    | 1,540,303  | 1,414,998  | 9%     |
| Gain on disposal of an associate                                   | -  | 206,317  | (100%) | -  | 206,317  | (100%) |
| Share of profit of an associate                                    | -  | 5,587  | (100%) | -  | -  | N/A    |
| Profit before taxation   | 3,442,388  | 2,703,198  | 27%    | 1,540,303  | 1,621,315  | (5%)   |
| Taxation   | (467,982)  | (372,897)  | 25%    | (215,638)  | (213,551)  | 1%     |
| Profit attributable to shareholders                                | 2,974,406  | 2,330,301  | 28%    | 1,324,665  | 1,407,764  | (6%)   |
| Basic earnings per share   | \$2.78   | \$2.19   | 27%    | \$1.24   | \$1.32   | (6%)   |
| Diluted earnings per share   | \$2.76   | \$2.16   | 28%    | \$1.23   | \$1.31   | (6%)   |
| Interim dividend per share   | \$2.49   | \$1.79   | 39%    | \$2.49   | \$1.79   | 39%    |
| Dividend payout ratio  | 90%  | 82%  | N/A    | N/A  | N/A  | N/A    |
| Dividend payout ratio (excluding gain on disposal of an associate) | 90%  | 90%  | N/A    | N/A  | N/A  | N/A    |

|  | Unaudited<br>at<br>30 Jun 2008 | Audited<br>at<br>31 Dec 2007 | Change |
|--|--------------------------------|------------------------------|--------|
| <b>KEY ITEMS IN CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b> |                                |                              |        |
| Shareholders' funds (\$'000)   | 7,714,719                      | 8,377,348                    | (8%)   |
| Total assets * (\$'000)  | 61,721,600                     | 87,944,189                   | (30%)  |
| Net assets per share #   | \$7.19                         | \$7.83                       | (8%)   |

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

# Based on 1,072,417,604 shares as at 30 June 2008, being 1,073,646,846 shares issued and fully paid less 1,229,242 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)

# MARKET HIGHLIGHTS

## Securities Market (Six months ended 30 June 2008)

|   | Main Board         | GEM             | Total              |
|---|--------------------|-----------------|--------------------|
| Market Capitalisation (as at 30 June 2008)      | \$16,247.0 billion | \$109.0 billion | \$16,356.0 billion |
| Total Funds Raised                              | \$117.0 billion    | \$5.2 billion   | \$122.2 billion    |
| Funds Raised by IPOs                            | \$50.2 billion     | \$0.2 billion   | \$50.4 billion     |
| Funds Raised in Secondary Market                | \$66.8 billion     | \$5.0 billion   | \$71.8 billion     |
| Number of Newly Listed Companies                | 21 *               | 2               | 23                 |
| Number of Listed Companies (as at 30 June 2008) | 1,065              | 189             | 1,254              |
| Total Turnover of CBBCs                         | \$259.7 billion    | –               | \$259.7 billion    |
| Total Turnover of Warrants                      | \$2,570.7 billion  | \$2.6 million   | \$2,570.7 billion  |
| Total Turnover                                  | \$10,524.4 billion | \$38.8 billion  | \$10,563.2 billion |
| Average Daily Turnover                          | \$87.0 billion     | \$0.3 billion   | \$87.3 billion     |

\* Included four companies transferred from GEM

Note: Figures have been rounded

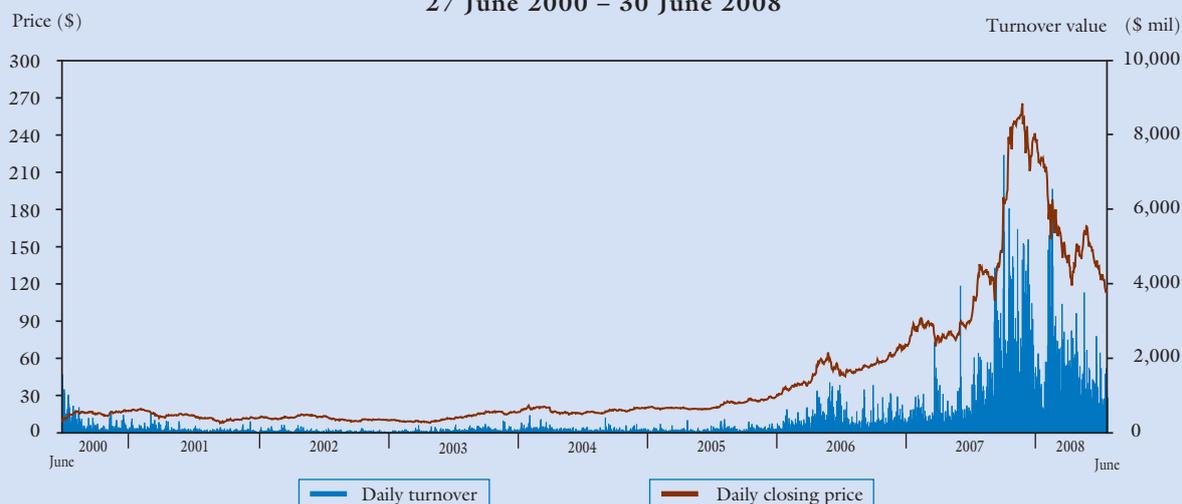
## Derivatives Market (Six months ended 30 June 2008)

|                        | Volume (Contracts) |
|------------------------|--------------------|
| <b>Futures</b>         |                    |
| HSI Futures            | 10,095,723         |
| Mini-HSI Futures       | 3,542,364          |
| H-shares Index Futures | 6,699,276          |
| Total Futures          | 20,507,436         |
| <b>Options</b>         |                    |
| HSI Options            | 1,737,141          |
| Stock Options          | 28,676,381         |
| Total Options          | 31,110,453         |

## HKEx Share Highlights (Six months ended 30 June 2008)

|  |                            |
|--|----------------------------|
| Stock Code                                 | 388                        |
| Share Price                                | High: \$222.0 Low: \$112.1 |
| Market Capitalisation (as at 30 June 2008) | \$122.4 billion            |
| Issued Capital (as at 30 June 2008)        | 1,073,646,846 shares       |
| Average Daily Turnover Volume              | 12,023,703 shares          |
| Average Daily Turnover Value               | \$1.8 billion              |

Share Price and Turnover of HKEx Shares  
27 June 2000 – 30 June 2008



# CHRONOLOGY OF EVENTS



## 1 January

Commenced a pilot scheme requiring listing applicants to post a WPIP on the HKEx or GEM website, prior to their IPOs

## 11 January

Published a Combined Consultation Paper to seek market views on 18 substantive policy issues relating to listing matters

## 21 January

Received the Hong Kong Computer Society's Hong Kong ICT Awards 2007: Best Business Grand Award for HKEx's EDS ①

## 28 January

Upgraded AMS/3 and MDF capacity and technology

## 4 February

Launched the designated issuer news website: [www.hkexnews.hk](http://www.hkexnews.hk) ②

## 3 March

Upgraded HKATS and DCASS to Release 19.1 software

## 6 March

Revised policy on suspensions following issuers' publication of announcements with price-sensitive information

## 25 March

Upgraded CCASS/3 capability

## 26 March

Hosted the Town Hall Meeting of the World Federation of Exchanges ③

## 31 March

Introduced Mini H-shares Index Futures ④

## 1 April

Published a Joint Consultation Paper on Issue of Paper Application Forms with Electronic Prospectuses with the SFC

## 7 April

Began trading the first batch of DWs with five-digit stock codes

## 24 April

Held the 2008 AGM and announced the election and re-appointment of Directors ⑤



#### 28 April

Launched the new Online CCASS Shareholding Disclosure Service

#### 29 April

Announced the allocation of five-digit stock codes for new CBBCs to be listed on or after 13 May 2008

#### 2 May

Published GEM consultation conclusions to reposition GEM as a second board effective 1 July

#### 8 May

Appointed the Business Environment Council to conduct a review of HKEx's existing CSR policies and practices, and to carry out a green audit of its operations

#### 15 May

Donated \$5 million to support the Mainland's earthquake relief efforts ⑥

#### 22 May

Supported the Carbon Trading Workshop – Challenges and Trends for Financial Centres

#### 26 May

Implemented the CAS for the securities market



#### 10 June

Introduced three new stock option classes

#### 20 June

Streamlined the admission procedures for EPs and the registration and approval procedures for their staff and substantial shareholders, jointly with the SFC

#### 1 July

Introduced a depositary receipt framework

#### 2 July

Announced the reintroduction of gold futures effective 20 October

Revised requirements for stock options market makers in HKEx's Derivatives Market

#### 18 July

Published Consultation Conclusion on Shortening the Deadlines for Half-year and Annual Reporting by Main Board Issuers

#### 23 July

Further donated \$5 million to support earthquake recovery efforts on the Mainland

Rescheduled the removal of parallel trading arrangement to second half of 2009



# CORPORATE INFORMATION

## Board of Directors

### Independent Non-executive Chairman

ARCULLI, Ronald Joseph\* <sup>1</sup> GBS, JP

### Executive Director, Chief Executive

CHOW Man Yiu, Paul SBS, JP

### INEDs

CHA May-Lung, Laura\* <sup>2</sup> SBS, JP

CHENG Mo Chi, Moses\* <sup>2</sup> GBS, JP

CHEUNG Kin Tung, Marvin\* GBS, JP

FAN Hung Ling, Henry\* SBS, JP

FONG Hup\* MH

KWOK Chi Piu, Bill <sup>3</sup>

LEE Kwan Ho, Vincent Marshall <sup>3</sup>

LOH Kung Wai, Christine

STRICKLAND, John Estmond GBS, JP

WEBB, David Michael <sup>4</sup>

WILLIAMSON, John Mackay McCulloch <sup>5</sup>

WONG Sai Hung, Oscar

## Committees

### Audit Committee

CHEUNG Kin Tung, Marvin (Chairman)

FONG Hup (Deputy Chairman)

CHENG Mo Chi, Moses <sup>6</sup>

LEE Kwan Ho, Vincent Marshall <sup>6</sup>

WEBB, David Michael <sup>4</sup>

WILLIAMSON, John Mackay McCulloch <sup>5</sup>

### Executive Committee

ARCULLI, Ronald Joseph (Chairman) <sup>7</sup>

CHOW Man Yiu, Paul

FONG Hup

KWOK Chi Piu, Bill <sup>6</sup>

LEE Kwan Ho, Vincent Marshall <sup>6</sup>

### Investment Advisory Committee

STRICKLAND, John Estmond (Chairman)

WONG Sai Hung, Oscar (Deputy Chairman)

CHA May-Lung, Laura <sup>6</sup>

SUN Tak Kei, David

WEBB, David Michael <sup>4</sup>

WILLIAMSON, John Mackay McCulloch <sup>5</sup>

## Committees (continued)

### Nomination Committee

ARCULLI, Ronald Joseph (Chairman) <sup>6</sup>

FAN Hung Ling, Henry

LEE Kwan Ho, Vincent Marshall <sup>6</sup>

STRICKLAND, John Estmond

WEBB, David Michael <sup>4</sup>

WONG Sai Hung, Oscar <sup>5</sup>

### Panel Member Nomination Committee

CHA May-Lung, Laura (Chairman) <sup>6</sup>

FONG Hup

KWOK Chi Piu, Bill <sup>6</sup>

LEE Kwan Ho, Vincent Marshall <sup>6</sup>

WONG Sai Hung, Oscar

### Remuneration Committee

ARCULLI, Ronald Joseph (Chairman) <sup>6</sup>

CHA May-Lung, Laura <sup>6</sup>

CHENG Mo Chi, Moses <sup>6</sup>

LEE Kwan Ho, Vincent Marshall <sup>6</sup>

LOH Kung Wai, Christine

### Risk Management Committee

(established under Section 65 of the SFO)

ARCULLI, Ronald Joseph (Chairman) <sup>7</sup>

CHAN Ka-lok\*\*

CHEUNG Kin Tung, Marvin

FONG Hup\*\*

HUNG Pi Cheng, Benjamin\*\* <sup>8</sup>

KWOK Chi Piu, Bill <sup>6</sup>

LAU Ying Pan, Edmond\*\*

LUI Kei Kwong, Keith\*\*

## Company Secretary

MAU Kam Shing, Joseph

## Authorised Representatives

CHOW Man Yiu, Paul

MAU Kam Shing, Joseph

## Auditor

PricewaterhouseCoopers

## Legal Advisers

Allen & Overy

\* Government Appointed Directors

\*\* Appointed by the Financial Secretary

<sup>1</sup> Re-appointed as Director on 24 April 2008

and as Chairman on 29 April 2008

<sup>2</sup> Re-appointment effective 24 April 2008

<sup>3</sup> Re-elected on 24 April 2008

<sup>4</sup> Resigned on 15 May 2008

<sup>5</sup> Appointment effective 18 June 2008

<sup>6</sup> Re-appointment effective 25 April 2008

<sup>7</sup> Re-appointment effective 29 April 2008

<sup>8</sup> Appointment effective 20 January 2008

# BUSINESS REVIEW

## Listing

### 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 issues were identified during the operation of the pilot scheme which ended on 31 March 2008. The Exchange will publish a paper on the conclusions of the pilot implementation and plans to codify the requirement to post a WPIP 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.

### 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 the proposal to allow distribution of paper application forms for public offers at receiving banks without accompanying hard-copy prospectuses on the condition that electronic prospectuses are available online and other requirements aimed at investor protection are satisfied. The consultation ended on 30 May 2008 with 12 responses which are being analysed. The consultation conclusions are planned to be published in the fourth quarter of 2008.

### Publication of GEM Consultation Conclusions

Pursuant to the consultation conclusions of the GEM Review published on 2 May 2008, the Listing Rules were revised to reposition GEM as a second board and as a stepping stone to the Main Board. The revised rules took effect on 1 July 2008.

### Introduction of Depositary Receipt Framework in Hong Kong

As part of the effort to promote the listing of more overseas companies in Hong Kong, the HDR framework became effective on 1 July 2008. An issuer seeking to list in Hong Kong through HDRs will have to comply with generally the same requirements as an issuer of shares.

### Shortening the Deadlines for Half-Year and Annual Reporting by Main Board Issuers

On 18 July 2008, the Exchange published its Consultation Conclusion on Shortening the Deadlines for Half-Year and Annual Reporting by Main Board Issuers. Amendments have been made to the Main Board Listing Rules to accelerate the deadlines for the release of half-year results announcements and annual results announcements, covering accounting periods ending on or after 30 June 2010 and 31 December 2010 respectively.

## Cash Market

### Market Performance

In the first half of 2008, 21 companies were newly listed on the Main Board (including four transferred from GEM) and two on GEM, and four Main Board companies and six GEM companies were delisted. Total capital raised, including post-listing funds, reached \$122.2 billion. As at 30 June 2008, 1,065 and 189 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about \$16,356.0 billion. In addition, there were 4,599 DWs, 453 CBBCs, seven REITs, 23 ETFs and 175 debt securities listed as at 30 June 2008. The average daily turnover in the first half of 2008 was about \$87.0 billion on the Main Board and about \$321 million on GEM.

## Number of Listed Companies by Classification – Main Board &amp; GEM

|                           | As at        | As at        | As at        | % Change   |            |
|---------------------------|--------------|--------------|--------------|------------|------------|
|                           | 30 Jun 2008  | 31 Mar 2008  | 30 Jun 2007  | Mar 2008   | Jun 2007   |
| Energy                    | 28           | 28           | 26           | 0.0        | 7.7        |
| Materials                 | 84           | 83           | 74           | 1.2        | 13.5       |
| Industrial Goods          | 116          | 115          | 108          | 0.9        | 7.4        |
| Consumer Goods            | 336          | 334          | 325          | 0.6        | 3.4        |
| Services                  | 194          | 190          | 184          | 2.1        | 5.4        |
| Telecommunications        | 18           | 18           | 17           | 0.0        | 5.9        |
| Utilities                 | 21           | 21           | 19           | 0.0        | 10.5       |
| Financials                | 104          | 103          | 103          | 1.0        | 1.0        |
| Properties & Construction | 167          | 165          | 160          | 1.2        | 4.4        |
| Information Technology    | 159          | 160          | 155          | (0.6)      | 2.6        |
| Conglomerates             | 27           | 27           | 25           | 0.0        | 8.0        |
| <b>Total</b>              | <b>1,254</b> | <b>1,244</b> | <b>1,196</b> | <b>0.8</b> | <b>4.8</b> |

## Market Capitalisation of Listed Companies by Classification – Main Board &amp; GEM

|                           | As at                  | As at                  | As at                  | % Change     |            |
|---------------------------|------------------------|------------------------|------------------------|--------------|------------|
|                           | 30 Jun 2008<br>(\$mil) | 31 Mar 2008<br>(\$mil) | 30 Jun 2007<br>(\$mil) | Mar 2008     | Jun 2007   |
| Energy                    | 1,322,722              | 1,152,494              | 1,035,875              | 14.8         | 27.7       |
| Materials                 | 392,637                | 415,770                | 464,280                | (5.6)        | (15.4)     |
| Industrial Goods          | 236,852                | 238,197                | 252,479                | (0.6)        | (6.2)      |
| Consumer Goods            | 1,070,828              | 1,160,666              | 1,183,099              | (7.7)        | (9.5)      |
| Services                  | 1,101,348              | 1,205,340              | 1,193,496              | (8.6)        | (7.7)      |
| Telecommunications        | 2,614,208              | 2,875,492              | 2,170,049              | (9.1)        | 20.5       |
| Utilities                 | 555,030                | 562,943                | 512,374                | (1.4)        | 8.3        |
| Financials                | 5,665,583              | 5,593,902              | 5,518,578              | 1.3          | 2.7        |
| Properties & Construction | 1,961,088              | 2,232,351              | 2,048,051              | (12.2)       | (4.2)      |
| Information Technology    | 466,313                | 487,868                | 494,815                | (4.4)        | (5.8)      |
| Conglomerates             | 969,431                | 1,012,914              | 981,587                | (4.3)        | (1.2)      |
| <b>Total</b>              | <b>16,356,041</b>      | <b>16,937,936</b>      | <b>15,854,684</b>      | <b>(3.4)</b> | <b>3.2</b> |

Note: Figures have been rounded, and may not add up to the total.

## Number of Listed Securities – Main Board &amp; GEM

|                   | As at        | As at        | As at        | % Change     |             |
|-------------------|--------------|--------------|--------------|--------------|-------------|
|                   | 30 Jun 2008  | 31 Mar 2008  | 30 Jun 2007  | Mar 2008     | Jun 2007    |
| Ordinary Shares   | 1,255        | 1,245        | 1,197        | 0.8          | 4.8         |
| Preference Shares | 2            | 2            | 3            | 0.0          | (33.3)      |
| Warrants          | 4,638        | 5,040        | 2,711        | (8.0)        | 71.1        |
| – Equity Warrants | 39           | 40           | 30           | (2.5)        | 30.0        |
| – DWs             | 4,599        | 5,000        | 2,681        | (8.0)        | 71.5        |
| CBBCs             | 453          | 214          | 37           | 111.7        | 1,124.3     |
| Unit Trusts       | 32           | 26           | 24           | 23.1         | 33.3        |
| – ETFs            | 23           | 17           | 16           | 35.3         | 43.8        |
| – REITs           | 7            | 7            | 7            | 0.0          | 0.0         |
| – Others          | 2            | 2            | 1            | 0.0          | 100.0       |
| Debt Securities   | 175          | 174          | 175          | 0.6          | 0.0         |
| <b>Total</b>      | <b>6,555</b> | <b>6,701</b> | <b>4,147</b> | <b>(2.2)</b> | <b>58.1</b> |

## Market Value by Type of Securities – Main Board &amp; GEM

|                              | As at                  | As at                  | As at                  | % Change     |            |
|------------------------------|------------------------|------------------------|------------------------|--------------|------------|
|                              | 30 Jun 2008<br>(\$mil) | 31 Mar 2008<br>(\$mil) | 30 Jun 2007<br>(\$mil) | Mar 2008     | Jun 2007   |
| Equities                     | 16,356,041             | 16,937,936             | 15,854,684             | (3.4)        | 3.2        |
| Warrants                     | 214,925                | 339,928                | 334,781                | (36.8)       | (35.8)     |
| – Equity Warrants            | 2,137                  | 3,560                  | 4,301                  | (40.0)       | (50.3)     |
| – DWs                        | 212,788                | 336,369                | 330,480                | (36.7)       | (35.6)     |
| CBBCs                        | 86,946                 | 52,370                 | 2,477                  | 66.0         | 3,410.1    |
| Unit Trusts                  | 174,989                | 161,312                | 150,407                | 8.5          | 16.3       |
| – ETFs                       | 109,070                | 94,529                 | 81,938                 | 15.4         | 33.1       |
| – REITs                      | 63,007                 | 64,001                 | 68,469                 | (1.6)        | (8.0)      |
| – Others                     | 2,912                  | 2,782                  | N/A                    | 4.7          | N/A        |
| Debt Securities <sup>△</sup> | 435,938                | 424,656                | 420,526                | 2.7          | 3.7        |
| <b>Total</b>                 | <b>17,268,839</b>      | <b>17,916,203</b>      | <b>16,762,873</b>      | <b>(3.6)</b> | <b>3.0</b> |

<sup>△</sup> Nominal value

Note: Figures have been rounded, and may not add up to the sub-total or the total.

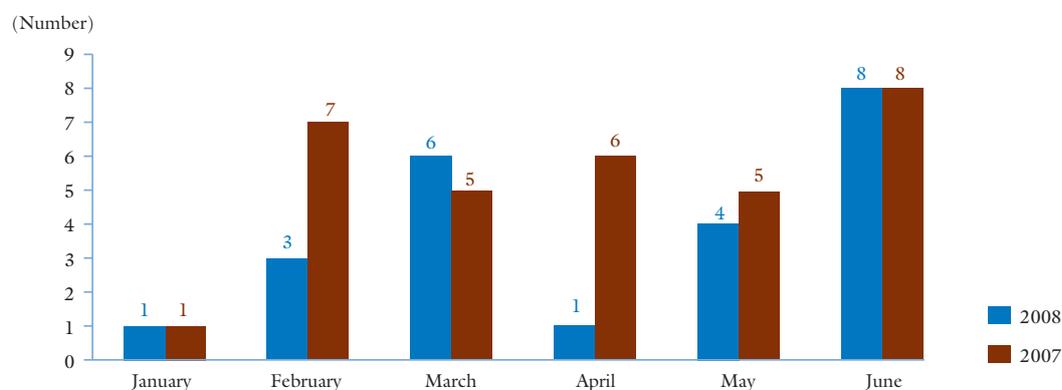
## Turnover Value by Type of Securities – Main Board &amp; GEM

|                     | Six months                      | Six months                      | % Change    |
|---------------------|---------------------------------|---------------------------------|-------------|
|                     | ended<br>30 Jun 2008<br>(\$mil) | ended<br>30 Jun 2007<br>(\$mil) |             |
| Equities            | 7,509,942                       | 5,706,519                       | 31.6        |
| Warrants            | 2,570,660                       | 1,361,859                       | 88.8        |
| – Equity Warrants   | 961                             | 1,905                           | (49.6)      |
| – DWs               | 2,569,700                       | 1,359,954                       | 89.0        |
| CBBCs               | 259,748                         | 10,268                          | 2,429.7     |
| Unit Trusts         | 222,912                         | 90,496                          | 146.3       |
| – ETFs <sup>#</sup> | 192,680                         | 66,467                          | 189.9       |
| – REITs             | 28,818                          | 24,029                          | 19.9        |
| – Others            | 1,414                           | N/A                             | N/A         |
| Debt Securities     | 4                               | 4                               | 0.0         |
| <b>Total</b>        | <b>10,563,266</b>               | <b>7,169,147</b>                | <b>47.3</b> |

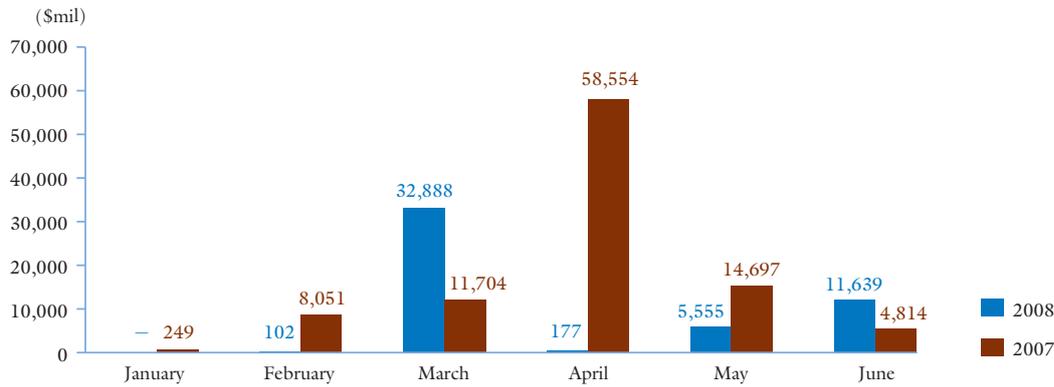
<sup>#</sup> Included two iShares for trading only

Note: Figures have been rounded, and may not add up to the sub-total or the total.

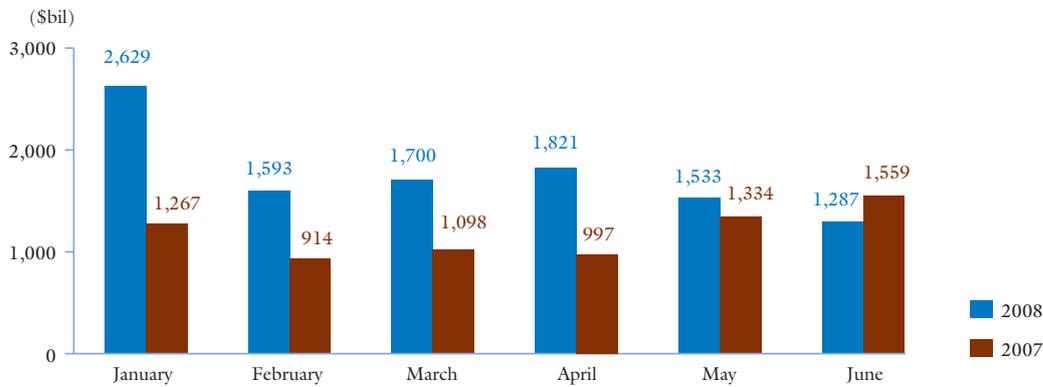
## Number of Newly Listed Companies – Main Board &amp; GEM



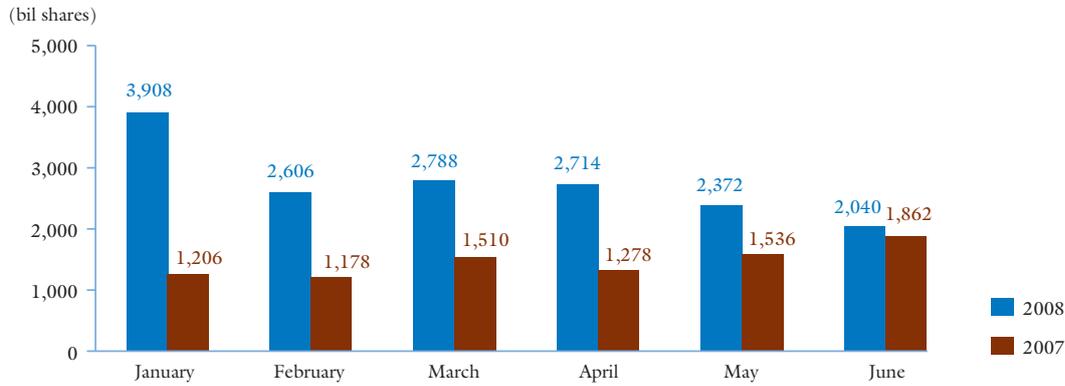
IPO Funds Raised by Newly Listed Companies – Main Board & GEM



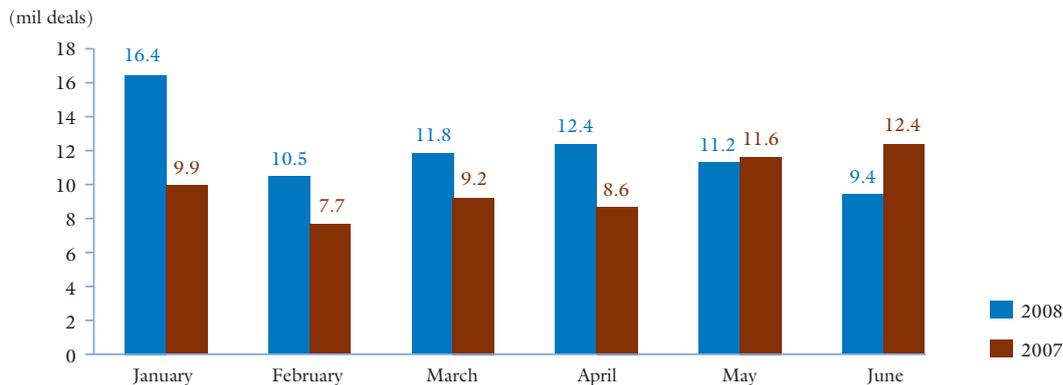
Monthly Turnover (Value) – Main Board & GEM



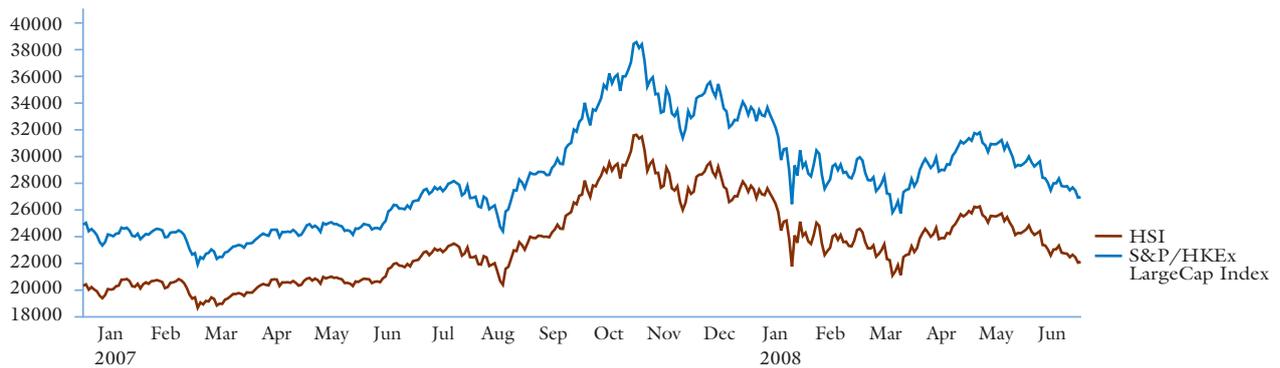
Monthly Turnover (Volume) – Main Board & GEM



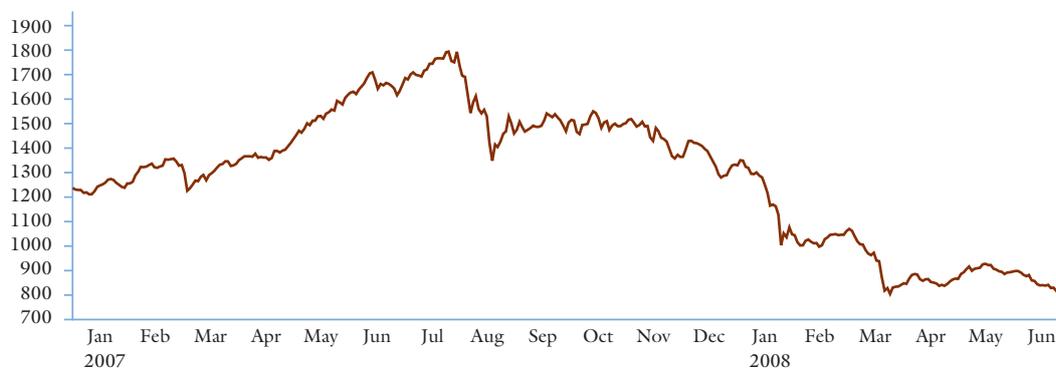
Monthly Number of Transactions – Main Board & GEM



### HSI and S&P/HKEx LargeCap Index January 2007 – June 2008



### S&P/HKEx GEM Index January 2007 – June 2008



### Introduction of Five-Digit Stock Codes

Five-digit stock codes were successfully rolled out on 7 April 2008. Those within the range of 10000 to 29999 have been assigned to new DWs listed on or after 7 April 2008; while those within the range of 30000 to 32499 have been assigned to new CBBCs listed on or after 13 May 2008.

More stock codes are now available to support the growth in the number of listed securities, and HKEx has greater flexibility to differentiate the various types of products traded in the Cash Market with stock codes.

### Introduction of CAS

After completion of extensive system tests and market rehearsals, the CAS was launched on 26 May 2008. With the launch, the trading hours of the securities market have been extended by 10 minutes to 4:10pm on normal trading days and to 12:40pm on half-day trading days.

To continuously enhance market infrastructure, HKEx will issue another consultation paper in the third quarter of this year to solicit market views on possible improvements to the CAS. Meanwhile, HKEx in conjunction with the SFC, will continue with market education programmes to ensure practitioners and the investing public are familiar with the trading mechanism and operations of the CAS.

### Removal of Parallel Trading Arrangement

HKEx has been discussing with market participants regarding their preparations and latest views on the removal of parallel trading arrangement. The removal has been rescheduled to the second half of next year to give market participants more time to prepare for the changes.

HKEx will publish a document with details of the operational implications and continue to work closely with market participants to ensure a smooth implementation of the changes.

### CBBC Market Development

The CBBC market in Hong Kong has grown substantially since its launch, from an average daily turnover of below \$100 million in the initial 12 months to about \$2.2 billion in the first half of this year. The number of newly listed CBBCs also surged to 953 in the first half of this year.

Eight issuers have launched CBBCs in the Hong Kong securities market. As at the end of June 2008, there were 453 CBBCs listed and their underlying assets included two Hong Kong stock indices, 21 Hong Kong-listed stocks and two overseas stock indices. The market development in terms of the number of bull and bear contracts listed has been becoming more balanced.

### Listing of Gold ETF

The first gold ETF, SPDR Gold Trust, was listed on the Stock Exchange on 31 July 2008. It is one of the largest and most liquid commodity ETFs globally with total net assets of approximately \$148 billion. The listing of the gold ETF gives investors an additional channel to access the international gold market.

## Derivatives Market

### Market Performance

In the first half of 2008, the total turnover of futures and options recorded a 54 per cent increase over that of the same period in 2007. Among the major derivatives products, stock options and H-shares Index futures recorded a remarkable increase of 81 per cent and 68 per cent respectively. In addition, the total futures and options turnover volume surpassed the one million contract mark for two consecutive days, ie 1,180,005 and 1,160,428 contracts on 26 and 27 March 2008 respectively.

### Record High Daily Volume and Open Interest Achieved in the First Half of 2008

| Products                    | Daily Volume |                     | Open Interest |                     |
|-----------------------------|--------------|---------------------|---------------|---------------------|
|                             | Date         | Number of Contracts | Date          | Number of Contracts |
| HSI Futures                 | 26 Feb       | 204,878             |               | N/A                 |
| Mini HSI Futures            | 24 Jan       | 63,991              |               | N/A                 |
| H-shares Index Futures      | 26 Mar       | 179,041             | 26 Mar        | 156,841             |
| Mini H-shares Index Futures | 1 Apr        | 2,228               | 27 Jun        | 825                 |
| Stock Options               | 27 Mar       | 805,947             |               | N/A                 |

### Average Daily Volume of Major Derivatives Products

| Contracts                     | Six months ended | Three months ended | Six months ended | % Change |          |
|-------------------------------|------------------|--------------------|------------------|----------|----------|
|                               | 30 Jun 2008      | 31 Mar 2008        | 30 Jun 2007      | Mar 2008 | Jun 2007 |
| HSI Futures                   | 84,131           | 89,686             | 61,728           | (6.2)    | 36.3     |
| HSI Options                   | 14,476           | 15,072             | 31,118           | (4.0)    | (53.5)   |
| Mini-HSI Futures              | 29,520           | 33,024             | 11,813           | (10.6)   | 149.9    |
| Mini-HSI Options              | 450              | 355                | 345              | 26.8     | 30.4     |
| H-shares Index Futures        | 55,827           | 61,088             | 32,875           | (8.6)    | 69.8     |
| H-shares Index Options        | 5,355            | 5,806              | 6,108            | (7.8)    | (12.3)   |
| Mini H-shares Index Futures * | 1,133            | 1,204              | N/A              | (5.9)    | N/A      |
| Stock Futures                 | 714              | 662                | 1,656            | 7.9      | (56.9)   |
| Stock Options                 | 238,970          | 266,199            | 131,040          | (10.2)   | 82.4     |
| 3-Month HIBOR Futures         | 117              | 127                | 153              | (7.9)    | (23.5)   |

\* Introduced on 31 March 2008

**Open Interest of Major Derivatives Products**

| Contracts                     | As at       | As at       | As at       | % Change |          |
|-------------------------------|-------------|-------------|-------------|----------|----------|
|                               | 30 Jun 2008 | 31 Mar 2008 | 30 Jun 2007 | Mar 2008 | Jun 2007 |
| HSI Futures                   | 101,711     | 107,570     | 129,596     | (5.4)    | (21.5)   |
| HSI Options                   | 91,240      | 115,920     | 259,961     | (21.3)   | (64.9)   |
| Mini-HSI Futures              | 3,215       | 2,260       | 4,487       | 42.3     | (28.3)   |
| Mini-HSI Options              | 1,611       | 1,193       | 1,085       | 35.0     | 48.5     |
| H-shares Index Futures        | 108,981     | 114,938     | 84,591      | (5.2)    | 28.8     |
| H-shares Index Options        | 47,697      | 77,461      | 124,727     | (38.4)   | (61.8)   |
| Mini H-shares Index Futures * | 520         | 70          | N/A         | 642.9    | N/A      |
| Stock Futures                 | 6,864       | 5,443       | 5,377       | 26.1     | 27.7     |
| Stock Options                 | 4,775,250   | 5,652,274   | 3,571,810   | (15.5)   | 33.7     |
| 3-Month HIBOR Futures         | 1,708       | 1,971       | 9,547       | (13.3)   | (82.1)   |

\* Introduced on 31 March 2008

**Flexible Position Limits**

With effect from 3 January 2008, EPs and their affiliates which demonstrate a relevant business need to facilitate the provision of services to clients may apply to the SFC for an increase in position limits up to 50 per cent above the statutory limits prescribed for HSI futures and options, and H-shares Index futures and options contracts.

**Enhancement of Block Trade Execution Arrangement**

Effective 28 April 2008, aggregation of orders on block trades by EPs for one side or both sides will be allowed upon fulfilment of certain criteria, which could facilitate execution of large client orders in an efficient manner and booking of over-the-counter trades to HKFE.

**New Trading Hours**

With the introduction of the CAS for the securities market on 26 May 2008, the trading hours for stock index futures and options were extended to 4:30pm on normal trading days and 1:00pm on half-day trading days, except the last trading day for which the closing time remains 4:00pm.

**Market Maker Obligation Revisions and Facility Improvement**

In order to facilitate market makers in providing quotes more efficiently through HKATS, the mass quote ratio for dissemination of quotes was increased from 1:2 to 1:4 on 16 June 2008. In addition, to improve the performance of market makers, effective 2 July 2008, stock options market makers are required to respond to at least 200 quote requests per minute (compared to the previous requirement of at least 50 quote requests per minute), and to provide price quotes for 30 or more contracts on stock option classes under Liquidity Level 1, and 15 or more contracts on classes under Liquidity Level 2 (compared to the previous minimum of 60 contracts under Liquidity Level 1, and 30 under Liquidity Level 2).

**Introduction of New Products**

HKEx introduced the Mini H-shares Index futures contract on 31 March 2008 to facilitate participation of small investors. The contract value of the Mini H-shares Index futures is one-fifth of the contract size of the standard H-shares Index futures.

Following the introduction of three stock option classes on 10 June 2008, the Derivatives Market offers a total of 50 stock option classes, covering blue chips, H shares, red chips and other popular stocks as the underlying securities.

In mid-June 2008, the SFC approved the relevant trading and clearing rule amendments for the introduction of gold futures effective 20 October 2008. The gold futures will be based on the Loco-London gold standard with gold fineness of not less than 995. The contract size will be 100 troy ounces and will be traded and cash-settled in US Dollar.

To facilitate participation of gold market professionals in the HKFE markets (including gold futures), HKEx has approved the plan to offer non-transferable HKFE trading rights, at a fee of \$25,000 each, to members of Chinese Gold and Silver Exchange Society or their designated affiliates, which could obtain the licence from the SFC to deal in futures contracts. Such HKFE trading rights shall have the same status as other non-transferable HKFE trading rights, and holders will have the right to trade any HKFE products.

## Clearing

### CCASS Statistics

Six months ended 30 June

|  | 2008              | 2007              |
|--|-------------------|-------------------|
| <b>Average Daily Exchange Trades Handled by CCASS</b>  |                   |                   |
| – Number of Trades   | 591,669           | 490,854           |
| – Value of Trades  | \$87.3 billion    | \$59.2 billion    |
| – Share Quantity Involved  | 135.8 billion     | 70.8 billion      |
| <b>Average Daily SIs Handled by CCASS</b>  |                   |                   |
| – Number of SIs  | 66,369            | 54,951            |
| – Value of SIs   | \$223.2 billion   | \$141.7 billion   |
| – Share Quantity Involved  | 56.1 billion      | 33.8 billion      |
| <b>Average Daily ISIs Handled by CCASS</b>   |                   |                   |
| – Number of ISIs   | 561               | 845               |
| – Value of ISIs  | \$221.3 million   | \$225.7 million   |
| – Share Quantity Involved  | 90.9 million      | 137.0 million     |
| <b>Average Daily Settlement Efficiency of CNS Stock Positions on Due Day (T+2)</b>                       | 99.84%            | 99.74%            |
| <b>Average Daily Settlement Efficiency of CNS Stock Positions on the Day following the Due Day (T+3)</b> | 99.99%            | 99.97%            |
| <b>Average Daily Buy-ins Executed on T+3</b>   |                   |                   |
| – Number of Brokers Involved   | 10                | 18                |
| – Number of Buy-ins  | 11                | 21                |
| – Value of Buy-ins   | \$5.8 million     | \$8.0 million     |
| <b>Shares Deposited in the CCASS Depository</b>  |                   |                   |
| – Number of Shares   | 3,980.2 billion   | 2,078.8 billion   |
| – Percentage of the Total Issued Share Capital of the Admitted Securities                                | 75.61%            | 65.62%            |
| – Values of Shares   | \$7,704.1 billion | \$7,102.0 billion |
| – Percentage of the Total Market Capitalisation of the Admitted Securities                               | 44.60%            | 42.40%            |

### Stock Withdrawal Fee Concession

Effective 14 January 2008, CCASS Participants may apply for a stock withdrawal fee concession if the shares to be withdrawn had been previously deposited into the CCASS Depository in a jumbo certificate by the same CCASS Participant and on behalf of the same 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 is reduced to a flat fee of \$1,000 per application plus scrip fee of \$2.5 per certificate that is payable to the share registrar for re-registration of the deposited shares.

### CCASS Service Enhancements

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

## Introduction of CCASS Shareholding Disclosure Service

HKEx introduced a new CCASS Shareholding Disclosure service to the public on 28 April 2008. The shareholding information of CCASS Participants (other than non-consenting IPs) in Hong Kong-listed companies kept by HKSCC is available free of charge to the public via the HKExnews website. The shareholding of 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 a stock option expiry day, 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.

## Participant Services

### Streamlining Admission and Registration Procedures for EPs

Effective 20 June 2008, an EP will not be required to register its employees who have access to the trading devices of HKEx as Authorised Clerk or Registered User. Simultaneously, examinations for operating AMS/3 terminals and HKATS workstations have been terminated while respective training courses continue. Trader IDs, HKATS usernames and passwords will be issued as appropriate to the EPs instead of to the traders. In addition, all Responsible Officers licensed by the SFC are automatically registered with HKEx. Similarly, any registration or change in the information of substantial shareholders approved by the SFC is no longer required to be duplicated, certified and filed with HKEx.

### Participant Training and Market Education

For the period under review, HKEx organised 27 Continuous Professional Training courses jointly with the Hong Kong Securities Institute, with over 850 attendees. In addition, we held 15 training courses on AMS/3 and 10 on HKATS to familiarise EPs with their operations and the relevant trading rules and procedures. A total of 22 briefing sessions on derivatives products were also organised and had attracted about 2,000 representatives from EPs.

To promote Mainland-related equity futures and options to retail investors, HKEx, with the cooperation of 12 EPs, organised an Investment Expo on 13 January 2008, which attracted more than 2,600 participants.

To raise investors’ awareness and interest in trading the newly launched Mini H-shares Index futures, HKEx sponsored three participating EPs to organise online trading simulation games. The games attracted over 5,000 participants. The three EPs also promoted the product through product briefings and newspaper advertisements.

### EP Recruitment

On 20 May 2008, HKEx held seminars on Hong Kong’s market infrastructure and EP admission procedures in Beijing for Mainland broker firms which might be able to set up branch offices in Hong Kong under the third phase of the Closer Economic Partnership Arrangement (“CEPA”). Representatives from 28 firms attended the seminars.

In the first half of 2008, 10 new SEHK Participants and nine new HKFE Participants were admitted, including those from Australia, Belgium, Hong Kong, Switzerland, Taiwan and the Mainland. Up till now, there have been a total of nine EPs from the Mainland through CEPA.

**Number of Trading Right Holders**

As at the end of June 2008

|             | SEHK                            |                               | HKFE                            |                               |
|-------------|---------------------------------|-------------------------------|---------------------------------|-------------------------------|
|             | Number of Trading Right Holders | Number of Trading Rights Held | Number of Trading Right Holders | Number of Trading Rights Held |
| EPs         | 483                             | 893                           | 147                             | 172                           |
| Trading     | 448                             | 852                           | 147                             | 172                           |
| Non-trading | 35                              | 41                            | 0                               | 0                             |
| Non-EPs     | 36                              | 36                            | 53                              | 55                            |
| Total       | 519                             | 929                           | 200                             | 227                           |

**Number of CCASS Participants**

As at the end of June 2008

|                               | HKSCC  |
|-------------------------------|--------|
| Clearing Agency Participant   | 1      |
| Custodian Participants        | 37     |
| Direct Clearing Participants  | 450    |
| General Clearing Participants | 3      |
| IPs                           | 19,645 |
| Stock Lender Participants     | 0      |
| Stock Pledgee Participants    | 6      |
| Total                         | 20,142 |

**Promotional Activities**

In the first half of 2008, HKEx's Mainland marketing trips covered over 30 cities in 15 provinces. In addition to meeting with government officials and potential issuers, HKEx conducted more than 35 presentations in various places in the Mainland, such as Chongqing, Foshan, Fuzhou, Hangzhou and Jinan, to promote listing in Hong Kong to over 5,000 Mainland participants.

Apart from the Mainland, HKEx also conducted a series of marketing trips in the first half of 2008 around Asia, Europe, Canada and the United States to promote Hong Kong as a premier capital formation centre in Asia. During these trips, HKEx co-organised four conferences and participated in over 20 events organised by international and/or local intermediary firms. It conducted over 100 meetings with potential listing candidates, intermediaries as well as government bodies to keep them abreast of recent developments in the Hong Kong financial market.

In light of the growing interest from mining companies in seeking listings in Hong Kong, HKEx participated in the Asia Mining Congress 2008 in Singapore, the XX Macao & Asia Miner – the Exploration Exchange in Macao, as well as the Mines and Money Asia 2008 Conference in Hong Kong. HKEx met and exchanged views with mining companies from around the world, including those from Australia, Canada and the Mainland.

## Major Promotional Activities in the First Half of 2008

| Date             | HKEx Representatives                                     | Event  | Place                               |
|------------------|--|--|-------------------------------------|
| 22 Feb           | Chairman   | Listing in Hong Kong Roundtable Meeting<br>(香港上市圓桌會)   | Shijiazhuang                        |
| 17-18 Mar        | Chief Executive<br>("CE")                                | Roadshows for institutional<br>investors and fund managers   | Shanghai and Beijing                |
| 7 Apr            | Chairman, CE and<br>Issuer Marketing<br>Division ("IMD") | Workshop on India – Hong Kong<br>Financial Sector Co-operation   | Mumbai                              |
| 17 Apr           | Chairman and IMD   | IPO in Hong Kong Conference  | Ulaanbaatar                         |
| 29 Apr-<br>2 May | CE   | Roadshows for institutional investors<br>and fund managers   | Frankfurt, Edinburgh,<br>and London |
| 4 May            | Chairman   | China and Hong Kong – Connecting<br>Law and Business Conference  | Israel                              |
| 15 May           | CE and IMD   | Hong Kong Financial Summit – Globalisation<br>through Hong Kong's Capital Market Conference  | Santa Clara                         |
| 16 May           | CE and IMD   | HKEx Reception: Hong Kong – A Premier<br>International Capital Formation Centre  | Vancouver                           |
| 22 May           | Beijing Representative<br>Office ("BRO")                 | Fund-raising and Listing in Hong Kong Conference<br>(企業融資與香港上市研討會)   | Dalian                              |
| 25-31 May        | CE   | Business delegation led by the Financial Secretary   | Eastern Europe                      |
| 4 Jun            | IMD  | IPO in Hong Kong Conference  | Moscow                              |
| 3-4 Jun          | CE   | Mondo Visione Exchange Forum   | London                              |
| 5-6 Jun          | CE   | Sandler O'Neill's & Partners Global Exchange<br>and Electronic Trading Conference  | New York                            |
| 10-11 Jun        | Derivatives Market<br>Department                         | International Derivatives Expo   | London                              |
| 10 Jun           | IMD  | Workshop as a pre-event for the Mines and Money<br>Asia 2008 Conference, Listing on HKEx – an<br>International Market in Asia for Mining Companies | Hong Kong                           |
| 25 Jun           | BRO  | Hong Kong Listing Promotion Roundtable<br>Meeting for Jiangyin Enterprises<br>(江陰企業香港上市推介會)  | Jiangyin                            |

## Information Services

### Strengthening Technical Requirements for Information Vendors

In March this year, the technical requirements for direct MDF vendors were tightened to ensure that their systems are capable of receiving HKEx's market data. Market rehearsals were conducted for MDF and PRS direct connection vendors for them to demonstrate their systems' capability of auto-detection of line failure and reconnection to HKEx's server within one minute. All direct connection vendors are able to meet the requirement, except one which failed and is required to enhance its system and to participate in re-test session. The results of the market rehearsals have been published on the HKEx website for public reference.

### **Membership of Financial Information Services Division (“FISD”) of the Software & Information Industry Association**

HKEx joined the FISD as an Exchange Member in April 2008. The FISD is an international association which aims to foster the development of the market data industry. Its members include exchanges, market data vendors, software vendors, brokers, banks and institutional investors. The FISD will hold the Asia Pacific Financial Information Conference in Hong Kong from 20 to 21 October 2008. HKEx is the host sponsor of the event.

### **Development of MDF Simulator**

A newly developed testing tool, MDF Simulator, was delivered to all MDF direct connection vendors in May 2008 free of charge. The MDF Simulator software replays the transmission of MDF data and was developed to facilitate information vendors’ internal function and volume tests. The MDF Simulator can help information vendors adjust the throughput rate to perform tests on various levels of data volume. They can also obtain system performance results from the test reports provided by the MDF Simulator. Hence, MDF direct connection vendors are able to ensure their readiness for major MDF enhancements, such as the MDF capacity upgrade and the introduction of the CAS, before the market rehearsals organised by HKEx. This should facilitate the effective use of resources by HKEx and information vendors, and the smooth rollout of market initiatives.

### **IIS Indirect Connection**

Effective June 2008, IIS vendors, upon complying with all technical requirements of IIS and obtaining HKEx’s approval, will be allowed to source IIS data indirectly from another IIS vendor which is connecting to the HKEx IIS directly. The licence fee for IIS remains unchanged at \$45,000 per quarter for both IIS direct and indirect connection vendors. This should facilitate the wider distribution of listed companies’ announcements.

### **Expansion of Market Data Services to the Mainland**

In recent years, the Mainland market has recorded the greatest increase in the use of HKEx’s real-time market data and information sales. As at the end of 2007, there were five information vendors in the Mainland providing HKEx’s real-time market data and information services. To further develop its data services in the Mainland, HKEx visited existing as well as potential Mainland information vendors in April and June 2008. In the first half of 2008, four new Mainland real-time information vendors were approved to disseminate our market data and information to Mainland investors, and two licence applications are being processed.

## **Information Technology**

### **Production System 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 in the first half of 2008. HKEx will continue its commitment to uphold system stability and reliability.

### **System Capacity Planning and Upgrade**

In the first quarter of 2008, the capacity and technology upgrades for the Cash Market systems, namely AMS/3, CCASS/3 and MDF, were successfully completed to support further growth in Cash Market activities. The SDNet bandwidth upgrade, involving more than 2,100 circuits for various AMS/3 trading devices, was completed in May 2008, which is in preparation for the increase of the market data dissemination rate from 300 to 500 stocks per second scheduled in early August 2008.

For the Derivatives Market, HKEx completed the capacity and technology upgrade of DCASS and PRS on 19 July 2008. The upgrade included the deployment of the latest storage area network (SAN) technology for large scale and high performance enterprise storage systems for DCASS, as well as the Itanium technology with open and much improved price performance platform for PRS. DCASS and PRS can now handle two million trades per day and 2,200 messages per second respectively, and are capable of supporting the planned business initiatives and projected activity increase in the Derivatives Market.

### **Obsolete Technology Replacement and Upgrade**

Further to the completion of the CCASS/3 capacity and technology upgrade in March 2008, the technology upgrade of the CCASS/3 middle-tier subsystem is in progress. The technology upgrade facilitates system integration and secures quality support from vendors, thereby safeguarding the reliability and stability of the system.

### **System Consolidation and Operational Efficiency**

On 31 March 2008, HKEx successfully launched the upgraded version of SMARTS, which is used to monitor the trading of HKEx's products and EPs' activities. The system upgrade offers enhanced features and improved data processing performance to further strengthen HKEx's Market Surveillance and Enforcement Department's analysis capability of detecting unusual market movements and trading activities.

In June 2008, HKEx completed the development of the Participant Financial Resources Surveillance System to automate the processing of EPs' financial return data, which will enhance HKEx's analysis and market surveillance capabilities.

### **Independent Review of Information Technology Governance (“ITG”) and EDS**

HKEx is fully aware that the availability, integrity and stability of the IT systems are crucial to support the business needs and day-to-day operations of HKEx, as well as to Hong Kong as a financial marketplace.

In the second quarter of 2008, HKEx commissioned an external consulting firm to perform an independent review of its ITG to ensure that HKEx's technology systems are able to sustain its strategies and objectives and to manage the related IT risks appropriately. In addition, the consultant would also review the operations of HKEx's EDS to assess whether technology risk, security risk and operations risk arising from EDS are managed properly. Both reviews are expected to be completed by the end of the third quarter of 2008.

### **HKEx Corporate Website Revamp**

HKEx issued a Request for Proposal on 21 April 2008 to seek a qualified vendor to provide consultancy services for the revamp of the HKEx corporate website. The evaluation of proposals received is in progress. The vendor to be appointed would be responsible for reviewing the HKEx website, making recommendations for improvements and implementing recommendations approved by HKEx. HKEx aims to benchmark its website with local and international best practices and to deliver a revamped website comparable to the best of its peers.

### **HKEx Data Centre and IT Office Consolidation**

HKEx is relocating its HKATS/DCASS primary data centre and IT office from Central to Quarry Bay. The data centre and the IT system development and support colleagues supporting the Derivatives Market and the Clearing systems and infrastructure will be grouped together in the expanded Quarry Bay data centre in mid-2009.

## Risk Management

### 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 the participation 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 subsequently appointed provisional liquidators for MLH. HKSCC will proceed to recover the balance of the closing-out losses of about \$178,000.

### Treasury

The Group’s funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling \$69.9 billion on average for the six months ended 30 June 2008 (first half of 2007: \$35.5 billion).

As compared with 31 March 2008, the overall size of funds available for investment as at 30 June 2008 decreased by 38 per cent or \$28.9 billion to \$47.3 billion (31 March 2008: \$76.2 billion). Details of the asset allocation of the investments as at 30 June 2008 against those as at 31 March 2008 are set out below.

|                      | Investment Fund Size<br>\$ billion |      | Bonds |     | Cash or Bank Deposits |     | Global Equities |     |
|----------------------|------------------------------------|------|-------|-----|-----------------------|-----|-----------------|-----|
|                      | Jun                                | Mar  | Jun   | Mar | Jun                   | Mar | Jun             | Mar |
|                      | Corporate Funds                    | 10.0 | 12.8  | 48% | 45%                   | 50% | 53%             | 2%  |
| Margin Funds         | 35.8                               | 61.7 | 42%   | 30% | 58%                   | 70% | 0%              | 0%  |
| Clearing House Funds | 1.5                                | 1.7  | 26%   | 24% | 74%                   | 76% | 0%              | 0%  |
| Total                | 47.3                               | 76.2 | 43%   | 33% | 57%                   | 67% | 0%              | 0%  |

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 and mutual funds held under the Corporate Funds (\$0.2 billion as at 30 June 2008 and 31 March 2008), which have no maturity date, the maturity profiles of the remaining investments as at 30 June 2008 (\$47.1 billion) and 31 March 2008 (\$76.0 billion) were as follows:

|                      | Investment Fund Size<br>\$ billion |      | Overnight |     | >Overnight to 1 month |     | >1 month to 1 year |     | >1 year to 3 years |     | > 3 years |     |
|----------------------|------------------------------------|------|-----------|-----|-----------------------|-----|--------------------|-----|--------------------|-----|-----------|-----|
|                      | Jun                                | Mar  | Jun       | Mar | Jun                   | Mar | Jun                | Mar | Jun                | Mar | Jun       | Mar |
|                      | Corporate Funds                    | 9.8  | 12.6      | 23% | 25%                   | 3%  | 38%                | 52% | 20%                | 16% | 12%       | 6%  |
| Margin Funds         | 35.8                               | 61.7 | 36%       | 59% | 21%                   | 10% | 41%                | 30% | 2%                 | 1%  | 0%        | 0%  |
| Clearing House Funds | 1.5                                | 1.7  | 71%       | 70% | 5%                    | 14% | 24%                | 16% | 0%                 | 0%  | 0%        | 0%  |
| Total                | 47.1                               | 76.0 | 35%       | 54% | 17%                   | 15% | 42%                | 28% | 5%                 | 2%  | 1%        | 1%  |

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 30 June 2008, had a weighted average credit rating of Aa1 (31 March 2008: Aa1) and a weighted average maturity of 0.7 year (31 March 2008: 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 second quarter of 2008 and the first quarter of 2008 was as follows:

|                      | Average VaR<br>\$ million |         | Highest VaR<br>\$ million |         | Lowest VaR<br>\$ million |         |
|----------------------|---------------------------|---------|---------------------------|---------|--------------------------|---------|
|                      | Apr-Jun                   | Jan-Mar | Apr-Jun                   | Jan-Mar | Apr-Jun                  | Jan-Mar |
| Corporate Funds      | 17.7                      | 17.7    | 18.8                      | 19.2    | 16.9                     | 15.2    |
| Margin Funds         | 21.0                      | 26.5    | 24.2                      | 31.3    | 17.1                     | 20.4    |
| Clearing House Funds | 0.6                       | 0.4     | 0.9                       | 0.4     | 0.2                      | 0.3     |

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 interim report.

# FINANCIAL REVIEW

## Overall Performance

|                                    | Unaudited<br>Six months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Six months<br>ended<br>30 Jun 2007<br>\$'000 |
|------------------------------------|---|---|
| <b>RESULTS</b>                     |   |   |
| Income:                            |   |   |
| Income affected by market turnover | 2,624,437   | 1,954,516   |
| Stock Exchange listing fees        | 355,960   | 294,000   |
| Income from sale of information    | 354,419   | 275,686   |
| Net investment income              | 589,951   | 452,740   |
| Gain on disposal of properties     | 68,641  | –   |
| Other income                       | 217,923   | 179,996   |
|                                    | <b>4,211,331</b>  | <b>3,156,938</b>  |
| Operating expenses                 | 768,943   | 665,644   |
|                                    | <b>3,442,388</b>  | <b>2,491,294</b>  |
| Operating profit                   | –   | 206,317   |
| Gain on disposal of an associate   | –   | 5,587   |
| Share of profit of an associate    | –   | –   |
|                                    | <b>3,442,388</b>  | <b>2,703,198</b>  |
| Profit before taxation             | (467,982)   | (372,897)   |
| Taxation                           | –   | –   |
|                                    | <b>2,974,406</b>  | <b>2,330,301</b>  |

The Group recorded a profit attributable to shareholders of \$2,974 million for the first six months of 2008 (first quarter: \$1,650 million; second quarter: \$1,324 million) compared with \$2,330 million for the same period in 2007 (2007 first quarter: \$922 million; second quarter: \$1,408 million).

The rise in profit for the six months ended 30 June 2008 against that of 2007 was primarily attributable to the higher turnover-related income resulting from an increase in the level of activities in the Cash and Derivatives Markets and growth in net investment income on account of higher net interest income in 2008, notwithstanding the gain on disposal of an associate in 2007 which was not repeated in 2008.

Total operating expenses increased by 16 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<br>Six months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Six months<br>ended<br>30 Jun 2007<br>\$'000 | Change     |
|---|---|---|------------|
| Trading fees and trading tariff               | 1,553,482   | 1,074,819   | 45%        |
| Clearing and settlement fees                  | 774,860   | 571,274   | 36%        |
| Depository, custody and nominee services fees | 296,095   | 308,423   | (4%)       |
| Total   | <b>2,624,437</b>  | <b>1,954,516</b>  | <b>34%</b> |

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 six months of 2008 against that of 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. In 2008, clearing and settlement fees did not increase linearly with the 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.

Depository, custody and nominee services fees dropped mainly due to a decrease in electronic-IPO handling fees as the number of newly listed companies fell. The decrease was partly offset by an increase in scrip fees, dividend collection fees and stock custody fees. Other than electronic-IPO handling fees, the other fees are influenced by the level of Cash Market activities but do not move proportionately with changes in the Cash Market turnover as they vary mostly with the number of board lots 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

|  | Six months<br>ended<br>30 Jun 2008 | Six months<br>ended<br>30 Jun 2007 | Change |
|--|------------------------------------|------------------------------------|--------|
| Average daily turnover value on the Stock Exchange                           | \$87.3 billion                     | \$59.2 billion                     | 47%    |
| Average daily number of derivatives contracts traded on the Futures Exchange | 191,179                            | 145,852                            | 31%    |
| Average daily number of stock options contracts traded on the Stock Exchange | 238,970                            | 131,040                            | 82%    |

#### (B) Stock Exchange Listing Fees

|   | Unaudited<br>Six months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Six months<br>ended<br>30 Jun 2007<br>\$'000 | Change |
|---|---|---|--------|
| Annual listing fees                       | 169,804   | 147,041   | 15%    |
| Initial and subsequent issue listing fees | 183,426   | 143,970   | 27%    |
| Others                                    | 2,730   | 2,989   | (9%)   |
| Total                                     | 355,960   | 294,000   | 21%    |

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 increase in the number of newly listed DWs and CBBCs.

#### Key Drivers for Annual Listing Fees

|  | As at<br>30 Jun 2008 | As at<br>30 Jun 2007 | Change |
|--|----------------------|----------------------|--------|
| Number of companies listed on Main Board | 1,065                | 1,002                | 6%     |
| Number of companies listed on GEM        | 189                  | 194                  | (3%)   |
| Total                                    | 1,254                | 1,196                | 5%     |

## Key Drivers for Initial and Subsequent Issue Listing Fees

|  | Six months<br>ended<br>30 Jun 2008 | Six months<br>ended<br>30 Jun 2007 | Change |
|--|------------------------------------|------------------------------------|--------|
| Number of newly listed DWs                     | 2,777                              | 2,305                              | 20%    |
| Number of newly listed CBBCs                   | 953                                | 74                                 | 1,188% |
| Number of newly listed companies on Main Board | 21                                 | 32                                 | (34%)  |
| Number of newly listed companies on GEM        | 2                                  | –                                  | N/A    |
| Total equity funds raised on Main Board        | \$117.0 billion                    | \$187.6 billion                    | (38%)  |
| Total equity funds raised on GEM               | \$5.2 billion                      | \$7.9 billion                      | (34%)  |

## (C) Income from Sale of Information

|                                 | Unaudited<br>Six months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Six months<br>ended<br>30 Jun 2007<br>\$'000 | Change |
|---------------------------------|---|---|--------|
| Income from sale of information | 354,419   | 275,686   | 29%    |

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

## (D) Net Investment Income

|                         | Unaudited<br>Six months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Six months<br>ended<br>30 Jun 2007<br>\$'000 | Change |
|-------------------------|---|---|--------|
| Gross investment income | 662,734   | 735,622   | (10%)  |
| Interest expenses       | (72,783)  | (282,882)   | (74%)  |
| Net investment income   | 589,951   | 452,740   | 30%    |

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

|                      | Six months<br>ended<br>30 Jun 2008<br>\$ billion | Six months<br>ended<br>30 Jun 2007<br>\$ billion | Change |
|----------------------|--|--|--------|
| Corporate Funds      | 10.0   | 6.4  | 56%    |
| Margin Funds         | 58.2   | 27.1   | 115%   |
| Clearing House Funds | 1.7  | 2.0  | (15%)  |
| Total                | 69.9   | 35.5   | 97%    |

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

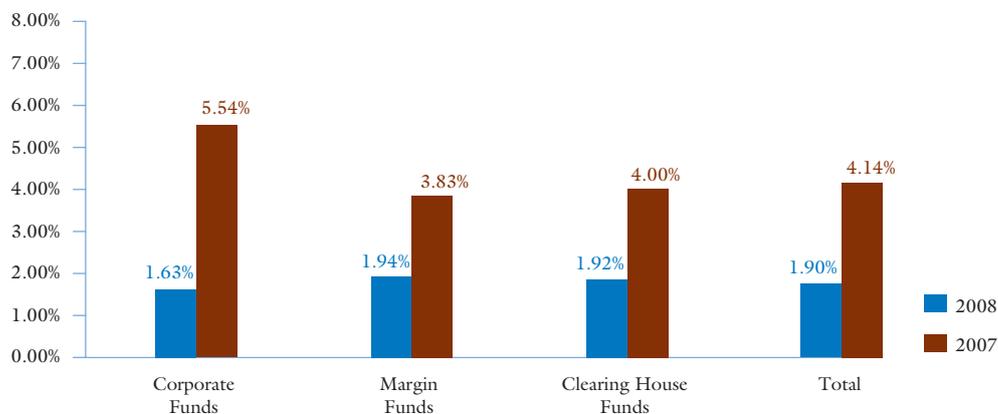
The significant rise in average amount of Margin Funds available for investment during the period was primarily caused by the increased open interest in futures and options contracts and the higher margin rate required per contract.

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

The higher net investment income was primarily due to the significant increase in net interest income of Margin Funds arising from an increase in fund size during the first six months of 2008 as compared with that of the corresponding period in 2007, but partly offset by the drop in interest rates and significant decrease in fair value gains of Corporate Fund investments, reflecting market movements.

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

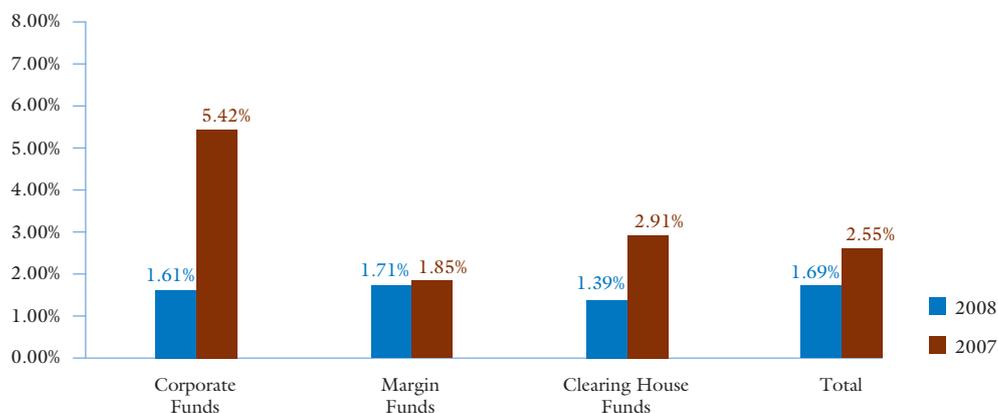
#### Annualised Gross Return on Funds Available for Investment



The gross return for all funds was brought down by the decrease in interest rates. The return of the Corporate Funds was also adversely affected by the significant decrease in fair value gains of the Corporate Fund investments, reflecting market movements. The lower return of Margin Funds was also attributable to an increase in the proportion of Margin Funds denominated in Japanese Yen which generated a very low return.

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

#### Annualised Net Return on Funds Available for Investment



The net return of the Margin Funds was similar to that of the corresponding period last year as the decrease in gross return was mostly offset by the drop in the interest rate (savings rate) payable to margin depositors. The decrease in net return on the Clearing House Fund investments was less than the decrease in gross return as a lower proportion of Clearing House Fund contributions was 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<br>Six months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Six months<br>ended<br>30 Jun 2007<br>\$'000 | Change |
|--------------------------------|---|---|--------|
| Gain on disposal of properties | 68,641  | –   | N/A    |

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

### (F) Other Income

|  | Unaudited<br>Six months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Six months<br>ended<br>30 Jun 2007<br>\$'000 | Change |
|--|---|---|--------|
| Network, terminal user, dataline and software sub-license fees | 159,820   | 107,861   | 48%    |
| Participants' subscription and application fees                | 17,129  | 17,051  | 0%     |
| Brokerage on direct IPO allotments                             | 4,577   | 36,069  | (87%)  |
| Trading booth user fees  | 4,777   | 4,788   | (0%)   |
| Fair value gain of an investment property                      | –   | 1,100   | (100%) |
| Accommodation income   | 15,216  | 5,340   | 185%   |
| Sale of Trading Rights   | 6,835   | –   | N/A    |
| Miscellaneous income   | 9,569   | 7,787   | 23%    |
| Total  | 217,923   | 179,996   | 21%    |

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<br>Six months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Six months<br>ended<br>30 Jun 2007<br>\$'000 | Change     |
|---|---|---|------------|
| Staff costs and related expenses                            | 451,986   | 386,548   | 17%        |
| Information technology and computer<br>maintenance expenses | 121,526   | 100,697   | 21%        |
| Premises expenses   | 69,722  | 65,575  | 6%         |
| Product marketing and promotion expenses                    | 9,637   | 7,108   | 36%        |
| Legal and professional fees                                 | 8,850   | 4,390   | 102%       |
| Depreciation  | 49,938  | 42,456  | 18%        |
| Other operating expenses                                    | 57,284  | 58,870  | (3%)       |
| <b>Total</b>  | <b>768,943</b>  | <b>665,644</b>  | <b>16%</b> |

Staff costs and related expenses increased by \$65 million, primarily due to the increase in salary costs and provident fund contributions as a result of the increase in headcount and salary adjustments in 2008, and an increase in performance bonus accrual on account of the improved performance of the Group.

Information technology and computer maintenance expenses of the Group, after excluding services and goods directly consumed by the Participants of \$48 million (2007: \$34 million), were \$74 million (2007: \$67 million). The increase in costs of services and goods consumed by the Group was mainly due to higher maintenance costs and line rentals. The increase in costs of services and goods directly consumed by Participants was primarily due to the increase in the purchases of AMS/3 hardware and software and higher line rentals incurred by the Participants. Costs of services and goods consumed by Participants were mostly recovered from the Participants and the income was included as part of the network, terminal user, dataline and software sub-license fees under Other Income.

Legal and professional fees rose mainly due to the higher legal fees incurred for listing-related matters.

Depreciation increased as the capacity upgrade of certain trading and clearing systems was completed during the period.

## Gain on Disposal of an Associate

|                                  | Unaudited<br>Six months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Six months<br>ended<br>30 Jun 2007<br>\$'000 | Change |
|----------------------------------|---|---|--------|
| Gain on disposal of an associate | -   | 206,317   | (100%) |

In April 2007, the Group disposed of all of its 30 per cent interest in Computershare Hong Kong Investor Services Limited as the Board considered the sale represented a good opportunity for the Group to realise the gain on the associate.

## Share of Profit of an Associate

|                                 | Unaudited<br>Six months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Six months<br>ended<br>30 Jun 2007<br>\$'000 | Change |
|---------------------------------|---|---|--------|
| Share of profit of an associate | –   | 5,587   | (100%) |

As the Group disposed of its entire interest in the associate in April 2007, there was no share of profit in 2008.

## Taxation

|          | Unaudited<br>Six months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Six months<br>ended<br>30 Jun 2007<br>\$'000 | Change |
|----------|---|---|--------|
| Taxation | 467,982   | 372,897   | 25%    |

Taxation increased mainly attributable to an increase in operating profit, but partly offset by an increase in non-taxable investment income and the reduction of Hong Kong Profits Tax rate from 17.5 per cent to 16.5 per cent.

## Comparison of 2008 Second Quarter Performance with 2008 First Quarter Performance

|   | Unaudited<br>Three months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Three months<br>ended<br>31 Mar 2008<br>\$'000 |
|---|---|---|
| Income:                                       |   |   |
| Income affected by market turnover:           |   |   |
| Trading fees and trading tariff               | 687,372   | 866,110   |
| Clearing and settlement fees                  | 354,053   | 420,807   |
| Depository, custody and nominee services fees | 231,876   | 64,219  |
|   | 1,273,301   | 1,351,136   |
| Stock Exchange listing fees                   | 164,848   | 191,112   |
| Income from sale of information               | 169,358   | 185,061   |
| Net investment income                         | 221,881   | 368,070   |
| Gain on disposal of properties                | –   | 68,641  |
| Other income                                  | 97,299  | 120,624   |
|   | 1,926,687   | 2,284,644   |
| Operating expenses                            | 386,384   | 382,559   |
| Profit before taxation                        | 1,540,303   | 1,902,085   |
| Taxation                                      | (215,638)   | (252,344)   |
| Profit attributable to shareholders           | 1,324,665   | 1,649,741   |

Profit attributable to shareholders decreased from \$1,650 million in the first quarter of 2008 to \$1,324 million in the second quarter of 2008. The fall in profit was mainly driven by the weaker investor sentiment and lower net investment income. Moreover, the gain on disposal of properties in the first quarter was not repeated in the second quarter. The decrease in profit was partly offset by a lower taxation charge.

Trading fees and trading tariff, clearing and settlement fees, and income from sale of information fell in tandem with the activities of the Cash and Derivatives Markets. Stock Exchange listing fees decreased with the lower number of newly listed DWs in the second quarter as compared to the first quarter. Depository, custody and nominee services fees, however, rose as a result of an increase in scrip fee income due to seasonal fluctuations. Net investment income dropped primarily due to the reduction in net interest income which was attributable to the decrease in interest rates and funds available for investment in the second quarter.

#### Key Market Indicators

|  | Three months<br>ended<br>30 Jun 2008 | Three months<br>ended<br>31 Mar 2008 | Change |
|--|--------------------------------------|--------------------------------------|--------|
| Average daily turnover value on the Stock Exchange                           | \$76.1 billion                       | \$98.7 billion                       | (23%)  |
| Average daily number of derivatives contracts traded on the Futures Exchange | 176,748                              | 205,853                              | (14%)  |
| Average daily number of stock options contracts traded on the Stock Exchange | 212,191                              | 266,199                              | (20%)  |

Operating expenses increased by one per cent mainly as a result of the increase in premises expenses, product marketing and promotion expenses and depreciation charge but partly offset by the decrease in performance bonus accrual on account of the lower profit of the Group in the second quarter.

Taxation decreased mainly attributable to the lower operating profit (excluding the non-taxable gain on disposal of properties) but partly offset by a decrease in non-taxable investment income.

### Working Capital

Working capital fell by \$764 million or 10 per cent to \$6,652 million as at 30 June 2008 (31 December 2007: \$7,416 million). The reduction was primarily due to the payment of the 2007 final dividend of \$3,646 million in May 2008, the \$84 million increase in available-for-sale financial assets of Corporate Funds maturing over one year and the decrease in other working capital of \$8 million, but was offset by the profit generated during the six months of \$2,974 million.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. As at 30 June 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) represented repurchase facilities to augment the liquidity of the Margin Funds.

Borrowings by the Group have been rare and are mostly event driven, with little seasonality. As at 30 June 2008 and 31 December 2007, the Group had no bank borrowings and therefore had a zero gearing.

The Group's capital expenditure commitments as at 30 June 2008 were mainly related to the ongoing investments in facilities and technology, and amounted to \$175 million (31 December 2007: \$165 million). The Group has adequate internal resources to fund its commitments on capital expenditure.

As at 30 June 2008, 99 per cent (31 December 2007: 99 per cent) of the Group's cash and cash equivalents (comprising cash on hand, bank balances and time deposits within three months of maturity when acquired) was denominated in HKD or USD.

## **Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets**

Save for those disclosed in this interim report, there were no significant investments held, and material acquisitions and disposals of subsidiaries during the period under review, and there is no plan for material investments or capital assets as at the date of this interim report.

## **Charges on Assets**

None of the Group's assets was pledged as at 30 June 2008 and 31 December 2007.

## **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 34(a)(i) – Foreign exchange risk to the condensed consolidated accounts of this interim report.

## **Contingent Liabilities**

Details of contingent liabilities are included in note 31 to the condensed consolidated accounts of this interim 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.

# CONDENSED CONSOLIDATED INCOME STATEMENT

|  | Note  | Unaudited<br>Six months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Six months<br>ended<br>30 Jun 2007<br>\$'000 | Unaudited<br>Three months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Three months<br>ended<br>30 Jun 2007<br>\$'000 |
|--|-------|---|---|---|---|
| <b>INCOME</b>  | 2     |   |   |   |   |
| Trading fees and trading tariff                          | 4     | 1,553,482   | 1,074,819   | 687,372   | 570,406   |
| Stock Exchange listing fees                              | 5     | 355,960   | 294,000   | 164,848   | 150,599   |
| Clearing and settlement fees                             |       | 774,860   | 571,274   | 354,053   | 309,770   |
| Depository, custody and nominee services fees            |       | 296,095   | 308,423   | 231,876   | 247,681   |
| Income from sale of information                          |       | 354,419   | 275,686   | 169,358   | 148,074   |
| Net investment income                                    | 6     | 589,951   | 452,740   | 221,881   | 229,597   |
| Gain on disposal of properties                           | 21    | 68,641  | –   | –   | –   |
| Other income   | 7     | 217,923   | 179,996   | 97,299  | 101,872   |
|  | 3     | 4,211,331   | 3,156,938   | 1,926,687   | 1,757,999   |
| <b>OPERATING EXPENSES</b>                                |       |   |   |   |   |
| Staff costs and related expenses                         | 8     | 451,986   | 386,548   | 223,086   | 204,243   |
| Information technology and computer maintenance expenses | 9     | 121,526   | 100,697   | 59,943  | 49,396  |
| Premises expenses  |       | 69,722  | 65,575  | 35,762  | 33,165  |
| Product marketing and promotion expenses                 |       | 9,637   | 7,108   | 6,077   | 4,629   |
| Legal and professional fees                              |       | 8,850   | 4,390   | 5,260   | 3,016   |
| Depreciation   |       | 49,938  | 42,456  | 26,275  | 19,294  |
| Other operating expenses                                 | 10    | 57,284  | 58,870  | 29,981  | 29,258  |
|  | 3     | 768,943   | 665,644   | 386,384   | 343,001   |
| <b>OPERATING PROFIT</b>                                  | 3     | 3,442,388   | 2,491,294   | 1,540,303   | 1,414,998   |
| <b>GAIN ON DISPOSAL OF AN ASSOCIATE</b>                  | 3/11  | –   | 206,317   | –   | 206,317   |
| <b>SHARE OF PROFIT OF AN ASSOCIATE</b>                   | 3     | –   | 5,587   | –   | –   |
| <b>PROFIT BEFORE TAXATION</b>                            | 3     | 3,442,388   | 2,703,198   | 1,540,303   | 1,621,315   |
| <b>TAXATION</b>  | 12    | (467,982)   | (372,897)   | (215,638)   | (213,551)   |
| <b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>               | 28    | 2,974,406   | 2,330,301   | 1,324,665   | 1,407,764   |
| Basic earnings per share                                 | 14(a) | \$2.78  | \$2.19  | \$1.24  | \$1.32  |
| Diluted earnings per share                               | 14(b) | \$2.76  | \$2.16  | \$1.23  | \$1.31  |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|  | Unaudited<br>Six months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Six months<br>ended<br>30 Jun 2007<br>\$'000 | Unaudited<br>Three months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Three months<br>ended<br>30 Jun 2007<br>\$'000 |
|--|---|---|---|---|
| Profit attributable to shareholders  | 2,974,406   | 2,330,301   | 1,324,665   | 1,407,764   |
| Other comprehensive income:  |   |   |   |   |
| Available-for-sale financial assets:   |   |   |   |   |
| Change in fair value   | 5,553   | (25,954)  | (51,268)  | (13,208)  |
| Realisation of change in fair value on maturity  | (41,350)  | (4,235)   | (26,195)  | (3,309)   |
| Less: Reclassification adjustment:   |   |   |   |   |
| Gains included in profit or loss on disposal   | (4,678)   | -   | -   | -   |
| Deferred tax   | 6,860   | 2,257   | 12,688  | 196   |
|  | (33,615)  | (27,932)  | (64,775)  | (16,321)  |
| Cash flow hedges:  |   |   |   |   |
| Fair value gains of hedging instruments  | -   | 132   | -   | 216   |
| Less: Reclassification adjustments:  |   |   |   |   |
| Gains reclassified to profit or loss as<br>information technology and computer<br>maintenance expenses | -   | (70)  | -   | (112)   |
| Gains reclassified to profit or loss as<br>net investment income                                       | -   | (62)  | -   | (62)  |
|  | -   | -   | -   | 42  |
| Leasehold buildings:   |   |   |   |   |
| Change in valuation  | -   | (44)  | -   | (44)  |
| Deferred tax arising from change in valuation  | -   | 7   | -   | 7   |
|  | -   | (37)  | -   | (37)  |
| Less: Reclassification adjustment:   |   |   |   |   |
| Share of other comprehensive income<br>of an associate reclassified to profit or<br>loss on disposal   | -   | (58)  | -   | (58)  |
| Other comprehensive income attributable to<br>shareholders, net of tax                                 | (33,615)  | (28,027)  | (64,775)  | (16,374)  |
| Total comprehensive income attributable to<br>shareholders   | 2,940,791   | 2,302,274   | 1,259,890   | 1,391,390   |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|   | Unaudited  |   |  |                              |   |   |                           |
|---|--|---|--|------------------------------|---|---|---------------------------|
|   | Share capital,<br>share premium<br>and shares held<br>for Share<br>Award Scheme<br>(note 24)<br>\$'000 | Employee<br>share-based<br>compensation<br>reserve<br>(note 25)<br>\$'000 | Other comprehensive income                     |                              | Designated<br>reserves<br>(note 27)<br>\$'000 | Retained<br>earnings<br>(note 28)<br>\$'000 | Total<br>equity<br>\$'000 |
|   |  |   | Revaluation<br>reserves<br>(note 26)<br>\$'000 | Hedging<br>reserve<br>\$'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 | -  | -   | (33,615)                                       | -                            | -   | 2,974,406                                   | 2,940,791                 |
| 2007 final dividend at \$3.40 per share                 | -  | -   | -  | -                            | -   | (3,646,159)                                 | (3,646,159)               |
| Unclaimed dividend forfeited                            | -  | -   | -  | -                            | -   | 1,944                                       | 1,944                     |
| Shares issued under employee share option schemes       | 53,718   | -   | -  | -                            | -   | -   | 53,718                    |
| Shares purchased for Share Award Scheme                 | (29,434)   | -   | -  | -                            | -   | -   | (29,434)                  |
| Vesting of shares of Share Award Scheme                 | 347  | (280)   | -  | -                            | -   | (67)  | -                         |
| Employee share-based compensation benefits              | -  | 16,511  | -  | -                            | -   | -   | 16,511                    |
| Transfer of reserves                                    | 14,899   | (14,899)  | (3,155)  | -                            | 12,009  | (8,854)                                     | -                         |
| At 30 Jun 2008  | 1,328,182  | 51,001  | 19,266   | -                            | 706,862                                       | 5,609,408                                   | 7,714,719                 |

|  | Unaudited   |  |                                   |                              |                                  |                                |                           |
|--|---|--|-----------------------------------|------------------------------|----------------------------------|--------------------------------|---------------------------|
|  | Share capital,<br>share premium<br>and shares held<br>for Share<br>Award Scheme<br>\$'000 | Employee<br>share-based<br>compensation<br>reserve<br>\$'000 | Other comprehensive income        |                              | Designated<br>reserves<br>\$'000 | Retained<br>earnings<br>\$'000 | Total<br>equity<br>\$'000 |
|  |   |  | Revaluation<br>reserves<br>\$'000 | Hedging<br>reserve<br>\$'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                  | -   | -  | (28,027)                          | -                            | -                                | 2,330,301                      | 2,302,274                 |
| 2006 final dividend at \$1.19 per share                                  | -   | -  | -                                 | -                            | -                                | (1,270,266)                    | (1,270,266)               |
| Unclaimed dividend forfeited   | -   | -  | -                                 | -                            | -                                | 1,944                          | 1,944                     |
| Shares issued under employee share option schemes                        | 47,948  | -  | -                                 | -                            | -                                | -                              | 47,948                    |
| Shares purchased for Share Award Scheme                                  | (2,592)   | -  | -                                 | -                            | -                                | -                              | (2,592)                   |
| Employee share-based compensation benefits                               | -   | 12,140   | -                                 | -                            | -                                | -                              | 12,140                    |
| Share of reserve of an associate:  |   |  |                                   |                              |                                  |                                |                           |
| – during the period  | -   | 47   | -                                 | -                            | -                                | -                              | 47                        |
| – eliminated through disposal of associate                               | -   | (560)  | -                                 | -                            | -                                | -                              | (560)                     |
| Transfer of reserves   | 13,397  | (13,397)   | -                                 | -                            | 29,391                           | (29,391)                       | -                         |
| At 30 Jun 2007, as restated  | 1,258,846   | 50,349   | (17,458)                          | -                            | 657,207                          | 4,399,577                      | 6,348,521                 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|  | Note | Unaudited<br>at<br>30 Jun 2008<br>\$'000 | Audited<br>at<br>31 Dec 2007<br>\$'000 |
|--|------|--|--|
| <b>NON-CURRENT ASSETS</b>  |      |  |  |
| Fixed assets   | 15   | 311,011                                  | 317,065                                |
| Lease premium for land   |      | 60,453                                   | 60,708                                 |
| Clearing House Funds   | 16   | 1,549,277                                | 2,192,204                              |
| Available-for-sale financial assets                                    | 17   | 109,480                                  | 25,270                                 |
| Deferred tax assets  |      | 4,708                                    | 3,610                                  |
| Other financial assets   |      | 21,841                                   | 19,177                                 |
| Other assets   |      | 3,212                                    | 3,212                                  |
|  |      | <b>2,059,982</b>                         | <b>2,621,246</b>                       |
| <b>CURRENT ASSETS</b>  |      |  |  |
| Accounts receivable, prepayments and deposits                          | 18   | 15,155,742                               | 18,364,129                             |
| Lease premium for land   |      | 509                                      | 509                                    |
| Tax recoverable  |      | –  | 148                                    |
| Margin Funds on derivatives contracts                                  | 19   | 34,627,385                               | 55,428,888                             |
| Financial assets at fair value through profit or loss                  | 20   | 3,005,177                                | 2,996,555                              |
| Available-for-sale financial assets                                    | 17   | 1,931,425                                | 3,041,737                              |
| Time deposits with original maturities<br>over three months            |      | 2,390,809                                | 682,174                                |
| Cash and cash equivalents  |      | 2,550,571                                | 4,744,711                              |
|  |      | <b>59,661,618</b>                        | <b>85,258,851</b>                      |
| Non-current assets held for sale                                       | 21   | –  | 64,092                                 |
|  |      | <b>59,661,618</b>                        | <b>85,322,943</b>                      |
| <b>CURRENT LIABILITIES</b>   |      |  |  |
| Margin deposits from Clearing Participants<br>on derivatives contracts | 19   | 34,627,385                               | 55,428,888                             |
| Accounts payable, accruals and other liabilities                       | 22   | 17,051,799                               | 21,375,909                             |
| Financial liabilities at fair value through profit or loss             | 20   | 5,001                                    | 6,149                                  |
| Participants' admission fees received                                  |      | 3,600                                    | 3,050                                  |
| Deferred revenue   |      | 242,744                                  | 375,174                                |
| Taxation payable   |      | 1,045,487                                | 687,726                                |
| Provisions   | 23   | 33,927                                   | 29,630                                 |
|  |      | <b>53,009,943</b>                        | <b>77,906,526</b>                      |
| <b>NET CURRENT ASSETS</b>  |      | <b>6,651,675</b>                         | <b>7,416,417</b>                       |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                           |      | <b>8,711,657</b>                         | <b>10,037,663</b>                      |

|   | Note  | Unaudited<br>at<br>30 Jun 2008<br>\$'000 | Audited<br>at<br>31 Dec 2007<br>\$'000 |
|---|-------|--|--|
| <b>NON-CURRENT LIABILITIES</b>                      |       |  |  |
| Participants' admission fees received               |       | 81,400                                   | 82,550                                 |
| Participants' contributions to Clearing House Funds | 16    | 842,763                                  | 1,496,855                              |
| Deferred tax liabilities                            |       | 28,721                                   | 36,873                                 |
| Financial guarantee contract                        | 31(b) | 19,909                                   | 19,909                                 |
| Provisions  | 23    | 24,145                                   | 24,128                                 |
|   |       | 996,938                                  | 1,660,315                              |
| <b>NET ASSETS</b>                                   |       |  |  |
|   |       | 7,714,719                                | 8,377,348                              |
| <b>CAPITAL AND RESERVES</b>                         |       |  |  |
| Share capital                                       | 24    | 1,073,647                                | 1,070,285                              |
| Share premium                                       | 24    | 331,425                                  | 266,170                                |
| Shares held for Share Award Scheme                  | 24    | (76,890)                                 | (47,803)                               |
| Employee share-based compensation reserve           | 25    | 51,001                                   | 49,669                                 |
| Revaluation reserves                                | 26    | 19,266                                   | 56,036                                 |
| Designated reserves                                 | 27    | 706,862                                  | 694,853                                |
| Retained earnings                                   | 28    | 5,609,408                                | 6,288,138                              |
|   |       | 7,714,719                                | 8,377,348                              |
| <b>SHAREHOLDERS' FUNDS</b>                          |       |  |  |
|   |       | 7,714,719                                | 8,377,348                              |
| <b>TOTAL ASSETS</b>                                 |       |  |  |
|   |       | 61,721,600                               | 87,944,189                             |
| <b>TOTAL LIABILITIES</b>                            |       |  |  |
|   |       | 54,006,881                               | 79,566,841                             |
| <b>SHAREHOLDERS' FUNDS PER SHARE</b>                |       |  |  |
|   |       | \$7.19                                   | \$7.83                                 |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

|   | Note  | Unaudited<br>Six months<br>ended<br>30 Jun 2008<br>\$'000 | Unaudited<br>Six months<br>ended<br>30 Jun 2007<br>\$'000 |
|---|-------|---|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |       |   |   |
| Net cash inflow from operating activities   | 29(a) | 1,768,279   | 1,960,182   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |       |   |   |
| Payments for purchases of fixed assets  |       | (169,177)   | (46,824)  |
| Net proceeds from sales of properties   |       | 132,733   | -   |
| Proceeds from sales of fixed assets   |       | 1   | 260   |
| Net proceeds from disposal/liquidation of an associate                                |       | -   | 270,050   |
| Dividends received from an associate  |       | -   | 9,660   |
| (Increase)/decrease in time deposits with original maturities more than three months  |       | (1,708,635)   | 117,956   |
| Net decrease/(increase) in available-for-sale financial assets of the Corporate Funds |       | 1,090,454   | (1,693,380)   |
| Interest received from available-for-sale financial assets                            |       | 292,364   | 313,425   |
| Net cash outflow from investing activities  |       | (362,260)   | (1,028,853)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |       |   |   |
| Proceeds from issue of shares under employee share option schemes                     |       | 53,718  | 47,948  |
| Purchase of shares for Share Award Scheme   |       | (29,434)  | (2,592)   |
| Net admission fees (refunded to)/received from Participants                           |       | (600)   | 550   |
| Dividends paid  |       | (3,623,843)   | (1,262,681)   |
| Net cash outflow from financing activities  |       | (3,600,159)   | (1,216,775)   |
| <b>Net decrease in cash and cash equivalents</b>                                      |       | <b>(2,194,140)</b>  | <b>(285,446)</b>  |
| 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   |
| <b>Cash and cash equivalents at 30 Jun</b>  |       | <b>2,550,571</b>  | <b>1,938,464</b>  |
| <b>Analysis of cash and cash equivalents</b>  |       |   |   |
| Time deposits with original maturities within three months                            |       | 958,392   | 1,143,522   |
| Cash at bank and in hand  |       | 1,592,179   | 794,942   |
| <b>Cash and cash equivalents at 30 Jun</b>  |       | <b>2,550,571</b>  | <b>1,938,464</b>  |

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED)

## 1. Basis of Preparation and Accounting Policies

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

These unaudited condensed consolidated accounts should be read in conjunction with the 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.

## 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 taxation for the period by operating segment is as follows:

|  | Six months ended 30 Jun 2008 |                                 |                                |                                   |                  |
|--|------------------------------|---------------------------------|--------------------------------|-----------------------------------|------------------|
|  | Cash<br>Market<br>\$'000     | Derivatives<br>Market<br>\$'000 | Clearing<br>Business<br>\$'000 | Information<br>Services<br>\$'000 | Group<br>\$'000  |
| Income from external customers                       | 1,722,951                    | 339,116                         | 1,134,932                      | 355,740                           | 3,552,739        |
| Net investment income                                | 53,980                       | 506,428                         | 29,373                         | 170                               | 589,951          |
| Gain on disposal of properties                       | 33,442                       | 11,580                          | 19,116                         | 4,503                             | 68,641           |
| <b>Total income</b>                                  | <b>1,810,373</b>             | <b>857,124</b>                  | <b>1,183,421</b>               | <b>360,413</b>                    | <b>4,211,331</b> |
| Operating expenses                                   |                              |                                 |                                |                                   |                  |
| Direct costs   | 295,588                      | 71,913                          | 180,369                        | 26,728                            | 574,598          |
| Indirect costs                                       | 92,968                       | 30,627                          | 58,340                         | 12,410                            | 194,345          |
|  | <b>388,556</b>               | <b>102,540</b>                  | <b>238,709</b>                 | <b>39,138</b>                     | <b>768,943</b>   |
| <b>Reportable segment profit<br/>before taxation</b> | <b>1,421,817</b>             | <b>754,584</b>                  | <b>944,712</b>                 | <b>321,275</b>                    | <b>3,442,388</b> |

|  | Six months ended 30 Jun 2007 |                                 |                                |                                   |                  |
|--|------------------------------|---------------------------------|--------------------------------|-----------------------------------|------------------|
|  | Cash<br>Market<br>\$'000     | Derivatives<br>Market<br>\$'000 | Clearing<br>Business<br>\$'000 | Information<br>Services<br>\$'000 | Group<br>\$'000  |
| Income from external customers                       | 1,262,942                    | 241,591                         | 921,467                        | 277,098                           | 2,703,098        |
| Net investment income                                | 75,137                       | 281,673                         | 95,538                         | 392                               | 452,740          |
| Fair value gain of an investment<br>property         | 1,100                        | –                               | –                              | –                                 | 1,100            |
| <b>Total income</b>                                  | <b>1,339,179</b>             | <b>523,264</b>                  | <b>1,017,005</b>               | <b>277,490</b>                    | <b>3,156,938</b> |
| Operating expenses                                   |                              |                                 |                                |                                   |                  |
| Direct costs   | 235,264                      | 66,418                          | 174,216                        | 24,270                            | 500,168          |
| Indirect costs                                       | 75,100                       | 24,497                          | 54,782                         | 11,097                            | 165,476          |
|  | <b>310,364</b>               | <b>90,915</b>                   | <b>228,998</b>                 | <b>35,367</b>                     | <b>665,644</b>   |
| <b>Operating profit</b>                              | <b>1,028,815</b>             | <b>432,349</b>                  | <b>788,007</b>                 | <b>242,123</b>                    | <b>2,491,294</b> |
| Gain on disposal of an associate                     | –                            | –                               | 206,317                        | –                                 | 206,317          |
| Share of profit of an associate                      | –                            | –                               | 5,587                          | –                                 | 5,587            |
| <b>Reportable segment profit<br/>before taxation</b> | <b>1,028,815</b>             | <b>432,349</b>                  | <b>999,911</b>                 | <b>242,123</b>                    | <b>2,703,198</b> |

### 3. Operating Segments (continued)

- (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 taxation. Taxation charge/(credit) is not allocated to reportable segments.

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

- (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 30 Jun 2008        |                              |                             |                                |                 |
|--|-----------------------|------------------------------|-----------------------------|--------------------------------|-----------------|
|  | Cash Market<br>\$'000 | Derivatives Market<br>\$'000 | Clearing Business<br>\$'000 | Information Services<br>\$'000 | Group<br>\$'000 |
| Reportable segment assets  | 6,436,321             | 35,626,555                   | 19,539,634                  | 114,382                        | 61,716,892      |
|  | At 31 Dec 2007        |                              |                             |                                |                 |
|  | Cash Market<br>\$'000 | Derivatives Market<br>\$'000 | Clearing Business<br>\$'000 | Information Services<br>\$'000 | Group<br>\$'000 |
| Reportable segment assets<br>(excluding non-current<br>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<br>30 Jun 2008<br>\$'000 | At<br>31 Dec 2007<br>\$'000 |
|--|-----------------------------|-----------------------------|
| Reportable segment assets  | 61,716,892                  | 87,940,431                  |
| Unallocated assets:  |                             |                             |
| Tax recoverable  | –                           | 148                         |
| Deferred tax assets  | 4,708                       | 3,610                       |
| Total assets per condensed consolidated<br>statement of financial position | 61,721,600                  | 87,944,189                  |

#### 4. Trading Fees and Trading Tariff

|   | Six months<br>ended<br>30 Jun 2008<br>\$'000 | Six months<br>ended<br>30 Jun 2007<br>\$'000 | Three months<br>ended<br>30 Jun 2008<br>\$'000 | Three months<br>ended<br>30 Jun 2007<br>\$'000 |
|---|--|--|--|--|
| Trading fees and trading tariff<br>were derived from:     |  |  |  |  |
| Securities traded on<br>the Cash Market                   | 1,192,668                                    | 815,240                                      | 521,636  | 444,274  |
| Derivatives contracts traded on<br>the Derivatives Market | 360,814                                      | 259,579                                      | 165,736  | 126,132  |
|   | <b>1,553,482</b>                             | <b>1,074,819</b>                             | <b>687,372</b>                                 | <b>570,406</b>                                 |

#### 5. Stock Exchange Listing Fees

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

|   | Six months ended 30 Jun 2008 |               |                                 |                 | Six months ended 30 Jun 2007 |               |                                 |                 |
|---|------------------------------|---------------|---------------------------------|-----------------|------------------------------|---------------|---------------------------------|-----------------|
|   | Equity                       |               | Debt &<br>Derivatives<br>\$'000 | Total<br>\$'000 | Equity                       |               | Debt &<br>Derivatives<br>\$'000 | Total<br>\$'000 |
|   | Main<br>Board<br>\$'000      | GEM<br>\$'000 |                                 |                 | Main<br>Board<br>\$'000      | GEM<br>\$'000 |                                 |                 |
| <b>Stock Exchange Listing Fees</b>                                    |                              |               |                                 |                 |                              |               |                                 |                 |
| Annual listing fees   | 155,744                      | 12,755        | 1,305                           | 169,804         | 133,817                      | 12,246        | 978                             | 147,041         |
| Initial and subsequent issue<br>listing fees                          | 36,149                       | 2,400         | 144,877                         | 183,426         | 28,298                       | 2,255         | 113,417                         | 143,970         |
| Prospectus vetting fees   | 1,410                        | 210           | 10                              | 1,630           | 1,740                        | 45            | 50                              | 1,835           |
| Other listing fees  | 824                          | 276           | -                               | 1,100           | 924                          | 230           | -                               | 1,154           |
| Total   | 194,127                      | 15,641        | 146,192                         | 355,960         | 164,779                      | 14,776        | 114,445                         | 294,000         |
| <b>Costs of Listing Function</b>                                      |                              |               |                                 |                 |                              |               |                                 |                 |
| <u>Direct costs</u>   |                              |               |                                 |                 |                              |               |                                 |                 |
| Staff costs and related expenses                                      | 92,648                       | 20,744        | 7,036                           | 120,428         | 76,614                       | 14,544        | 5,667                           | 96,825          |
| Information technology and<br>computer maintenance expenses           | 2,211                        | 444           | 136                             | 2,791           | 1,001                        | 239           | -                               | 1,240           |
| Premises expenses   | 9,040                        | 1,954         | 424                             | 11,418          | 8,829                        | 1,621         | 436                             | 10,886          |
| Legal and professional fees   | 4,406                        | 18            | -                               | 4,424           | 2,131                        | 53            | -                               | 2,184           |
| Depreciation  | 2,066                        | 576           | 655                             | 3,297           | 945                          | 190           | 57                              | 1,192           |
| Other operating expenses  | 3,625                        | 1,158         | 309                             | 5,092           | 2,706                        | 1,132         | 223                             | 4,061           |
| Total direct costs  | 113,996                      | 24,894        | 8,560                           | 147,450         | 92,226                       | 17,779        | 6,383                           | 116,388         |
| Total indirect costs  | 19,461                       | 3,644         | 5,256                           | 28,361          | 15,668                       | 2,724         | 3,842                           | 22,234          |
| Total costs   | 133,457                      | 28,538        | 13,816                          | 175,811         | 107,894                      | 20,503        | 10,225                          | 138,622         |
| <b>Contribution to Cash Market<br/>Segment Profit before Taxation</b> | 60,670                       | (12,897)      | 132,376                         | 180,149         | 56,885                       | (5,727)       | 104,220                         | 155,378         |

## 5. Stock Exchange Listing Fees (continued)

|   | Three months ended 30 Jun 2008 |                |                                 |                 | Three months ended 30 Jun 2007 |                |                                 |                 |
|---|--------------------------------|----------------|---------------------------------|-----------------|--------------------------------|----------------|---------------------------------|-----------------|
|   | Equity                         |                | Debt &<br>Derivatives<br>\$'000 | Total<br>\$'000 | Equity                         |                | Debt &<br>Derivatives<br>\$'000 | Total<br>\$'000 |
|   | Main<br>Board<br>\$'000        | GEM<br>\$'000  |                                 |                 | Main<br>Board<br>\$'000        | GEM<br>\$'000  |                                 |                 |
| <b>Stock Exchange Listing Fees</b>                                    |                                |                |                                 |                 |                                |                |                                 |                 |
| Annual listing fees   | 78,714                         | 6,362          | 682                             | 85,758          | 67,902                         | 6,179          | 544                             | 74,625          |
| Initial and subsequent issue<br>listing fees                          | 20,280                         | 1,230          | 56,137                          | 77,647          | 15,911                         | 1,665          | 56,808                          | 74,384          |
| Prospectus vetting fees   | 840                            | 135            | -                               | 975             | 1,155                          | 15             | 10                              | 1,180           |
| Other listing fees  | 418                            | 50             | -                               | 468             | 266                            | 144            | -                               | 410             |
| <b>Total</b>  | <b>100,252</b>                 | <b>7,777</b>   | <b>56,819</b>                   | <b>164,848</b>  | <b>85,234</b>                  | <b>8,003</b>   | <b>57,362</b>                   | <b>150,599</b>  |
| <b>Costs of Listing Function</b>                                      |                                |                |                                 |                 |                                |                |                                 |                 |
| <u>Direct costs</u>   |                                |                |                                 |                 |                                |                |                                 |                 |
| Staff costs and related expenses                                      | 45,008                         | 11,466         | 3,419                           | 59,893          | 40,984                         | 8,034          | 2,962                           | 51,980          |
| Information technology and<br>computer maintenance expenses           | 1,104                          | 219            | 62                              | 1,385           | 563                            | 134            | -                               | 697             |
| Premises expenses   | 4,522                          | 1,091          | 216                             | 5,829           | 4,507                          | 855            | 208                             | 5,570           |
| Legal and professional fees   | 2,923                          | -              | -                               | 2,923           | 1,945                          | -              | -                               | 1,945           |
| Depreciation  | 1,075                          | 309            | 415                             | 1,799           | 472                            | 96             | 48                              | 616             |
| Other operating expenses  | 2,078                          | 756            | 100                             | 2,934           | 1,666                          | 765            | 188                             | 2,619           |
| <b>Total direct costs</b>   | <b>56,710</b>                  | <b>13,841</b>  | <b>4,212</b>                    | <b>74,763</b>   | <b>50,137</b>                  | <b>9,884</b>   | <b>3,406</b>                    | <b>63,427</b>   |
| <b>Total indirect costs</b>   | <b>10,405</b>                  | <b>2,048</b>   | <b>2,476</b>                    | <b>14,929</b>   | <b>8,223</b>                   | <b>1,435</b>   | <b>1,937</b>                    | <b>11,595</b>   |
| <b>Total costs</b>  | <b>67,115</b>                  | <b>15,889</b>  | <b>6,688</b>                    | <b>89,692</b>   | <b>58,360</b>                  | <b>11,319</b>  | <b>5,343</b>                    | <b>75,022</b>   |
| <b>Contribution to Cash Market<br/>Segment Profit before Taxation</b> | <b>33,137</b>                  | <b>(8,112)</b> | <b>50,131</b>                   | <b>75,156</b>   | <b>26,874</b>                  | <b>(3,316)</b> | <b>52,019</b>                   | <b>75,577</b>   |

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

|  | Six months<br>ended<br>30 Jun 2008<br>\$'000 | Six months<br>ended<br>30 Jun 2007<br>\$'000 | Three months<br>ended<br>30 Jun 2008<br>\$'000 | Three months<br>ended<br>30 Jun 2007<br>\$'000 |
|--|--|--|--|--|
| Interest income  |  |  |  |  |
| – bank deposits  | 347,424                                      | 299,176                                      | 99,970   | 145,852  |
| – listed available-for-sale<br>financial assets  | 4,711  | 15,071                                       | 2,185  | 6,687  |
| – unlisted available-for-sale<br>financial assets  | 312,550                                      | 309,694                                      | 123,549  | 160,902  |
|  | 664,685                                      | 623,941                                      | 225,704  | 313,441  |
| Interest expenses  | (72,783)                                     | (282,882)                                    | (2,742)  | (135,726)                                      |
| Net interest income  | 591,902                                      | 341,059                                      | 222,962  | 177,715  |
| Net realised and unrealised (losses)/gains<br>and interest income on financial assets<br>and financial liabilities at fair value<br>through profit or loss, held for trading |  |  |  |  |
| – listed securities  | (28,830)                                     | 76,771                                       | (3,401)  | 44,360   |
| – unlisted securities  | 20,154                                       | 17,432                                       | 1,960  | 3,527  |
| – exchange differences   | 1,463  | 13,292                                       | (443)  | 1,687  |
|  | (7,213)                                      | 107,495                                      | (1,884)  | 49,574   |
| Realised gains on disposal of unlisted<br>available-for-sale financial assets  | 1,460  | –  | 23   | –  |
| Dividend income from listed financial<br>assets at fair value through<br>profit or loss  | 2,424  | 4,012  | 974  | 2,300  |
| Other exchange differences on loans<br>and receivables   | 1,378  | 174  | (194)  | 8  |
| Net investment income  | 589,951                                      | 452,740                                      | 221,881  | 229,597  |
| Net investment income was derived from:  |  |  |  |  |
| Corporate Funds  | 80,400                                       | 172,415                                      | 32,166   | 86,763   |
| Margin Funds   | 497,420                                      | 250,876                                      | 184,806  | 127,485  |
| Clearing House Funds   | 12,131                                       | 29,449                                       | 4,909  | 15,349   |
|  | 589,951                                      | 452,740                                      | 221,881  | 229,597  |

## 7. Other Income

|   | Six months<br>ended<br>30 Jun 2008<br>\$'000 | Six months<br>ended<br>30 Jun 2007<br>\$'000 | Three months<br>ended<br>30 Jun 2008<br>\$'000 | Three months<br>ended<br>30 Jun 2007<br>\$'000 |
|---|--|--|--|--|
| Network, terminal user, dataline and software sub-license fees  | 159,820                                      | 107,861                                      | 69,969   | 54,800   |
| Participants' subscription and application fees   | 17,129                                       | 17,051                                       | 8,601  | 8,571  |
| Brokerage on direct IPO allotments  | 4,577  | 36,069                                       | 843  | 27,722   |
| Trading booth user fees   | 4,777  | 4,788  | 2,380  | 2,394  |
| Fair value gain of an investment property   | –  | 1,100  | –  | 600  |
| Accommodation income on securities deposited by Participants as alternatives to cash deposits of the Margin Funds | 15,216                                       | 5,340  | 6,300  | 3,499  |
| Sale of Trading Rights  | 6,835  | –  | 3,835  | –  |
| Miscellaneous income  | 9,569  | 7,787  | 5,371  | 4,286  |
|   | <b>217,923</b>                               | <b>179,996</b>                               | <b>97,299</b>                                  | <b>101,872</b>                                 |

## 8. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

|  | Six months<br>ended<br>30 Jun 2008<br>\$'000 | Six months<br>ended<br>30 Jun 2007<br>\$'000 | Three months<br>ended<br>30 Jun 2008<br>\$'000 | Three months<br>ended<br>30 Jun 2007<br>\$'000 |
|--|--|--|--|--|
| Salaries and other short-term employee benefits      | 404,784                                      | 347,592                                      | 197,183  | 184,959  |
| Employee share-based compensation benefits (note 25) | 16,511                                       | 12,140                                       | 10,233   | 6,008  |
| Termination benefits                                 | 428  | 173  | 394  | –  |
| Retirement benefit costs (note a):                   |  |  |  |  |
| – ORSO Plan  | 30,004                                       | 26,416                                       | 15,149   | 13,159   |
| – MPF Scheme   | 259  | 227  | 127  | 117  |
|  | <b>451,986</b>                               | <b>386,548</b>                               | <b>223,086</b>                                 | <b>204,243</b>                                 |

- (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. No contribution payable to the MPF Scheme and the ORSO Plan was outstanding as at 30 June 2008 (31 December 2007: \$104,000 and \$Nil respectively).

**9. Information Technology and Computer Maintenance Expenses**

|                                     | Six months<br>ended<br>30 Jun 2008<br>\$'000 | Six months<br>ended<br>30 Jun 2007<br>\$'000 | Three months<br>ended<br>30 Jun 2008<br>\$'000 | Three months<br>ended<br>30 Jun 2007<br>\$'000 |
|-------------------------------------|--|--|--|--|
| Costs of services and goods:        |  |  |  |  |
| – consumed by the Group             | 73,819                                       | 67,001                                       | 36,153   | 33,293   |
| – directly consumed by Participants | 47,707                                       | 33,696                                       | 23,790   | 16,103   |
|                                     | <b>121,526</b>                               | <b>100,697</b>                               | <b>59,943</b>                                  | <b>49,396</b>                                  |

**10. Other Operating Expenses**

|   | Six months<br>ended<br>30 Jun 2008<br>\$'000 | Six months<br>ended<br>30 Jun 2007<br>\$'000 | Three months<br>ended<br>30 Jun 2008<br>\$'000 | Three months<br>ended<br>30 Jun 2007<br>\$'000 |
|---|--|--|--|--|
| Provision for impairment losses of<br>trade receivables | 317  | 373  | 413  | 436  |
| Insurance   | 2,347  | 2,413  | 1,175  | 1,217  |
| Financial data subscription fees                        | 2,157  | 1,986  | 1,038  | 980  |
| Custodian and fund management fees                      | 6,060  | 4,460  | 2,944  | 2,267  |
| Bank charges  | 5,487  | 9,626  | 2,454  | 6,136  |
| Repairs and maintenance expenses                        | 4,078  | 4,339  | 1,906  | 2,583  |
| License fees  | 7,897  | 6,653  | 3,062  | 2,808  |
| Communication expenses                                  | 2,765  | 2,698  | 1,669  | 1,448  |
| Other miscellaneous expenses                            | 26,176                                       | 26,322                                       | 15,320   | 11,383   |
|   | <b>57,284</b>                                | <b>58,870</b>                                | <b>29,981</b>                                  | <b>29,258</b>                                  |

**11. Gain on Disposal of an Associate**

In April 2007, the Group sold all of its 7,317 fully paid Class A ordinary shares (equivalent to 30 per cent of the issued share capital) of Computershare Hong Kong Investor Services Limited (“CHIS”) for a consideration of \$270,320,000. The accounting profit on disposal of the investment, after deducting stamp duty of \$270,000, amounted to \$206,317,000 and was recognised in the condensed consolidated income statement during the six months ended 30 June 2007.

## 12. Taxation

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

|  | Six months<br>ended<br>30 Jun 2008<br>\$'000 | Six months<br>ended<br>30 Jun 2007<br>\$'000 | Three months<br>ended<br>30 Jun 2008<br>\$'000 | Three months<br>ended<br>30 Jun 2007<br>\$'000 |
|--|--|--|--|--|
| Provision for Hong Kong Profits Tax<br>for the period (note a) | 470,372                                      | 373,277                                      | 207,259  | 213,750  |
| Deferred taxation  | (2,390)                                      | (380)  | 8,379  | (199)  |
|  | <b>467,982</b>                               | <b>372,897</b>                               | <b>215,638</b>                                 | <b>213,551</b>                                 |

- (a) Hong Kong Profits Tax has been provided for at 16.5 per cent (2007: 17.5 per cent) on the estimated assessable profit for the period.

## 13. Dividends

|   | Six months<br>ended<br>30 Jun 2008<br>\$'000 | Six months<br>ended<br>30 Jun 2007<br>\$'000 | Three months<br>ended<br>30 Jun 2008<br>\$'000 | Three months<br>ended<br>30 Jun 2007<br>\$'000 |
|---|--|--|--|--|
| Interim dividend declared of \$2.49<br>(2007: \$1.79) per share based on<br>issued share capital as at 30 Jun | 2,673,381                                    | 1,913,437                                    | 2,673,381                                      | 1,913,437                                      |
| Less: Dividend for shares held by HKEx<br>Employees' Share Award Scheme<br>as at 30 Jun                       | (3,061)                                      | (2,306)                                      | (3,061)  | (2,306)  |
|   | <b>2,670,320</b>                             | <b>1,911,131</b>                             | <b>2,670,320</b>                               | <b>1,911,131</b>                               |

- (a) Actual 2007 interim dividend was \$1,912,193,000, of which \$1,062,000 was paid on shares issued for employee share options exercised after 30 June 2007.

## 14. Earnings Per Share

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

- (a) Basic earnings per share

|  | Six months<br>ended<br>30 Jun 2008 | Six months<br>ended<br>30 Jun 2007 | Three months<br>ended<br>30 Jun 2008 | Three months<br>ended<br>30 Jun 2007 |
|--|------------------------------------|------------------------------------|--------------------------------------|--------------------------------------|
| Profit attributable to<br>shareholders (\$'000)  | 2,974,406                          | 2,330,301                          | 1,324,665                            | 1,407,764                            |
| Weighted average number of shares<br>in issue less shares held for Share<br>Award Scheme | 1,070,922,358                      | 1,066,212,556                      | 1,072,060,063                        | 1,067,212,215                        |
| Basic earnings per share   | <b>\$2.78</b>                      | <b>\$2.19</b>                      | <b>\$1.24</b>                        | <b>\$1.32</b>                        |

**14. Earnings Per Share (continued)**

(b) Diluted earnings per share

|   | Six months<br>ended<br>30 Jun 2008 | Six months<br>ended<br>30 Jun 2007 | Three months<br>ended<br>30 Jun 2008 | Three months<br>ended<br>30 Jun 2007 |
|---|------------------------------------|------------------------------------|--------------------------------------|--------------------------------------|
| Profit attributable to shareholders (\$'000)  | 2,974,406                          | 2,330,301                          | 1,324,665                            | 1,407,764                            |
| Weighted average number of shares in issue less shares held for Share Award Scheme          | 1,070,922,358                      | 1,066,212,556                      | 1,072,060,063                        | 1,067,212,215                        |
| Effect of employee share options  | 6,750,785                          | 10,237,627                         | 5,630,315                            | 9,133,278                            |
| Effect of Awarded Shares  | 1,140,122                          | 1,210,428                          | 1,161,422                            | 1,234,601                            |
| Weighted average number of shares for the purpose of calculating diluted earnings per share | 1,078,813,265                      | 1,077,660,611                      | 1,078,851,800                        | 1,077,580,094                        |
| Diluted earnings per share  | \$2.76                             | \$2.16                             | \$1.23                               | \$1.31                               |

**15. 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 six months to 30 June 2008 was \$43,886,000 (2007: \$43,627,000) of which \$35,809,000 (2007: \$39,725,000) or 82 per cent (2007: 91 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 six months to 30 June 2008 were \$6,447,000 and \$2,000 respectively (2007: \$2,741,000 and \$Nil respectively).

The Group's leasehold buildings included in fixed assets were revalued as at 30 June 2007 on the basis of their depreciated replacement costs calculated by Jones Lang LaSalle, an independent firm of qualified property valuers. During the six months ended 30 June 2007, a revaluation deficit net of applicable deferred tax of \$37,000 of one building was charged to the leasehold buildings revaluation reserve, and a revaluation gain of \$64,000 of another building was credited to the condensed consolidated income statement to offset previous impairment losses charged to profit or loss.

No revaluation was performed on the Group's remaining leasehold building as at 30 June 2008 as its carrying amount is not expected to differ materially from that as at 31 December 2007.

## 16. Clearing House Funds

|   | At<br>30 Jun 2008<br>\$'000 | At<br>31 Dec 2007<br>\$'000 |
|---|-----------------------------|-----------------------------|
| Net assets of the Clearing House Funds were as follows:                               |                             |                             |
| HKSCC Guarantee Fund  | 366,511                     | 362,015                     |
| SEOCH Reserve Fund  | 600,848                     | 1,263,056                   |
| HKCC Reserve Fund   | 581,918                     | 567,133                     |
|   | <b>1,549,277</b>            | <b>2,192,204</b>            |
| Net assets of the Clearing House Funds were composed of:                              |                             |                             |
| Available-for-sale financial assets:  |                             |                             |
| Unlisted debt securities, at market value   | 399,626                     | 361,506                     |
| Time deposits with original maturities<br>over three months                           | 21,523                      | –                           |
| Cash and cash equivalents   | 1,145,078                   | 1,841,508                   |
|   | <b>1,566,227</b>            | <b>2,203,014</b>            |
| Less: Other liabilities   | <b>(16,950)</b>             | <b>(10,810)</b>             |
|   | <b>1,549,277</b>            | <b>2,192,204</b>            |
| The Clearing House Funds were funded by:  |                             |                             |
| Clearing Participants' cash contributions (note a)                                    | 842,763                     | 1,496,855                   |
| Designated reserves (note 27):  |                             |                             |
| – Clearing houses' contributions  | 320,200                     | 320,200                     |
| – Forfeiture of a defaulted Clearing Participant's<br>contributions                   | 1,928                       | 1,928                       |
| – Accumulated net investment income net<br>of expenses attributable to:               |                             |                             |
| – Clearing Participants' contributions  | 289,515                     | 282,213                     |
| – Clearing houses' contributions  | 95,219                      | 90,512                      |
|   | <b>706,862</b>              | <b>694,853</b>              |
| Revaluation reserve (note 26(d))  | <b>(348)</b>                | <b>496</b>                  |
|   | <b>1,549,277</b>            | <b>2,192,204</b>            |
| The maturity profile of the net assets of the<br>Clearing House Funds was as follows: |                             |                             |
| Amounts maturing within twelve months   | <b>1,549,277</b>            | <b>2,192,204</b>            |

- (a) Amount included Participants' additional deposits of \$451,013,000 (31 December 2007: \$1,116,555,000).
- (b) The Clearing House Funds were established to support the respective clearing houses (ie, HKSCC, HKCC and SEOCH) to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Clearing Participants arising from depositing defective securities into the Central Clearing and Settlement System ("CCASS").

**17. Available-for-sale Financial Assets**

|  | At<br>30 Jun 2008<br>\$'000 | At<br>31 Dec 2007<br>\$'000 |
|--|-----------------------------|-----------------------------|
| Debt securities, at market value                 |                             |                             |
| – listed outside Hong Kong                       | 109,480                     | –                           |
| – unlisted                                       | 1,931,425                   | 3,067,007                   |
|  | <b>2,040,905</b>            | <b>3,067,007</b>            |
| Analysis of available-for-sale financial assets: |                             |                             |
| Non-current portion maturing after twelve months | 109,480                     | 25,270                      |
| Current portion maturing within twelve months    | 1,931,425                   | 3,041,737                   |
|  | <b>2,040,905</b>            | <b>3,067,007</b>            |

**18. Accounts Receivable, Prepayments and Deposits**

The Group's accounts receivable, prepayments and deposits amounted to \$15,155,742,000 (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.

**19. Margin Funds on Derivatives Contracts**

|   | At<br>30 Jun 2008<br>\$'000 | At<br>31 Dec 2007<br>\$'000 |
|---|-----------------------------|-----------------------------|
| The Margin Funds comprised:   |                             |                             |
| SEOCH Clearing Participants' Margin Funds                                 | 4,192,397                   | 9,741,149                   |
| HKCC Clearing Participants' Margin Funds                                  | 30,434,988                  | 45,687,739                  |
|   | <b>34,627,385</b>           | <b>55,428,888</b>           |
| The net assets of the Margin Funds comprised:                             |                             |                             |
| Available-for-sale financial assets:                                      |                             |                             |
| Debt securities, at market value:   |                             |                             |
| – listed outside Hong Kong  | 321,044                     | 243,047                     |
| – unlisted  | 14,668,393                  | 16,491,959                  |
| Time deposits with original maturities over three months                  | 502,225                     | 2,508,559                   |
| Cash and cash equivalents   | 20,298,546                  | 36,182,526                  |
| Margin receivable from Clearing Participants                              | 2,651                       | 3,068                       |
|   | <b>35,792,859</b>           | <b>55,429,159</b>           |
| Less: Other liabilities   | (1,165,474)                 | (271)                       |
|   | <b>34,627,385</b>           | <b>55,428,888</b>           |
| The Group's liabilities in respect of the Margin Funds were as follows:   |                             |                             |
| Margin deposits from SEOCH and HKCC Participants on derivatives contracts | 34,627,385                  | 55,428,888                  |
| The maturity profile of the net assets of Margin Funds was as follows:    |                             |                             |
| Amounts maturing after more than twelve months                            | 800,126                     | 456,396                     |
| Amounts maturing within twelve months                                     | 33,827,259                  | 54,972,492                  |
|   | <b>34,627,385</b>           | <b>55,428,888</b>           |

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

|  | At<br>30 Jun 2008<br>\$'000 | At<br>31 Dec 2007<br>\$'000 |
|--|-----------------------------|-----------------------------|
| <b>Analysis of financial assets at fair value through profit or loss:</b>      |                             |                             |
| <u>Held for trading</u>  |                             |                             |
| Equity securities, at market value   |                             |                             |
| – listed in Hong Kong  | 27,259                      | 49,559                      |
| – listed outside Hong Kong   | 106,242                     | 177,591                     |
|  | <b>133,501</b>              | <b>227,150</b>              |
| <u>Held for trading</u>  |                             |                             |
| Debt securities, at market value   |                             |                             |
| – listed in Hong Kong  | 46,948                      | 47,569                      |
| – listed outside Hong Kong   | 1,404,871                   | 1,363,356                   |
| – unlisted   | 1,330,532                   | 1,258,030                   |
|  | <b>2,782,351</b>            | <b>2,668,955</b>            |
| <u>Held for trading</u>  |                             |                             |
| Mutual funds, at market value  |                             |                             |
| – listed outside Hong Kong   | 87,598                      | 96,778                      |
| <u>Held for trading</u>  |                             |                             |
| Derivative financial instruments, at market value                              |                             |                             |
| – equity index futures contracts, listed outside Hong Kong (note a)            | 894                         | 159                         |
| – forward foreign exchange contracts   | 833                         | 3,513                       |
|  | <b>1,727</b>                | <b>3,672</b>                |
|  | <b>3,005,177</b>            | <b>2,996,555</b>            |
| <b>Analysis of financial liabilities at fair value through profit or loss:</b> |                             |                             |
| <u>Held for trading</u>  |                             |                             |
| Derivative financial instruments, at market value                              |                             |                             |
| – equity index futures contracts (note a)                                      |                             |                             |
| – listed in Hong Kong  | 262                         | –                           |
| – listed outside Hong Kong   | 441                         | –                           |
| – forward foreign exchange contracts   | 4,298                       | 6,149                       |
|  | <b>5,001</b>                | <b>6,149</b>                |

- (a) The total notional value of the futures contracts outstanding was \$47,972,000 (31 December 2007: \$6,964,000).

## 21. Non-current Assets Held for Sale

|  | At<br>30 Jun 2008<br>\$'000 | At<br>31 Dec 2007<br>\$'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<br>recognised in other comprehensive income<br>(leasehold buildings revaluation reserve (note 26)) | –                           | 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 the 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 of 2008.

## 22. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities amounted to \$17,051,799,000 (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.

## 23. Provisions

|  | Reinstatement<br>costs<br>\$'000 | Employee<br>benefit costs<br>\$'000 | Total<br>\$'000 |
|--|----------------------------------|-------------------------------------|-----------------|
| At 1 Jan 2008                            | 24,128                           | 29,630                              | 53,758          |
| Provision for the period                 | 57                               | 23,135                              | 23,192          |
| Amount used during the period            | –                                | (18,211)                            | (18,211)        |
| Unused amount reversed during the period | (18)                             | –                                   | (18)            |
| Amount paid during the period            | (2)                              | (647)                               | (649)           |
| At 30 Jun 2008                           | 24,165                           | 33,907                              | 58,072          |

|                         | At<br>30 Jun 2008<br>\$'000 | At<br>31 Dec 2007<br>\$'000 |
|-------------------------|-----------------------------|-----------------------------|
| Analysis of provisions: |                             |                             |
| Current                 | 33,927                      | 29,630                      |
| Non-current             | 24,145                      | 24,128                      |
|                         | 58,072                      | 53,758                      |

## 24. Share Capital, Share Premium and Shares Held for Share Award Scheme

|  |                                    |                            | At<br>30 Jun 2008<br>\$'000 | At<br>31 Dec 2007<br>\$'000                        |                 |
|--|------------------------------------|----------------------------|-----------------------------|--|-----------------|
| Authorised:  |                                    |                            |                             |  |                 |
| 2,000,000,000 shares of \$1 each                                     |                                    |                            | 2,000,000                   | 2,000,000  |                 |
| Issued and fully paid:   |                                    |                            |                             |  |                 |
|  | Number of<br>shares<br>of \$1 each | Share<br>capital<br>\$'000 | Share<br>premium<br>\$'000  | Shares held for<br>Share Award<br>Scheme<br>\$'000 | Total<br>\$'000 |
| At 1 Jan 2007  | 1,064,190,346                      | 1,065,448                  | 185,942                     | (51,297)   | 1,200,093       |
| Shares issued under employee<br>share option schemes (note a)        | 4,837,000                          | 4,837                      | 61,215                      | -  | 66,052          |
| Transfer from employee share-based<br>compensation reserve (note 25) | -                                  | -                          | 19,013                      | -  | 19,013          |
| Shares purchased for Share<br>Award Scheme (note b)                  | (42,500)                           | -                          | -                           | (4,879)  | (4,879)         |
| Vesting of shares of Share<br>Award Scheme (note c)                  | 243,868                            | -                          | -                           | 8,373  | 8,373           |
| 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<br>share option schemes (note a)        | 3,361,500                          | 3,362                      | 50,356                      | -  | 53,718          |
| Transfer from employee share-based<br>compensation reserve (note 25) | -                                  | -                          | 14,899                      | -  | 14,899          |
| Shares purchased for Share<br>Award Scheme (note b)                  | (182,200)                          | -                          | -                           | (29,434)   | (29,434)        |
| Vesting of shares of Share<br>Award Scheme (note c)                  | 9,590                              | -                          | -                           | 347  | 347             |
| At 30 Jun 2008   | 1,072,417,604                      | 1,073,647                  | 331,425                     | (76,890)   | 1,328,182       |

- (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 3,361,500 shares (year ended 31 December 2007: 4,837,000 shares) in HKEx at an average consideration of \$15.98 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 182,200 HKEx shares (year ended 31 December 2007: 42,500 shares) through purchases on the open market for the Share Award Scheme (note 25(c)). The total amount paid to acquire the shares during the period was \$29,434,000 (year ended 31 December 2007: \$4,879,000) and had been deducted from shareholders’ equity.
- (c) During the period, the HKEx Employee Share Trust transferred 9,590 HKEx shares (year ended 31 December 2007: 243,868 shares) to the awardees upon vesting of certain HKEx shares awarded (“Awarded Shares”). The total cost of the related vested shares was \$347,000 (year ended 31 December 2007: \$8,373,000).

**25. Employee Share-based Compensation Reserve**

|   | 2008<br>\$'000 | 2007<br>\$'000 |
|---|----------------|----------------|
| At 1 Jan  | 49,669         | 52,119         |
| Employee share-based compensation benefits (note a)                         | 16,511         | 24,362         |
| Transfer to share premium upon exercise of employee share options (note 24) | (14,899)       | (19,013)       |
| Vesting of shares of Share Award Scheme                                     | (280)          | (7,286)        |
| Share of reserve of an associate  |                |                |
| – during the period/year  | –              | 47             |
| – eliminated through disposal of associate                                  | –              | (560)          |
| At 30 Jun 2008/31 Dec 2007  | <b>51,001</b>  | <b>49,669</b>  |

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

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

**25. Employee Share-based Compensation Reserve (continued)**

## (b) Share options (continued)

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

|  | 2008                                |   | 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 |
| <b>Pre-Listing Scheme</b>                  |                                     |   |                                     |   |
| Outstanding at 1 Jan                       | 6.88                                | 379,000   | 6.88                                | 788,000   |
| Exercised                                  | 6.88                                | (249,000)                                       | 6.88                                | (409,000)                                       |
| Outstanding at 30 Jun 2008/<br>31 Dec 2007 | 6.88                                | 130,000   | 6.88                                | 379,000   |
| <b>Post-Listing Scheme</b>                 |                                     |   |                                     |   |
| Outstanding at 1 Jan                       | 16.67                               | 9,089,500                                       | 15.68                               | 14,593,500                                      |
| Exercised                                  | 16.71                               | (3,112,500)                                     | 14.28                               | (4,428,000)                                     |
| Forfeited                                  | 18.47                               | (155,000)                                       | 13.01                               | (1,076,000)                                     |
| Outstanding at 30 Jun 2008/<br>31 Dec 2007 | 16.61                               | 5,822,000                                       | 16.67                               | 9,089,500                                       |
| Total                                      | 16.39                               | 5,952,000                                       | 16.28                               | 9,468,500                                       |

## (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, save that in the case when an awardee dies, or retires at his/her normal retirement date or earlier by agreement prior to the final vesting date, all the Awarded Shares and the related income shall become fully vested on the day immediately prior to his/her death or retirement. Vested shares will be transferred at no cost to the relevant awardees.

**25. 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.

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.

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.

Details of the Awarded Shares awarded since the adoption of the Share Award Scheme are set out below:

| Date of approval by Board | Date of award | Awarded Sum \$'000 | Number of shares purchased | Number of Awarded Shares awarded | Average fair value per share \$ | Vesting period            |
|---------------------------|---------------|--------------------|----------------------------|----------------------------------|---------------------------------|---------------------------|
| 19 Dec 2005               | 19 Dec 2005   | N/A                | 960,000                    | 960,000                          | 31.20                           | 19 Dec 2007 – 19 Dec 2010 |
| 13 Dec 2006               | 15 Jan 2007   | 19,673             | 272,500                    | 272,465 *                        | 72.28                           | 13 Dec 2008 – 13 Dec 2011 |
| 14 Feb 2007               | 7 Jun 2007    | 600                | 7,000                      | 7,000                            | 81.33                           | 16 Apr 2009 – 16 Apr 2012 |
| 15 May 2007               | 17 Jul 2007   | 600                | 5,500                      | 5,500                            | 102.29                          | 18 Jun 2009 – 18 Jun 2012 |
| 12 Dec 2007               | 4 Feb 2008    | 26,300             | 151,000                    | 150,965                          | 163.72                          | 12 Dec 2009 – 12 Dec 2012 |
| 18 Feb 2008               | 7 Apr 2008    | 612                | 4,200                      | 4,200 <sup>⊘</sup>               | 144.18                          | 18 Feb 2010 – 18 Feb 2013 |

\* 11,528 shares were awarded to the Chief Executive of HKEx.

⊘ Awarded to the Chief Executive of HKEx.

**25. Employee Share-based Compensation Reserve (continued)**

## (c) Awarded Shares (continued)

## (i) (continued)

Details of the Awarded Shares vested since the adoption of the Share Award Scheme are as follows:

| Date of award | Vesting date | Number of Awarded Shares vested | Average fair value per share \$ | Cost of related Awarded Shares (including acquisition transaction costs) \$'000 |
|---------------|--------------|---------------------------------|---------------------------------|---|
| 19 Dec 2005   | 19 Dec 2007  | 232,375                         | 31.20                           | 7,286   |
| 19 Dec 2005   | 30 Apr 2008  | 8,925                           | 31.20                           | 280   |

During the period ended 30 June 2008, 27,000 HKEx shares were acquired by the Trustee through reinvesting dividends received at a total cost (including related transaction costs) of \$4,107,000, of which 25,799 shares were subsequently allocated to awardees (year ended 31 December 2007: 30,000 HKEx shares at a total cost of \$3,747,000, of which 29,132 shares were subsequently allocated to awardees).

During the period ended 30 June 2008, 665 HKEx shares at a cost of \$67,000 acquired from reinvesting dividends received were vested and transferred to the employees at nil consideration (year ended 31 December 2007: 11,493 HKEx shares at a cost of \$1,087,000 were vested).

## (ii) Movements in the number of Awarded Shares awarded and shares acquired through reinvesting dividends received were as follows:

|  | 2008<br>Number of<br>shares<br>awarded/<br>allocated | 2007<br>Number of<br>shares<br>awarded/<br>allocated |
|--|--|--|
| Outstanding at 1 Jan                               | 1,024,262  | 955,906  |
| Awarded *  | 155,165 #  | 284,965  |
| Forfeited  | (21,145)   | (1,800)  |
| Vested   | (8,925)  | (232,375)  |
| Dividends reinvested:                              |  |  |
| – allocated to awardees                            | 25,799   | 29,132   |
| – allocated to awardees but subsequently forfeited | (1,062)  | (73)   |
| – vested   | (665)  | (11,493)   |
| Outstanding at 30 Jun 2008/31 Dec 2007             | <b>1,173,429</b>                                     | 1,024,262  |

\* Average fair value per share of \$163.19 (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.

## (iii) As at 30 June 2008, 55,813 (31 December 2007: 32,370) forfeited or unallocated shares were held by the HKEx Employee Share Trust and they would be allocated to awardees in future.

**26. Revaluation Reserves**

|   | At<br>30 Jun 2008<br>\$'000 | At<br>31 Dec 2007<br>\$'000 |
|---|-----------------------------|-----------------------------|
| Leasehold buildings revaluation reserve (notes b and c) | –                           | 3,155                       |
| Investment revaluation reserve (note d)                 | 19,266                      | 52,881                      |
|   | <b>19,266</b>               | <b>56,036</b>               |

- (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 21), the leasehold buildings revaluation reserve relating to this property was transferred to retained earnings during the period (note 28).
- (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 deficit of \$348,000 (31 December 2007: surplus of \$496,000) which was attributable to investments of the Clearing House Funds (note 16).

**27. Designated Reserves**

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

|                                | At<br>30 Jun 2008<br>\$'000 | At<br>31 Dec 2007<br>\$'000 |
|--------------------------------|-----------------------------|-----------------------------|
| Clearing House Funds reserves  |                             |                             |
| – HKSCC Guarantee Fund reserve | 273,356                     | 269,635                     |
| – SEOCH Reserve Fund reserve   | 104,940                     | 102,828                     |
| – HKCC Reserve Fund reserve    | 328,566                     | 322,390                     |
|                                | <b>706,862</b>              | <b>694,853</b>              |

**28. Retained Earnings (Including Proposed/Declared Dividends)**

|   | 2008<br>\$'000 | 2007<br>\$'000 |
|---|----------------|----------------|
| At 1 Jan  | 6,288,138      | 3,366,989      |
| Profit for the period/year (note a)   | 2,974,406      | 6,169,278      |
| Surplus of net investment income net of expenses<br>of Clearing House Funds for the period/year<br>transferred to Clearing House Funds reserves | (12,009)       | (67,037)       |
| Transfer from leasehold buildings revaluation reserve<br>on disposal of a leasehold property (note 26(b))                                       | 3,155          | –              |
|   | (8,854)        | (67,037)       |
| Dividends:  |                |                |
| 2007/2006 final dividend  | (3,634,850)    | (1,266,387)    |
| Dividend on shares issued for employee share options<br>exercised after 31 Dec 2007/31 Dec 2006   | (11,309)       | (3,879)        |
|   | (3,646,159)    | (1,270,266)    |
| 2007 interim dividend   | –              | (1,911,131)    |
| Dividend on shares issued for employee share options<br>exercised after 30 Jun 2007   | –              | (1,062)        |
|   | –              | (1,912,193)    |
| Unclaimed dividend forfeited  | 1,944          | 2,454          |
| Vesting of shares of Share Award Scheme   | (67)           | (1,087)        |
| At 30 Jun 2008/31 Dec 2007  | 5,609,408      | 6,288,138      |
| Representing:   |                |                |
| Retained earnings   | 2,939,088      | 2,652,760      |
| Proposed/declared dividends   | 2,670,320      | 3,635,378      |
| At 30 Jun 2008/31 Dec 2007  | 5,609,408      | 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 \$12,009,000 (year ended 31 December 2007: \$67,037,000).

## 29. Notes to the Condensed Consolidated Statement of Cash Flows

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

|   | Six months<br>ended<br>30 Jun 2008<br>\$'000 | Six months<br>ended<br>30 Jun 2007<br>\$'000 |
|---|--|--|
| Profit before taxation  | 3,442,388                                    | 2,703,198                                    |
| Adjustments for:  |  |  |
| Net interest income   | (591,902)                                    | (341,059)                                    |
| Net realised and unrealised losses/(gains) and interest income on financial assets and financial liabilities at fair value through profit or loss | 7,213  | (107,495)                                    |
| Realised gains on available-for-sale financial assets of Corporate Funds  | (23)   | –  |
| Dividend income from financial assets at fair value through profit or loss  | (2,424)                                      | (4,012)                                      |
| Amortisation of lease premiums for land   | 255  | 274  |
| Fair value gain of an investment property   | –  | (1,100)                                      |
| Depreciation  | 49,938                                       | 42,456                                       |
| Employee share-based compensation benefits  | 16,511                                       | 12,140                                       |
| Reversal of impairment loss of a leasehold building   | –  | (64)   |
| Provision for impairment losses of trade receivables  | 317  | 373  |
| Changes in provisions   | 4,277  | 2,278  |
| Share of profit of an associate   | –  | (5,587)                                      |
| Gain on disposal of an associate  | –  | (206,317)                                    |
| Gain on disposal of properties  | (68,641)                                     | –  |
| Loss/(gain) on disposal of fixed assets   | 1  | (260)  |
| Net increase in financial assets and financial liabilities at fair value through profit or loss   | (84,240)                                     | (15,654)                                     |
| Settlement of amounts transferred from retained earnings to Clearing House Funds  | (12,009)                                     | (29,391)                                     |
| Decrease/(increase) in accounts receivable, prepayments and deposits  | 3,204,781                                    | (1,547,539)                                  |
| (Decrease)/increase in other current liabilities  | (4,431,923)                                  | 1,438,482                                    |
| Net cash inflow from operations   | 1,534,519                                    | 1,940,723                                    |
| Interest received from bank deposits  | 347,424                                      | 299,176                                      |
| Dividends received from financial assets at fair value through profit or loss   | 2,338  | 3,402  |
| Interest received from financial assets at fair value through profit or loss  | 69,672                                       | 59,758                                       |
| Interest paid   | (73,211)                                     | (282,715)                                    |
| Hong Kong Profits Tax paid  | (112,463)                                    | (60,162)                                     |
| Net cash inflow from operating activities   | 1,768,279                                    | 1,960,182                                    |

(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.

### 30. Commitments

Commitments in respect of capital expenditures:

|                                   | At<br>30 Jun 2008<br>\$'000 | At<br>31 Dec 2007<br>\$'000 |
|-----------------------------------|-----------------------------|-----------------------------|
| Contracted but not provided for   | 15,279                      | 33,555                      |
| Authorised but not contracted for | 159,276                     | 131,349                     |
|                                   | <b>174,555</b>              | <b>164,904</b>              |

The commitments in respect of capital expenditures were mainly for the upgrade and enhancement of trading and clearing systems, development and purchases of various other computer systems and, for 2008, office and data centre relocation.

### 31. Contingent Liabilities

As at 30 June 2008, the Group's material contingent liabilities were as follows:

- (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 30 June 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 448 trading Participants as at 30 June 2008 (31 December 2007: 439) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to \$89,600,000 (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.

### 32. 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 30 June 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 30 Jun 2008            |                           | At 31 Dec 2007            |                           |
|------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                                    | Amount received<br>\$'000 | Amount utilised<br>\$'000 | Amount received<br>\$'000 | Amount utilised<br>\$'000 |
| <b>Clearing House Funds</b>        |                           |                           |                           |                           |
| Bank guarantees                    | 1,300,430                 | 155,555                   | 1,759,650                 | 519,137                   |
| <b>Margin Funds</b>                |                           |                           |                           |                           |
| Equity securities, listed in       |                           |                           |                           |                           |
| Hong Kong, at market value         | 3,914,135                 | 932,040*                  | 1,847,054                 | —*                        |
| US Treasury Bills, at market value | 6,200,030                 | 4,541,291                 | 8,672,944                 | 5,935,238                 |
| Bank guarantees                    | 770,000                   | 458,244                   | 854,000                   | 607,930                   |
|                                    | <b>10,884,165</b>         | <b>5,931,575</b>          | <b>11,373,998</b>         | <b>6,543,168</b>          |
|                                    | <b>12,184,595</b>         | <b>6,087,130</b>          | <b>13,133,648</b>         | <b>7,062,305</b>          |

\* 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 30 June 2008, \$875,989,000 (31 December 2007: \$1,307,776,000) of equity securities were received for such purpose (including those amounts discovered but not yet released of \$54,675,000 (31 December 2007: \$23,066,000)).

### 33. Material Related Party Transactions

Certain Directors of HKEx may be 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.

**33. Material Related Party Transactions (continued)**

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

## (a) Transactions with an associate

|   | Six months<br>ended<br>30 Jun 2008<br>\$'000 | Six months<br>ended<br>30 Jun 2007<br>\$'000 | Three months<br>ended<br>30 Jun 2008<br>\$'000 | Three months<br>ended<br>30 Jun 2007<br>\$'000 |
|---|--|--|--|--|
| Income received and receivable<br>from/(expenses paid and<br>payable to) an associate, CHIS |  |  |  |  |
| – Dividend income   | –  | 9,660  | –  | 2,160  |
| – Share registration<br>service fees  | –  | (396)  | –  | (1)  |

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

## (b) Key management personnel compensation

|  | Six months<br>ended<br>30 Jun 2008<br>\$'000 | Six months<br>ended<br>30 Jun 2007<br>\$'000 | Three months<br>ended<br>30 Jun 2008<br>\$'000 | Three months<br>ended<br>30 Jun 2007<br>\$'000 |
|--|--|--|--|--|
| Salaries and other short-term<br>employee benefits | 41,143                                       | 34,533                                       | 20,371   | 18,347   |
| Employee share-based<br>compensation benefits      | 6,355  | 4,273  | 3,856  | 2,108  |
| Retirement benefit costs                           | 3,184  | 2,792  | 1,638  | 1,448  |
|  | <b>50,682</b>                                | <b>41,598</b>                                | <b>25,865</b>                                  | <b>21,903</b>                                  |

## (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.

### 34. Financial Risk Management

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

(a) Market risk

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

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

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

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

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

(i) Foreign exchange risk

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

**34. Financial Risk Management (continued)**

## (a) Market risk (continued)

## (i) Foreign exchange risk (continued)

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

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

As at 30 June 2008, the aggregate net open foreign currency positions amounted to HK\$2,159 million, of which HK\$147 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\$3,132 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.

## (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.

**34. Financial Risk Management (continued)**

## (a) Market risk (continued)

## (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.

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

|                       | Six months ended<br>30 Jun 2008 |                   |                  | Six months ended<br>30 Jun 2007 |                   |                  |
|-----------------------|---------------------------------|-------------------|------------------|---------------------------------|-------------------|------------------|
|                       | Average<br>\$’000               | Highest<br>\$’000 | Lowest<br>\$’000 | Average<br>\$’000               | Highest<br>\$’000 | Lowest<br>\$’000 |
| Foreign exchange risk | 6,178                           | 7,480             | 5,175            | 4,758                           | 6,094             | 3,566            |
| Equity price risk     | 13,632                          | 16,499            | 12,166           | 13,691                          | 15,636            | 11,486           |
| Interest rate risk    | 33,457                          | 40,093            | 27,290           | 16,658                          | 18,724            | 13,703           |
| Total VaR             | 31,016                          | 37,025            | 25,135           | 24,825                          | 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 30 June 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.

**34. 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 30 June 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.

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

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. As of 30 June 2008, bank guarantees of \$5,097,200,000 (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.

**34. Financial Risk Management (continued)**

## (c) Credit risk (continued)

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

As at 30 June 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<br>30 Jun 2008<br>\$'000 | At<br>31 Dec 2007<br>\$'000 |
|-------------------------|-----------------------------|-----------------------------|
| Up to 6 months          | 80,612                      | 271,196                     |
| Over 6 months to 1 year | 195                         | 1                           |
| Over 1 year to 3 years  | 2                           | 2                           |
| Over 3 years*           | 8,651                       | 8,651                       |
| Total                   | <b>89,460</b>               | <b>279,850</b>              |

\* 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 \$11,350,000 (31 December 2007: \$12,643,000).

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

As at 30 June 2008, trade receivables of the Group amounting to \$2,805,000 (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 30 June 2008, the amount of doubtful deferred revenue amounted to \$35,091,000 (31 December 2007: \$48,955,000).

**35. Comparative Figures**

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

# AUDIT COMMITTEE REPORT

The Audit Committee (“AC”) comprises five INEDs, appointed by the Board, who have extensive experience in financial matters. Dr Marvin K T Cheung, Mr Fong Hup and Mr Vincent K H Lee are certified public accountants, and have not been employed by or otherwise affiliated with the former or existing auditors of HKEx.

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

At its meeting on 17 January 2008, the AC reviewed the 2007 internal audit activities summary, assessed the effectiveness of the internal control system in detecting fraud and irregularity by reviewing the work of the IAD and its findings, and approved the internal audit plan for 2008. At its meeting on 8 May 2008, the AC reviewed and approved the external auditor’s proposed audit scope and service fees for the 2008 fiscal year.

On 5 August 2008, the AC reviewed the Group’s unaudited condensed consolidated financial statements for the six months ended 30 June 2008 in conjunction with HKEx’s external and internal auditors. It also reviewed the independent review report of the external auditor as set out on page 68.

Based on these reviews and discussions with management, the AC is satisfied that the condensed consolidated financial statements have been prepared in accordance with applicable accounting standards and fairly presents the financial position and results of the Group for the six months ended 30 June 2008. The AC therefore recommended the unaudited condensed consolidated financial statements for the six months ended 30 June 2008 be approved by the Board.

## **Members of the Audit Committee**

CHEUNG Kin Tung, Marvin (Chairman)  
FONG Hup (Deputy Chairman)  
CHENG Mo Chi, Moses  
LEE Kwan Ho, Vincent Marshall  
WILLIAMSON, John Mackay McCulloch

Hong Kong, 5 August 2008

# AUDITOR'S INDEPENDENT REVIEW REPORT

## Independent Review Report to the Board of Directors of Hong Kong Exchanges and Clearing Limited

(incorporated in Hong Kong with limited liability)

### Introduction

We have reviewed the interim financial information set out on pages 31 to 66, which comprises the condensed consolidated statement of financial position of Hong Kong Exchanges and Clearing Limited (the “Company”) as at 30 June 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 13 August 2008

# PROSPECTS

The securities market remained volatile in the second quarter of 2008. The HSI increased from 22849 as at 31 March 2008 to over 26000 in May 2008 but dropped to just over 22100 as at the end of June 2008. The average daily turnover in the Cash Market for the second quarter contracted by approximately 23 per cent against that for the previous quarter.

A number of factors have affected investor sentiment. Globally, there have been concerns about a credit crunch and escalating oil prices. In the Mainland, the rising food prices and post-earthquake reconstruction programmes could add to inflationary pressures. The Central Government has continued with austerity measures to prevent the economy from overheating, including hiking the bank's reserve-requirement ratio six times in the first half of this year from 14.5 per cent to a record 17.5 per cent.

Looking ahead, the second half of 2008 would be challenging. We will continue to pursue our 2007-2009 Strategic Plan to achieve organic and sustainable growth for the Group. The review of our existing CSR policies and practices, which is currently underway, will also contribute in this aspect.

With the twin objectives of expanding our product range and broadening our investor base, the first non-financial futures contract, gold futures, will be launched in October this year. Meanwhile, effective 1 July 2008, GEM has been repositioned as a second board and as a stepping stone to the Main Board. On the same day, the HDR framework was launched, which opens a new avenue for the listing of overseas companies. To pursue this initiative further, we are conducting a study of the desirability and feasibility of establishing a new board for the listing of overseas companies, in which trading would be restricted to professional investors.

To further develop our markets and reinforce Hong Kong's position as a leading international financial centre, HKEx will continue its strategic investments in information technology systems to upgrade our market infrastructure as well as other services. Meanwhile, we will continue to maintain stringent controls over expenditure, improve operating efficiency and enhance risk management in order to maximise shareholder value, and well position ourselves to face the challenges ahead.

**ARCULLI, Ronald Joseph**  
Chairman

Hong Kong, 13 August 2008

# 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.

On 15 May 2008, Mr David M Webb served a notice to resign with immediate effect as an INED of HKEx. On 18 June 2008, the Board accepted the recommendation of the Nomination Committee to appoint Mr John M M Williamson an INED of HKEx with immediate effect to fill the casual vacancy. Pursuant to HKEx's Articles of Association, Mr John M M Williamson shall hold office until the next general meeting of the Company, and shall then be eligible for 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. On 18 June 2008, Mr John M M Williamson was appointed a member of the Audit Committee and the Investment Advisory Committee following his appointment as a Director, and Mr Oscar S H Wong and Mrs Laura M Cha were appointed as members of the Nomination Committee and the Listing Nominating Committee respectively. The updated membership lists of various committees and consultative panels are available on the HKEx website.

The term of service of each Director on each committee or consultative panel shall be coterminous with the individual's term of directorship with HKEx.

## Organisational Structure 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 HKEx executive level, has been expanded from six to 10 members, including four additional senior executives, namely the Head of the Listing Division (who attends only when listing-related matters are being considered), Head of the Risk Management Division, Head of the Cash Market Department and Head of the Derivatives Market Department.

On 31 March and 15 May 2008, Messrs Kevin T King and Pont S K Chiu joined HKEx as the Head of the Risk Management Division and Head of the Internal Audit Department respectively. Mr King oversees the risk management functions of cash clearing and derivatives clearing, market and participant surveillance, and enterprise risk management, and supports the Risk Management Committee. Mr Chiu manages the internal audit functions outlined in the Audit Charter, and supports the Audit Committee in ensuring adequate oversight of internal controls at HKEx as well as in promoting best practices of corporate governance.

## Change in Board Lot Size

Effective 7 April 2008, the board lot size for trading HKEx shares on the Exchange was changed from 500 to 100 shares. 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.

## Interim Dividend

The Board has declared an interim dividend of \$2.49 per share (2007: \$1.79 per share) for the year ending 31 December 2008, amounting to a total of about \$2,673 million (2007: \$1,914 million) which includes \$3,061,000 (2007: \$2,306,000) for shares held in trust under the Share Award Scheme.

## Share Option Schemes

Details of the Share Option Schemes are set out in note 25(b) to the condensed consolidated accounts of this interim report. The share options granted under the two schemes, which remained outstanding as at 30 June 2008 are set out below.

### Pre-Listing Scheme

| Date of Grant             | Exercise Price | Number of Shares Issuable Under the Options |   |  |                      | Exercise Period<br>(Note 2) |
|---------------------------|----------------|---|---|--|----------------------|-----------------------------|
|                           |                | As at<br>1 Jan 2008                         | Issued upon<br>Subscription<br>during the<br>six months<br>ended<br>30 Jun 2008<br>(Note 1) | Lapsed<br>during the<br>six months<br>ended<br>30 Jun 2008 | As at<br>30 Jun 2008 |                             |
| <b>Employees</b> (Note 3) |                |   |   |  |                      |                             |
| 20 Jun 2000               | \$6.88         | 379,000                                     | 249,000   | –  | 130,000              | 6 Mar 2002 –<br>30 May 2010 |

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

### Post-Listing Scheme

| Date of Grant                         | Exercise Price | Number of Shares Issuable Under the Options |   |  |                      | Exercise Period<br>(Note 5)  |
|---------------------------------------|----------------|---|---|--|----------------------|------------------------------|
|                                       |                | As at<br>1 Jan 2008                         | Issued upon<br>Subscription<br>during the<br>six months<br>ended<br>30 Jun 2008<br>(Note 4) | Lapsed<br>during the<br>six months<br>ended<br>30 Jun 2008 | As at<br>30 Jun 2008 |                              |
| <b>Executive Director</b><br>(Note 6) |                |   |   |  |                      |                              |
| 2 May 2003                            | \$8.28         | 1,240,000                                   | 420,000   | –  | 820,000              | 2 May 2005 –<br>1 May 2013   |
| <b>Employees</b> (Note 3)             |                |   |   |  |                      |                              |
| 14 Aug 2003                           | \$12.45        | 273,500                                     | –   | –  | 273,500              | 14 Aug 2005 –<br>13 Aug 2013 |
| 15 Jan 2004                           | \$17.30        | 547,000                                     | 273,500   | –  | 273,500              | 15 Jan 2006 –<br>14 Jan 2014 |
| 31 Mar 2004                           | \$16.96        | 2,827,500                                   | 1,173,000   | 53,000   | 1,601,500            | 31 Mar 2006 –<br>30 Mar 2014 |
| 17 May 2004                           | \$15.91        | 125,000                                     | 25,000  | –  | 100,000              | 17 May 2006 –<br>16 May 2014 |
| 26 Jan 2005                           | \$19.25        | 4,076,500                                   | 1,221,000   | 102,000  | 2,753,500            | 26 Jan 2007 –<br>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 six months ended 30 June 2008.

Notes:

1. The weighted average closing price immediately before the dates on which the options were exercised was \$138.39.
2. Options granted are subject to a vesting scale in tranches of 25 per cent each per annum reaching 100 per cent as from 6 March 2005.
3. Employees working under employment contracts that were regarded as “continuous contracts” for the purpose of the Employment Ordinance of Hong Kong.
4. The weighted average closing price immediately before the dates on which the options were exercised was \$154.41.
5. Options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of grant.
6. The option was granted to Mr Paul M Y Chow, an Executive Director and the Chief Executive of HKEx. Subsequent to the period-end, Mr Chow exercised his option to subscribe for the remaining 820,000 shares on 10 July 2008.
7. The amortised fair value of the share options charged to the condensed consolidated income statement for the six months ended 30 June 2008 was \$4,439,000 (30 June 2007: \$5,365,000).

## Share Award Scheme

Details of the Share Award Scheme and the awards are set out in note 25(c) to the condensed consolidated accounts of this interim report.

As at 30 June 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 1,229,242 shares held in trust by the trustee under the Share Award Scheme, of which 1,173,429 shares were held for the benefit of selected employees who remained under the employ by the Group and 55,813 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.

The amortised fair value of the Awarded Shares charged to the condensed consolidated income statement for the six months ended 30 June 2008 was \$12,072,000 (30 June 2007: \$6,775,000).

## Interests and Short Positions of Directors and Chief Executive

As at 30 June 2008, the interests and short positions 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

| Name of Director  | Number of Shares/Underlying Shares Held |                  |                     |                 |   | Total     | % of the Issued Share Capital |
|-------------------|---|------------------|---------------------|-----------------|---|-----------|-------------------------------|
|                   | Personal Interests                      | Family Interests | Corporate Interests | Other Interests |   |           |                               |
| Paul M Y Chow     | 3,296,356<br>(Note 1)                   | –                | –                   | –               | – | 3,296,356 | 0.31                          |
| Vincent K H Lee   | –                                       | –                | 110,000<br>(Note 2) | –               | – | 110,000   | 0.01                          |
| John E Strickland | 18,000<br>(Note 3)                      | –                | –                   | –               | – | 18,000    | 0.00                          |

### Short Positions in Shares and Underlying Shares of HKEx

| Name of Director | Number of Shares/Underlying Shares Held |                  |                     |                 |   | Total   | % of the Issued Share Capital |
|------------------|---|------------------|---------------------|-----------------|---|---------|-------------------------------|
|                  | Personal Interests                      | Family Interests | Corporate Interests | Other Interests |   |         |                               |
| Vincent K H Lee  | –                                       | –                | 100,000<br>(Note 2) | –               | – | 100,000 | 0.01                          |

Notes:

- The interests included Mr Chow's interests in (a) 15,728 Awarded Shares and 628 shares further acquired by reinvesting the dividends received therefrom according to the Share Award Scheme, and (b) 820,000 shares issuable under an option granted to him on 2 May 2003, which have been fully vested as of 2 May 2008. Details of the interests of Mr Chow in the share options and Awarded Shares are set out respectively under the Share Option Schemes and Share Award Scheme above.
- 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.
- The shares were held by Mr Strickland as beneficial owner.

Save for those disclosed above, as at 30 June 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 six months ended 30 June 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 30 June 2008, the 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/<br>Underlying Shares Held | Total      | % of the<br>Issued<br>Share Capital |
|--|---------------------|---|------------|-------------------------------------|
| The Government of the Hong Kong<br>Special Administrative Region<br>(for the account of the Exchange Fund)<br>(Note 1) | Beneficial<br>owner | 62,919,500                                  | 62,919,500 | 5.86<br>(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 1,073,646,846 shares issued as at 30 June 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).

Save for those disclosed above, as at 30 June 2008, no other persons had any interest or short position 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.

## Minority Controllers

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

The SFC has only granted approval to five entities to be Minority Controllers of HKEx, on the basis that the shares are held by them in custody for their clients. According to the CCASS Participants Shareholding Report of HKEx as at 30 June 2008, the five approved Minority Controllers in aggregate held 55.30 per cent of the issued share capital of HKEx (30 June 2007: 64.10 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.

## Employees' Incentives and Training

HKEx's success relies largely on the performance and commitment of its employees. Our employee policies are geared towards attracting, developing and motivating talented and suitable people. HKEx's remuneration packages comprise a base salary, a provident fund, group medical and group life insurances, and a bonus which is related to an individual employee's performance and the Group's overall performance. In addition, Awarded Shares are granted to key employees as a long-term incentive for retention purposes.

In order to develop employees' potential, HKEx offers a wide range of training programmes to help them fulfil their personal career goals and professional training requirements, and equip them to meet future challenges. In the first half of 2008, 60 training classes were organised with more than 2,100 participants. Over 400 employees attended external training courses on the latest developments in relevant rules and regulations. In addition, 154 employees participated in the e-learning scheme which was introduced last year to provide more training and to enable employees to learn at their own pace.

As at the end of June 2008, there were 864 employees in the Group, including 26 temporary staff (31 December 2007: 837 employees, including 32 temporary staff). Additional information is set out in note 8 to the condensed consolidated accounts of this interim report.

## 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 May 2008, the Global Rating and Home Market Rating remained at 8.0 and 10.0 respectively out of the maximum of 10.0.

HKEx continues its support to professional financial organisations on promoting good corporate governance. We participated in the OECD Asian Roundtable on Corporate Governance held on 13 and 14 May 2008 in Hong Kong, and the Chief Executive gave a speech on Hong Kong's commitment to market quality and high corporate governance standards during the lunch hosted by HKEx for the participants.

## CSR

HKEx believes that good management of corporate social responsibilities is a business imperative to meet evolving social demands in a fast-paced business environment. To 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 the third quarter of 2008.

We have continued our commitment to fulfil our CSR in accordance with the defined CSR framework. HKEx's commitment to community contribution has earned the accolade of Bronze Award from the Community Chest of Hong Kong under the Corporate & Employee Contribution Programme for two consecutive years (2006/2007 and 2007/2008). In addition, in the first half of 2008, HKEx raised a total of \$31 million through the Stock Code Balloting for Charity Scheme from newly listed companies for the Community Chest of Hong Kong.

As part of efforts to serve our community, earlier this year the HKEx Volunteer Team visited the Warehouse of People's Food Bank, a charitable organisation that provides emergency food assistance to needy individuals and families. A total of \$360,000 was successfully raised for the People's Food Bank, including \$120,000 from HKEx's employees, \$120,000 from HKEx under the Company dollar-to-dollar matching initiative, and \$120,000 from the Government under the Partnership Fund for the Disadvantaged which provides a dollar-to-dollar matching grant to donations made by business corporations in carrying out welfare services.

On 15 May 2008, HKEx donated \$5 million to support relief efforts in areas affected by the Sichuan earthquake. On 23 July 2008, we further donated \$5 million to the Trust Fund in Support of Reconstruction in the Sichuan Earthquake Stricken Areas established by the Government, which was set up to receive and disburse Government funding and public donations to support the post-quake reconstruction work. Employees were also encouraged to make individual donations to the relief effort.

In June 2008, the FTSE Group, a global index provider, informed us that HKEx continued to be a constituent company in the FTSE4Good Index Series which has been designated to measure the performance of companies that meet globally recognised corporate responsibility standards, and to facilitate investment in those companies.

### **Compliance with Model Code**

HKEx has adopted the Model Code. Following a specific enquiry, each of the Directors confirmed that he or she fully complied with the Model Code throughout the six-month period ended on 30 June 2008.

### **Purchase, Sale or Redemption of HKEx's Listed Securities**

During the six months ended 30 June 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 182,200 HKEx shares at a total consideration of \$29,434,000.

# INFORMATION FOR STAKEHOLDERS

## Interim Report

This interim report is printed in English and Chinese and is available on the HKEx website at [www.hkex.com.hk](http://www.hkex.com.hk) under the “Investor Relations Corner”. Shareholders can elect to have hard-copy reports sent to them or access the reports electronically. To contribute to environmental protection, HKEx will make a \$50 charitable donation for each election of electronic copy, subject to a cap of \$100,000 per annum. Registered Shareholders may at any time choose to change their choice of language or means of receipt of the Company’s corporate communications free of charge by notice in writing to the Company Secretary or HKEx’s registrar, Hong Kong Registrars Limited. Shareholders with shares held through brokers or custodians should inform their respective brokers or custodians to effect any change.

## Closure of ROM

HKEx’s ROM will be closed from Friday, 29 August 2008 to Tuesday, 2 September 2008, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with HKEx’s registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30pm on Thursday, 28 August 2008. Dividend warrants will be despatched on or about Thursday, 11 September 2008 to Shareholders whose names are on HKEx’s ROM on 2 September 2008.

## Financial Calendar

|                                       |                |
|---------------------------------------|----------------|
| 2008 AGM                              | 24 April 2008  |
| Announcement of first quarter results | 14 May 2008    |
| Announcement of interim results       | 13 August 2008 |
| Announcement of third quarter results | November 2008  |
| Announcement of final results         | March 2009     |

## Dividends

|   |                               |
|---|-------------------------------|
| Interim dividend                        | \$2.49 per share              |
| Ex-dividend date for interim dividend   | 27 August 2008                |
| Book closing dates for interim dividend | 29 August – 2 September 2008  |
| Record date for interim dividend        | 2 September 2008              |
| Payment date for interim dividend       | on or about 11 September 2008 |

## Share Information

### Share Listing

|                                    |                         |
|------------------------------------|-------------------------|
| First listed on the Stock Exchange | 27 June 2000            |
| As a HSI constituent stock         | Since 11 September 2006 |

|           |            |
|-----------|------------|
| Board Lot | 100 shares |
|-----------|------------|

### Market Capitalisation as at 30 June 2008

|                             |                      |
|-----------------------------|----------------------|
| Public float capitalisation | \$122.4 billion      |
| Number of issued shares     | 1,073,646,846 shares |
| Closing price               | \$114.0 per share    |

### Stock Codes

|                     |               |
|---------------------|---------------|
| Stock Exchange      | 388           |
| Access to Reuters   | 0388.HK       |
| Access to Bloomberg | 388 HK Equity |
| WPK Number          | A0NJY9        |
| SEDOL1              | 6267359 HK    |
| ISIN                | HK0388045442  |
| COMMON              | 035776478     |

### Price and Turnover History

|           | Price per Share |          | Turnover (in millions)* |          |
|-----------|-----------------|----------|-------------------------|----------|
|           | High (\$)       | Low (\$) | Shares                  | \$       |
| 2007      |                 |          |                         |          |
| July      | 136.4           | 114.0    | 201.2                   | 25,917.1 |
| August    | 143.5           | 96.8     | 418.0                   | 51,688.6 |
| September | 248.4           | 138.6    | 314.3                   | 59,709.0 |
| October   | 259.4           | 226.0    | 238.1                   | 59,273.6 |
| November  | 268.6           | 210.8    | 310.4                   | 73,668.7 |
| December  | 244.8           | 211.0    | 103.8                   | 23,739.1 |
| 2008      |                 |          |                         |          |
| January   | 222.0           | 155.6    | 371.0                   | 67,402.1 |
| February  | 180.5           | 139.1    | 246.4                   | 38,999.1 |
| March     | 148.9           | 116.4    | 268.1                   | 35,618.9 |
| April     | 164.8           | 131.8    | 224.2                   | 33,509.0 |
| May       | 167.5           | 130.4    | 175.0                   | 25,829.7 |
| June      | 138.9           | 112.1    | 170.2                   | 21,171.2 |

\* Figures have been rounded

## HKEx's Registrar and Transfer Office

Name: Hong Kong Registrars Limited  
 Address: Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong  
 Tel. No.: +852 2862 8555  
 Fax No.: +852 2865 0990/+852 2529 6087

## Our Contact

### Registered Office

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 Website: www.hkex.com.hk

### Beijing Representative Office

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### Guangzhou Special Representative

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### Shanghai Special Representative

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### Listing

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### Corporate Communications and Investor Services

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### Secretarial Services

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 Company Secretary,  
 Head of Secretarial Services Department  
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 Fax No.: +852 2878 7029  
 Email address: ssd@hkex.com.hk

# 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   |
| CAS                                | Closing Auction Session   |
| 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  |
| CNS                                | Continuous Net Settlement   |
| CSR                                | Corporate Social Responsibility   |
| DCASS                              | The Derivatives Clearing and Settlement System  |
| Director(s)                        | Director(s) of HKEx   |
| DW(s)                              | Derivative Warrant(s)   |
| EDS                                | Electronic Disclosure System  |
| 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 Hong Kong Government  |
| Government Appointed Directors     | Directors appointed by the Financial Secretary pursuant to Section 77 of the SFO  |
| Group                              | HKEx and its subsidiaries   |
| HDR                                | Hong Kong Depositary Receipt  |
| HKATS                              | The Hong Kong Futures Automated Trading System  |
| HKCC                               | HKFE Clearing Corporation Limited   |
| HKEx or the Company                | 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  |
| INED(s)                            | Independent Non-executive Director(s)   |
| IP(s)                              | Investor Participant(s)   |
| IPO(s)                             | Initial Public Offering(s)  |
| ISI(s)                             | Investor SI(s)  |
| JP                                 | Justice of the Peace  |
| Listing Rules                      | Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited |
| Main Board Listing Rules           | Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited  |
| MDF                                | Market Datafeed 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                                    |

|                      |  |
|----------------------|--|
| 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)  |
| ROM                  | Register of Members  |
| 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   |
| SI(s)                | Settlement Instruction(s)  |
| SMARTS               | Securities Markets Automated Research Training & Surveillance  |
| USD                  | US Dollar  |
| WPIP                 | Web Proof Information Pack   |
| \$/HKD               | Hong Kong Dollar   |



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