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

**(Incorporated in Hong Kong with limited liability)**
**(Stock Code: 388)**

(Financial figures in this announcement are expressed in Hong Kong Dollar ("HKD"))

# 2007 THIRD QUARTER RESULTS

The board of directors ("Board") of Hong Kong Exchanges and Clearing Limited ("HKEx") submits the unaudited consolidated results of HKEx and its subsidiaries ("Group") for the nine months ended 30 September 2007 as follows:

## FINANCIAL HIGHLIGHTS

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

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

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Listing

#### The Growth Enterprise Market ("GEM") Review

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

#### Survey of Corporate Governance Practices

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

#### Consultation Paper on Periodic Financial Reporting

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

### Cash Market

#### Market Performance

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

#### Introduction of Closing Auction Session

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

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

### Proposal on Suspension of Tick Rule for Short Selling

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

### Introduction of Five-Digit Stock Codes

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

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

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

## Derivatives Market

### Market Performance

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

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

### Proposal to Increase Position Limits

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

### Enhancements to Block Trade Facility

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

### Expansion of Stock Options

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

### Study of Commodities Derivatives and Emissions-related Products

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

### Education and Marketing

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

## Clearing

### Enhancements to the Stock Segregated Account ("SSA") with Statement Service

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

### Enhancements to CCASS

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

### Extension of Derivatives Clearing and Settlement System ("DCASS") Cutoff Time

Effective 9 July 2007, the cutoff time for the input of post-trade transactions by HKFE Clearing Corporation Limited ("HKCC") and The SEHK Options Clearing House Limited ("SEOCH") Participants was extended by 30 minutes from 6:15 pm to 6:45 pm with the support of advanced backup technology to handle the DCASS day-end batch processing.

### Third Party Clearing ("TPC") and Remote Exchange Participantship

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

## Risk Management

### Organisational Changes

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

### Risk Management Measures

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

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

**Default of Participants**

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

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

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

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

## Business Development

**Promotional Activities for Local Companies**

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

**Promotional Activities Targeting Mainland Enterprises**

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

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

**Promotional Activities Targeting Overseas Corporations**

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

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

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

## Information Services

### Editorial Package for Real-time Information Vendors

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

### Enhancement of Information Systems

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

## Information Technology

### Production Systems Stability and Reliability

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

### System Capacity Planning and Upgrade

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

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

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

**Technology Development and Upgrade**

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

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

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

**System Consolidation and Operational Efficiency**

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

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

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

## Treasury

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

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

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

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

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

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 30 September 2007, had a weighted average credit rating of Aa1 (30 June 2007: Aa1) and a weighted average maturity of 0.7 year (30 June 2007: 0.7 year). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk ("VaR") and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (one year is used by the Group). The overall risk, as measured by the VaR methodology, during the third quarter and the second quarter of 2007 was as follows:

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

Details of the Group's net investment income are set out in the Income section under the Financial Review.

# FINANCIAL REVIEW

## Overall Performance

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

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

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

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

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

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

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

## Income

### (A) Income affected by market turnover

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

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

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

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

**Key market indicators**

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

## (B) Stock Exchange listing fees

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

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

**Key drivers for annual listing fees**

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

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

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

### (C) Income from sale of information

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

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

### (D) Net investment income

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

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

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

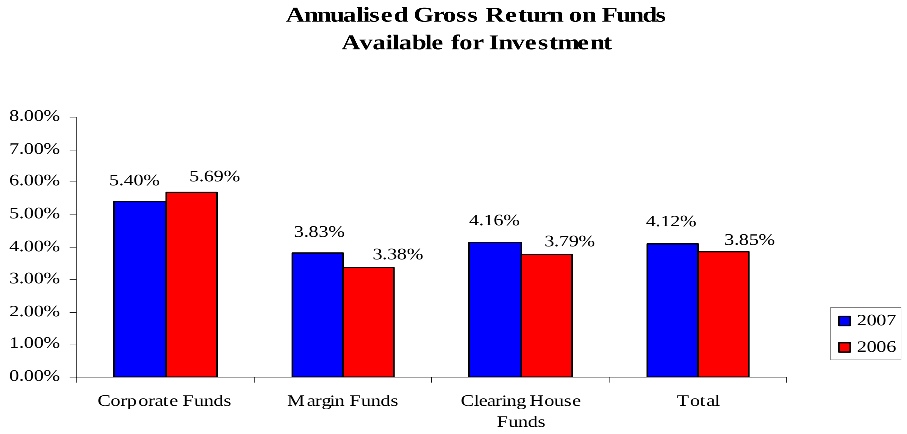
The increase in average amount of Corporate Funds during the period was mainly due to the profit net of dividends paid.

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

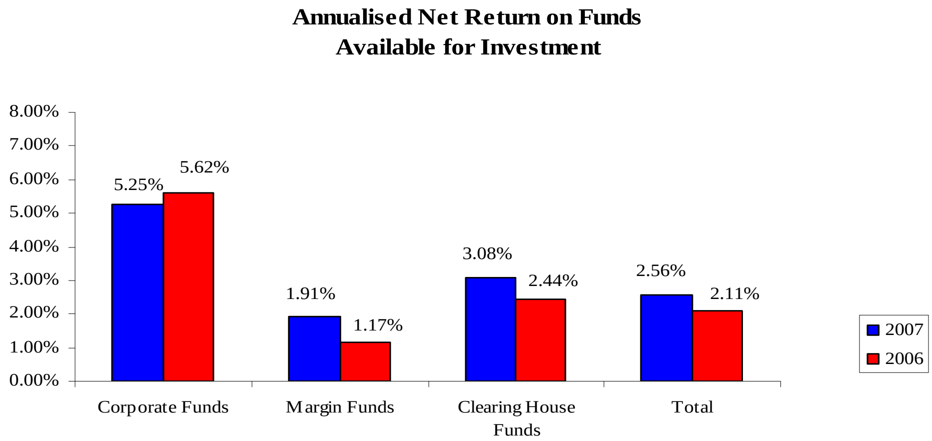
The increase in average amount of Clearing House Funds was mainly due to the increase in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

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

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




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




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

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

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

## (E) Other income

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

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

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

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

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

## Operating Expenses

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

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

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

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

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

Depreciation decreased as certain fixed assets became fully depreciated.

## Gain on Disposal of an Associate

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

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

## Share of Profits of Associates

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

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

## Taxation

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

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

## Comparison of 2007 Third Quarter Performance with 2007 Second Quarter Performance

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

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

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

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

**Key market indicators**

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

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

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

## Working Capital

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

## Exposure to Fluctuations in Exchange Rates and Related Hedges

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.

As at 30 September 2007, the aggregate net open foreign currency positions amounted to HK$2,164 million, of which HK$176 million were non-USD exposures (31 December 2006: HK$2,210 million, of which HK$213 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK$1,213 million (31 December 2006: HK$281 million). All forward foreign exchange contracts would mature within one month (31 December 2006: one month).

Foreign currency margin deposits received by the Group are hedged by investments in the same currencies.

## Contingent Liabilities

There were no significant changes in the Group's contingent liabilities from the information disclosed in the annual report for the year ended 31 December 2006.

## Changes since 31 December 2006

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

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

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

# CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

# CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | **Unaudited at 30 Sept 2007 $'000** | Audited at 31 Dec 2006 $'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Fixed assets | | **271,293** | 210,161 |
| Investment property | | **-** | 19,300 |
| Lease premiums for land | | **60,835** | 93,575 |
| Investment in an associate | | **-** | 68,377 |
| Clearing House Funds | | **2,798,368** | 2,270,531 |
| Compensation Fund Reserve Account | | **42,176** | 40,535 |
| Available-for-sale financial assets | | **25,099** | - |
| Time deposit with maturity over one year | | **-** | 38,886 |
| Deferred tax assets | | **4,001** | 3,330 |
| Other financial assets | | **19,177** | 18,583 |
| Other assets | | **3,212** | 3,212 |
| | | **3,224,161** | 2,766,490 |
| **CURRENT ASSETS** | | | |
| Accounts receivable, prepayments and deposits | 9 | **19,414,573** | 10,201,562 |
| Lease premiums for land | | **509** | 548 |
| Margin Funds on derivatives contracts | | **50,555,333** | 21,666,474 |
| Financial assets at fair value through profit or loss | | **2,979,006** | 2,878,224 |
| Available-for-sale financial assets | | **1,674,061** | 539,132 |
| Time deposits with original maturities over three months | | **132,958** | 185,611 |
| Cash and cash equivalents | | **5,281,184** | 2,215,257 |
| | | **80,037,624** | 37,686,808 |
| Non-current assets held for sale | 10 | **60,292** | - |
| | | **80,097,916** | 37,686,808 |
| **CURRENT LIABILITIES** | | | |
| Margin deposits from Clearing Participants on derivatives contracts | | **50,555,333** | 21,666,474 |
| Accounts payable, accruals and other liabilities | 11 | **23,256,657** | 11,107,200 |
| Financial liabilities at fair value through profit or loss | | **11,175** | 7,505 |
| Participants' admission fees received | | **3,050** | 1,700 |
| Deferred revenue | | **146,201** | 318,468 |
| Taxation payable | | **885,918** | 287,368 |
| Provisions | | **29,156** | 26,712 |
| | | **74,887,490** | 33,415,427 |
| **NET CURRENT ASSETS** | | **5,210,426** | 4,271,381 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **8,434,587** | 7,037,871 |

| | Note | **Unaudited at 30 Sept 2007 $'000** | Audited at 31 Dec 2006 $'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Participants' admission fees received | | **80,450** | 79,750 |
| Participants' contributions to Clearing House Funds | | **2,118,427** | 1,642,495 |
| Deferred tax liabilities | | **23,955** | 14,003 |
| Financial guarantee contract | | **19,909** | 19,909 |
| Provisions | | **24,128** | 24,128 |
| | | **2,266,869** | 1,780,285 |
| **NET ASSETS** | | **6,167,718** | 5,257,586 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **1,069,558** | 1,065,448 |
| Share premium | | **255,117** | 185,942 |
| Shares held for Share Award Scheme | | **(56,176)** | (51,297) |
| Employee share-based compensation reserve | | **53,298** | 52,119 |
| Revaluation reserves | | **19,251** | 10,569 |
| Designated reserves | | **722,371** | 668,262 |
| Retained earnings | 12 | **4,104,299** | 2,060,156 |
| Proposed/declared dividends | 12 | **-** | 1,266,387 |
| **SHAREHOLDERS' FUNDS** | | **6,167,718** | 5,257,586 |
| **SHAREHOLDERS' FUNDS PER SHARE** | | **$5.77** | $4.94 |

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

## 1. Basis of preparation and accounting policies

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

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

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

## 2. Turnover and segment information

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

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

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

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

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, CBBCs, warrants and rights. Currently, the Group operates two Cash Market platforms, the Main Board and the GEM. The major sources of income of the business are trading fees, trading tariff and listing fees. Costs of the Listing Function are treated as segment costs under the Cash Market.

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

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

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

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

## 3. Net investment income

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

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

## 4. Other income

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

## 5. Other operating expenses

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

## 6. Gain on disposal of an associate

On 29 March 2007, the Group entered into an agreement to sell all of its 7,317 fully paid Class A ordinary shares (equivalent to 30 per cent of the issued share capital) of CHIS for a consideration of $270,320,000 as the Board considered that the sale represented a good opportunity for the Group to realise a gain on the investment. The transaction was completed on 3 April 2007 and the Group ceased to have significant influence over CHIS on the same date. The accounting profit on disposal of the investment, after deducting stamp duty of $270,000, amounted to $206,317,000 and was recognised in the profit and loss account during the nine months ended 30 September 2007.

## 7. Taxation

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

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

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

## 8. Earnings per share

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

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

## 9. Accounts receivable, prepayments and deposits

The Group's accounts receivable, prepayments and deposits amounted to $19,414,573,000 (31 December 2006: $10,201,562,000). These mainly represented the Group's Continuous Net Settlement ("CNS") money obligations receivable under the T+2 settlement cycle, which accounted for 94 per cent (31 December 2006: 94 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 30 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits would mature within three months.

## 10. Non-current assets held for sale

| | **Unaudited at 30 Sept 2007 $'000** | Audited at 31 Dec 2006 $'000 |
|---|---|---|
| Leasehold building | **7,524** | - |
| Investment property | **20,400** | - |
| Lease premium for land of leasehold property | **32,368** | - |
| | **60,292** | - |
| Reserves associated with assets held for sale recognised directly in equity (leasehold buildings revaluation reserve) | **2,603** | - |

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

On 19 September 2007, the Board approved the disposal of one of the leasehold properties and the investment property held by the Group as the Board resolved to restructure the Group's property portfolio. The properties will be sold by public tender and the disposal is expected to be effected in 2008. No impairment losses were recognised on the reclassification of the properties as held for sale.

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

## 11. Accounts payable, accruals and other liabilities

The Group's accounts payable, accruals and other liabilities amounted to $23,256,657,000 (31 December 2006: $11,107,200,000). These mainly represented the Group's CNS money obligations payable under the T+2 settlement cycle, which accounted for 78 per cent (31 December 2006: 86 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

## 12. Retained earnings (including proposed/declared dividends)

| | **Unaudited 2007 $'000** | Audited 2006 $'000 |
|---|---|---|
| At 1 Jan | | |
| Retained earnings | **2,060,156** | 1,775,641 |
| Proposed/declared dividends | **1,266,387** | 680,163 |
| At 1 Jan | **3,326,543** | 2,455,804 |
| Profit for the period/year (note a) | **4,012,380** | 2,518,569 |
| Surplus of net investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves | **(52,422)** | (37,840) |
| Net investment income net of expenses of Compensation Fund Reserve Account for the period/year transferred to Compensation Fund Reserve Account reserve | **(1,687)** | (2,026) |
| Transfer from Development reserve (note b) | **-** | 72,245 |
| | **(54,109)** | 32,379 |
| Unclaimed dividend forfeited | **1,944** | 686 |
| Dividends: | | |
| 2006/2005 final dividend | **(1,266,387)** | (679,549) |
| Dividend on shares issued for employee share options exercised after 31 Dec 2006/31 Dec 2005 | **(3,879)** | (1,039) |
| | **(1,270,266)** | (680,588) |
| 2007/2006 interim dividend | **(1,911,131)** | (1,000,050) |
| Dividend on shares issued for employee share options exercised after 30 Jun 2007/30 Jun 2006 | **(1,062)** | (257) |
| | **(1,912,193)** | (1,000,307) |
| At 30 Sept 2007/31 Dec 2006 | **4,104,299** | 3,326,543 |
| Representing: | | |
| Retained earnings | **4,104,299** | 2,060,156 |
| Proposed/declared dividends | **-** | 1,266,387 |
| At 30 Sept 2007/31 Dec 2006 | **4,104,299** | 3,326,543 |

(a) The Group's profit for the period/year included a net profit attributable to net investment income net of expenses of the Clearing House Funds and Compensation Fund Reserve Account for an aggregate amount of $54,109,000 (year ended 31 December 2006: $39,866,000).

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

## PROSPECTS

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

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

The expansion of the QDII scheme in the first half of 2007 as well as the anticipated implementation of the Pilot Program for Direct Foreign Portfolio Investments by Domestic Individuals should present new opportunities for the growth of the financial market in Hong Kong. HKEx will continue to support the Mainland authorities in preparing for the implementation of the program.

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

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

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

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

## REVIEW OF ACCOUNTS

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

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

## CORPORATE GOVERNANCE

The Directors appointed by the Financial Secretary of the Government of the Hong Kong Special Administrative Region of the People's Republic of China pursuant to Section 77 of the Securities and Futures Ordinance ("SFO") and the Chief Executive of HKEx in his capacity as a Director are not subject to election or re-election by HKEx's shareholders ("Shareholders") as governed by Section 77 of the SFO and the Articles of Association of HKEx respectively. Save as disclosed in this paragraph, HKEx has complied with all the code provisions and, where appropriate, adopted the recommended best practices, as set out in the CG Code contained in Appendix 14 to the Main Board Listing Rules throughout the review period.

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

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

## PURCHASE, SALE OR REDEMPTION OF HKEx'S LISTED SECURITIES

During the nine months ended 30 September 2007, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold, any of HKEx's listed securities, except that the trustee of the Employees' Share Award Scheme ("Share Award Scheme") (which was adopted and amended by the Board respectively on 14 September 2005 and 16 August 2006) had, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 12,500 HKEx shares (being the shares awarded under the Share Award Scheme), and a further 30,000 HKEx shares with the dividend income received during the period in respect of the shares held under the trust. The total amount paid to acquire these 42,500 shares during the period was about $4,879,000.

## PUBLICATION OF RESULTS AND QUARTERLY REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2007

This results announcement is published on HKEx's corporate website at http://www.hkex.com.hk/relation/results/2007_3rdqtr_e.pdf and the HKEx website. The Quarterly Report for the nine months ended 30 September 2007 will be despatched to Shareholders on or about Wednesday, 28 November 2007 and will be available at HKEx's corporate website at the same time.

## BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises 12 Independent Non-executive Directors, namely Mr ARCULLI, Ronald Joseph (Chairman), Mrs CHA May-Lung, Laura, Mr CHENG Mo Chi, Moses, Dr CHEUNG Kin Tung, Marvin, Mr FAN Hung Ling, Henry, Mr FONG Hup, Dr KWOK Chi Piu, Bill, Mr LEE Kwan Ho, Vincent Marshall, Dr LOH Kung Wai, Christine, Mr STRICKLAND, John Estmond, Mr WEBB, David Michael and Mr WONG Sai Hung, Oscar, and one Executive Director, Mr CHOW Man Yiu, Paul, who is also the Chief Executive.

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

Hong Kong, 14 November 2007