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”))

# 2008 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 2008 as follows:

## FINANCIAL HIGHLIGHTS

| | **Nine months ended 30 Sept 2008** | Nine months ended 30 Sept 2007 | Change | **Three months ended 30 Sept 2008** | Three months ended 30 Sept 2007 | Change |
|---|---|---|---|---|---|---|
| **KEY MARKET STATISTICS** | | | | | | |
| Average daily turnover value on the Stock Exchange | **$79.3 billion** | $72.4 billion | 10% | **$63.6 billion** | $97.7 billion | (35%) |
| Average daily number of derivatives contracts traded on the Futures Exchange | **199,436** | 163,664 | 22% | **215,417** | 197,874 | 9% |
| Average daily number of stock options contracts traded on the Stock Exchange | **232,545** | 168,392 | 38% | **220,110** | 240,131 | (8%) |

| | **Unaudited Nine months ended 30 Sept 2008 $’000** | Unaudited Nine months ended 30 Sept 2007 $’000 | Change | **Unaudited Three months ended 30 Sept 2008 $’000** | Unaudited Three months ended 30 Sept 2007 $’000 | Change |
|---|---|---|---|---|---|---|
| **RESULTS** | | | | | | |
| Income | **5,847,235** | 5,495,518 | 6% | **1,635,904** | 2,338,580 | (30%) |
| Operating expenses | **1,298,512** | 1,028,493 | 26% | **529,569** | 362,849 | 46% |
| Operating profit | **4,548,723** | 4,467,025 | 2% | **1,106,335** | 1,975,731 | (44%) |
| Gain on disposal of an associate | **-** | 206,317 | (100%) | **-** | - | N/A |
| Share of profit of an associate | **-** | 5,587 | (100%) | **-** | - | N/A |
| Profit before taxation | **4,548,723** | 4,678,929 | (3%) | **1,106,335** | 1,975,731 | (44%) |
| Taxation | **(614,670)** | (666,549) | (8%) | **(146,688)** | (293,652) | (50%) |
| Profit attributable to shareholders | **3,934,053** | 4,012,380 | (2%) | **959,647** | 1,682,079 | (43%) |
| Basic earnings per share | **$3.67** | $3.76 | (2%) | **$0.89** | $1.58 | (44%) |
| Diluted earnings per share | **$3.65** | $3.72 | (2%) | **$0.89** | $1.56 | (43%) |

| | **Unaudited at 30 Sept 2008** | Audited at 31 Dec 2007 | Change |
|---|---|---|---|
| **KEY ITEMS IN CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** | | | |
| Shareholders’ funds ($’000) | **6,054,558** | 8,377,348 | (28%) |
| Total assets * ($’000) | **66,009,115** | 87,944,189 | (25%) |
| Net assets per share # | **$5.64** | $7.83 | (28%) |

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

# Based on 1,073,612,204 shares as at 30 September 2008, being 1,074,873,846 shares issued and fully paid less 1,261,642 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)

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Listing

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

On 18 July 2008, The Stock Exchange of Hong Kong Limited ("Exchange" or "Stock Exchange" or "SEHK") published its Consultation Conclusion on Shortening the Deadlines for Half-Year and Annual Reporting by Main Board Issuers. Amendments have been made to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("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.

**Web Proof Information Pack ("WPIP")**

The Exchange and the Securities and Futures Commission ("SFC") are in the advanced stages of finalising the joint review of the pilot scheme launched on 1 January 2008 for posting a WPIP on the HKEx website prior to the issue of an initial public offering ("IPO") prospectus with a view to codifying the requirement to post a WPIP in the Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (collectively, "Listing Rules") by early 2009.

**Introduction of Depositary Receipt Framework in Hong Kong**

Following the launch of the Hong Kong Depositary Receipt ("HDR") framework on 1 July 2008, the Exchange is in continued dialogue with market practitioners to understand the needs of the market and to provide practical guidance on operations to facilitate the listing of HDRs.

**Reduction in Hard Copies of Issuer Documents**

On 1 August 2008, SEHK announced the amendments to the Listing Rules to reduce the number of hard copies of documents that issuers are required to provide to the Exchange effective 1 September 2008. The rule amendments form part of the Exchange's initiative to enhance its corporate, social and environmental responsibilities.

**2008 Combined Consultation Paper ("CCP")**

The Exchange has finalised rule amendments for 15 of the 18 substantive policy and corporate governance issues included in the CCP published on 11 January 2008 and obtained the SFC's approval for most of these rule amendments. The Exchange plans to publish the consultation conclusions in respect of these issues in December 2008. The minor rule amendments set out in the CCP however, have become effective from 1 September 2008.

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

The Exchange is analysing the 13 responses to the consultation conducted jointly by the SEHK and the SFC 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 investor protection requirements are satisfied. The consultation conclusions are planned to be published in the second quarter of 2009.

## Cash Market

### Market Performance

In the first nine months of 2008, 36 companies were newly listed on the Main Board (including 12 that were transferred from the Growth Enterprise Market ("GEM")) and two on GEM. Meanwhile, six Main Board companies and two GEM companies (excluding the 12 transfers) were delisted. Total capital raised, including post-listing funds, reached $182.2 billion. As at 30 September 2008, 1,078 and 181 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about $12,548.3 billion. In addition, there were 3,941 Derivative Warrants ("DWs"), 759 Callable Bull/Bear Contracts ("CBBCs"), seven Real Estate Investment Trusts, 24 Exchange Traded Funds ("ETFs") and 174 debt securities listed as at 30 September 2008. The average daily turnover in the first nine months of 2008 was about $79 billion on the Main Board and about $262 million on GEM.

### Listing of Gold ETF

With the listing of the first gold ETF, SPDR Gold Trust, on the Stock Exchange on 31 July 2008, investors are provided with an additional channel to access the international gold market. Up to 30 September 2008, the average daily turnover of the SPDR Gold Trust was about $34 million.

### Review of Opening and Closing Auction Mechanism in the Securities Market

The Board has approved the draft consultation paper on Review of Opening and Closing Auction Mechanism in the Securities Market, which includes a number of possible enhancements such as introducing random closing, allowing liquidity providers and securities market makers to participate in the auction sessions, enhancing the trade matching algorithm and applying control measures in the form of auction order price entry limits. The timing of publication will be kept in view until such time when the global market environment becomes more stable.

### Short-Selling Restrictions

HKEx and the SFC are of the view that the current environment is not conducive to introducing any changes to the short-selling regime, such as the suspension of the tick rule and other short-selling restrictions.

### Revision of Dealing Desk Monthly User Fee and Media Booth Licence Fee

In light of the rental increase upon renewal of the lease of the Trading and Exhibition Halls until 31 October 2011, the user fee for a dealing desk and the licence fee for a media booth in the Trading Hall will be revised to $6,500 per month effective 16 January 2009, and $90,000 per quarter effective November 2008 respectively.

## Derivatives Market

### Market Performance

In the first nine months of 2008, there were 78,620,535 options and futures contracts traded compared to 61,098,296 in the same period in 2007. In the third quarter of 2008, the total turnover of options and futures recorded a 15 per cent increase over that of the second quarter, to 27,002,646 contracts. The Hang Seng Index ("HSI") futures achieved record daily turnover of 205,119 contracts on 26 August 2008.

**Market Maker Obligations Revisions**

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).

**Reduction in Transaction Levies for Mini Contract**

On 11 July 2008, the SFC announced the reduction of the Commission Levy and Investor Compensation Levy for trading Mini Hang Seng China Enterprises Index ("H-shares Index") futures contracts from $0.80 and $0.50 to $0.16 and $0.10 respectively, which are both one-fifth of the respective levies for the standard H-shares Index futures contracts. Corresponding amendments which took effect on 22 July 2008 were made to the Rules, Regulations and Procedures of the Futures Exchange.

**Launch of Gold Futures**

The SFC has approved our offer of Futures Exchange Trading Rights to members of the Chinese Gold & Silver Exchange Society or its designated affiliates to trade Hong Kong Futures Exchange Limited ("Futures Exchange" or "HKFE") products, including the gold futures contracts which commenced trading on 20 October 2008.

## Clearing

**The Central Clearing and Settlement System ("CCASS") Participants to Receive Settlement Monies for Continuous Net Settlement ("CNS") Transactions in Good Funds on T+2 Settlement Day**

Effective 27 October 2008, CCASS Participants are provided with the option of receiving from the Hong Kong Securities Clearing Company Limited ("HKSCC") settlement monies for CNS transactions in good funds through the current intraday payment facility in the afternoon of T+2. This option helps eliminate Exchange Participants' ("EPs" or "Participants") overnight credit risk and improve the funding liquidity of the securities market at large.

HKSCC makes use of the cash prepayment monies received from CCASS Participants on T+2 to settle its money obligations to CCASS Participants by referring to their settled outstanding positions after completion of the third batch settlement run at around 2:30pm on T+2. If the cash prepayment monies received by HKSCC are insufficient to meet its money settlement obligations in full to all CCASS Participants, the relevant payments will be made on a pro-rata basis, and the outstanding balances will be settled under normal CCASS money settlement for CNS transactions through the overnight batch processing run of the Hong Kong Interbank Clearing Limited whereby CCASS Participants can only receive settlement monies for CNS transactions in good funds in the morning of T+3.

## Participant Services

**Participant Training and Market Education**

In the third quarter of 2008, HKEx organised 17 Continuous Professional Training courses jointly with Hong Kong Securities Institute on the services and products in HKEx's clearing and Cash and Derivatives Markets. In addition, four courses on the Automatic Order Matching and Execution System / Third Generation ("AMS/3") and the Hong Kong Futures Automated Trading System

("HKATS") were held to familiarise EPs with the operation of trading devices and the relevant rules and procedures.

For the Derivatives Market, 24 briefing sessions and seminars on our products were held in the third quarter of 2008, which attracted over 2,000 representatives from EPs. In addition, since September 2008, HKEx has sponsored a number of EPs to organise educational seminars and a series of gold futures marketing activities, such as online trading simulation games and online Question-and-Answer games on EPs' websites.

**EP Recruitment**

In the third quarter of 2008, three SEHK Participants and one HKFE Participant were newly accepted, resulting in a total of 13 new SEHK Participants and 10 new HKFE Participants recruited in the first nine months of 2008.

## Promotional Activities

**Promoting Hong Kong Listings**

In July 2008, our Chairman led a delegation of about 45 senior executives from 30 Hong Kong intermediaries to visit the senior government officials of the Fujian Provincial Government and Xiamen Municipal Government. Two roundtable meetings were organised in Fuzhou and Xiamen to promote listing in Hong Kong.

In the third quarter of 2008, while participating in various promotional events in different provinces in the Mainland, HKEx organised five fund-raising workshops, roundtable meetings and seminars to introduce the Hong Kong listing requirements to a wide variety of companies in Guangzhou, Shanghai, Shenyang, Shenzhen and Wenzhou.

Targeting the natural resources market, we visited Sydney and Brisbane in July and August 2008 to participate in conferences, discussions with government officials and representatives from the Australian Stock Exchange, business councils and local intermediary firms, as well as meetings with potential companies to promote the Exchange. In August 2008, HKEx participated as a speaker at the "6th Annual Global Mining Investment Forum 2008" held in Hong Kong, which attracted about 80 representatives of mining companies from around the world. In September 2008, we also visited Toronto to explore the interest of mining and resources companies in listing in Hong Kong.

During the third quarter of 2008, HKEx continued the marketing efforts in Asia and visited Kaohsiung, Taichung, Taipei and Tokyo to attract more companies from different industries to list in Hong Kong.

**Promoting HKEx's Derivatives Market**

HKEx participated as an exhibitor at the "Asia Derivatives Conference 2008" organised by the Futures Industry Association in Tokyo from 17 to 19 September 2008. The conference was well attended with over 300 participants. The conference featured information sessions as well as panel discussions on topics such as risk controls and electronic trading. "Access to China Equity Derivatives" was the theme of HKEx's exhibit.

**Promoting HKEx's Information Services**

HKEx was the host sponsor of the "Asia Pacific Financial Information Conference" held from 20 to 22 October 2008 in Hong Kong. HKEx's Chief Executive delivered a keynote speech at the conference to introduce HKEx's information services. A number of HKEx executives also participated in panel discussions on matters facing the information industry. HKEx had an exhibition booth at the event which was well attended by over 200 delegates from overseas exchanges, financial information providers, financial institutions and market data vendors.

## Information Services

### Extended Discount Programme of Real-time Market Data for Mainland Users

HKEx has extended its discount programme for Mainland users of its real-time securities trading information to the end of 2010. Against the maximum regular monthly fee of $200, a discounted monthly fee of $80 and $120 is continued to be offered to retail end-users and corporate end-users respectively until the end of December 2009. Effective 1 January 2010, the respective discounted monthly fee will be adjusted to $100 and $160.

Despite the regular monthly subscription fee for the futures data package without price depth is up to $25 per device, a futures data package without price depth will continue to be offered together with the securities information package free of charge.

Twenty-nine information vendors are currently registered under the Mainland China Discount Programme.

### List of Real-time Data Services Offered by Information Vendors Available on HKEx Website

To further enhance market transparency in respect of available services to end-users, HKEx has published the list of real-time data services offered by individual licensed information vendors as well as their key features on the HKEx website since the end of September 2008.

### Proposal to Provide Free Basic Real-time Prices from HKEx's Markets on Websites

On 18 September 2008, HKEx issued a request for the expression of interest in developing a business model for the free dissemination of its basic real-time market prices on websites. A total of 34 responses were received and being analysed.

The implementation of a feasible business model for the provision of free, real-time basic HKEx market prices on websites could increase market transparency and raise the Hong Kong market's overall profile in the Mainland, and might help HKEx exploit a new revenue source.

## Information Technology ("IT")

### 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 nine months ended 30 September 2008 despite the significant market fluctuations experienced in September 2008. HKEx remains committed to upholding system stability and reliability.

### System Capacity Planning and Upgrade

For the Cash Market, following the capacity and technology upgrades of AMS/3, the Latest Generation of CCASS ("CCASS/3") and Market Datafeed System ("MDF") in the first quarter of this year, the market data dissemination rate was increased from 300 to 500 stocks per second effective 4 August 2008 to further reduce the latency of price updates on trading screens.

For the Derivatives Market, upon completion of the capacity and technology upgrade of the Derivatives Clearing and Settlement System ("DCASS") and Price Reporting System ("PRS") on 19 July 2008, DCASS and PRS can now handle two million trades per day and 2,200 messages per second respectively. In addition, the bandwidth of all derivatives market circuits for EPs was upgraded from 256 kbps (kilobits per second) to one mbps (megabits per second) in September 2008 to enable HKATS to accommodate larger transaction throughput demand, thereby reducing the time required for transaction queries and downloading of clearing reports. Moreover, the maximum number of connections per network gateway was increased from five to 10 to allow EPs to consolidate the existing network gateways and to save costs.

In order to improve communication with EPs of the Derivatives Market during critical situations, for instance the occurrence of an unexpectedly large number of error trades, HKEx has enhanced the Market Message Window on Click workstation in HKATS to draw EPs' attention to important messages.

**Obsolete Technology Replacement and Upgrade**

Upon completion of the technology upgrade of the CCASS/3 middle-tier subsystem on 23 August 2008, HKEx has finished the entire technology and capacity upgrades to key IT systems supporting trading, clearing and settlement, and market data dissemination in the Cash and Derivatives Markets.

**System Consolidation and Operational Efficiency**

In the nine months ended September 2008, HKEx launched the upgraded version of Securities Markets Automated Research Training & Surveillance, which is used to monitor the trading activities of HKEx's Participants in relation to various Cash Market products. It also completed the development of the Participant Financial Resources Surveillance System to automate the processing of EPs' financial return data.

In mid-2008, we commenced the enhancement to the Participants Information System to support data import from the participant database maintained by the SFC. The enhancement will streamline HKEx's operational efficiency and help avoid dual filing by EPs of information updates.

**Independent Review of Information Technology Governance ("ITG") and Electronic Disclosure System ("EDS")**

In the second quarter of 2008, HKEx commissioned an external consultant to perform an independent review of its ITG and EDS. The reviews, completed on 1 September 2008, confirmed that HKEx's ITG is in proper order and satisfactory controls are in place for EDS.

**HKEx Data Centre and IT Office Consolidation**

HKEx is relocating its HKATS/DCASS primary data centre and IT office from Central to Quarry Bay to further consolidate its IT infrastructure and various IT offices. The relocation is expected to be completed in mid-2009.

## Risk Management

### Risk Management Measures

During the third quarter of 2008, HKEx completed a review of the intra-day risk management arrangements of the HKFE Clearing Corporation Limited ("HKCC") and decided to strengthen the existing measures with the introduction of an automatic intra-day margin call specific to the collection of variation adjustments based on (i) the daily intra-day risk assessment after the end of the morning trading session of the HSI futures market; (ii) variation adjustments based on Participants' latest positions and the prevailing market price levels; and (iii) collection of variation adjustments from Participants who have breached certain thresholds. The new measures will be implemented before the end of 2008, subject to market readiness.

### Default by Lehman Brothers Securities Asia Limited ("LBSA")

On 16 September 2008, the SFC issued a restriction notice on LBSA, which prohibited LBSA from settling its outstanding positions in CCASS. There was serious concern expressed by executive management of HKEx previously and on the day of the issue of the restriction notice.

Following the issue of the SFC restriction notice, LBSA was declared a defaulter and its outstanding positions were closed out by HKSCC in accordance with the General Rules of CCASS. HKSCC incurred a loss of approximately $157 million (including costs and expenses) as a result of such closing-out. Treatment of the loss is set out in note 6(a) to the condensed consolidated accounts. We are in discussion with the SFC on the way forward in order to avoid similar incident in the future.

LBSA's Participantship in The SEHK Options Clearing House Limited ("SEOCH") was suspended on 16 September 2008. Since that day and in accordance with the restriction notice, all stock options positions of LBSA in its account remained unchanged, save and except those options contracts which expired in September and October 2008. There is no impact on the SEOCH Reserve Fund.

**Default by Lehman Brothers Futures Asia Limited ("LBFA")**

On 16 September 2008, the SFC issued a restriction notice on LBFA. Under the conditions of the SFC's restriction notice, LBFA was prohibited from carrying on all of the regulated activities for which they were licensed by the SFC. However, LBFA was permitted to take actions necessary to facilitate the closing and transferring out of existing futures and options contracts in HKFE pursuant to client instructions being confirmed. LBFA was initially granted one day by the SFC to manage the close-out process and that deadline was subsequently extended by the SFC for one additional day. LBFA closed part of its options and futures positions during this two-day period and continued to meet demands of margin and demands for variation adjustments by HKCC which involves an intraday mark-to-market process designed to supplement the margin collateral in hand to account for intraday fluctuations in HKCC Participants risk exposure levels. At 16:54 on 17 September 2008, LBFA failed to meet an intra-day demand for variation adjustments by HKCC and LBFA was promptly suspended by HKFE and HKCC. HKCC immediately assumed responsibility for the close-out which was initiated and concluded successfully before market closed on 18 September 2008 in accordance with the Rules and Procedures of HKCC. As there was sufficient margin collateral in place to cover the close-out costs of the LBFA default, no loss was incurred by HKCC. Provisional liquidators were appointed for LBFA by the High Court on 17 September 2008 and the HKFE and HKCC participantships of LBFA were deemed to have been revoked on the same day under the respective rules of HKFE and HKCC. Once all related costs and penalties have been accounted for, any surplus margin collateral and assets in control of HKCC will be refunded to LBFA's provisional liquidators/liquidators.

## Treasury

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling $61.9 billion on average for the nine months ended 30 September 2008 (30 September 2007: $40.3 billion).

As compared with 30 June 2008, the overall size of funds available for investment as at 30 September 2008 increased by 18 per cent or $8.4 billion to $55.7 billion (30 June 2008: $47.3 billion). Details of the asset allocation of the investments as at 30 September 2008 against those as at 30 June 2008 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 | **12.0** | 10.0 | **42%** | 48% | **56%** | 50% | **2%** | 2% |
| Margin Funds | **42.2** | 35.8 | **39%** | 42% | **61%** | 58% | **0%** | 0% |
| Clearing House Funds | **1.5** | 1.5 | **28%** | 26% | **72%** | 74% | **0%** | 0% |
| Total | **55.7** | 47.3 | **39%** | 43% | **61%** | 57% | **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 September 2008 and 30 June 2008), which have no maturity date, the maturity profiles of the remaining investments as at 30 September 2008 ($55.5 billion) and 30 June 2008 ($47.1 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 | **11.8** | 9.8 | **49%** | 23% | **4%** | 3% | **33%** | 52% | **10%** | 16% | **4%** | 6% |
| Margin Funds | **42.2** | 35.8 | **33%** | 36% | **28%** | 21% | **39%** | 41% | **0%** | 2% | **0%** | 0% |
| Clearing House Funds | **1.5** | 1.5 | **67%** | 71% | **15%** | 5% | **18%** | 24% | **0%** | 0% | **0%** | 0% |
| Total | **55.5** | 47.1 | **38%** | 35% | **22%** | 17% | **37%** | 42% | **2%** | 5% | **1%** | 1% |

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 30 September 2008, had a weighted average credit rating of Aa2 (30 June 2008: Aa1) and a weighted average maturity of 0.6 year (30 June 2008: 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 of 2008 and the second quarter of 2008 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 | **16.6** | 17.7 | **18.3** | 18.8 | **15.0** | 16.9 |
| Margin Funds | **19.7** | 21.0 | **23.5** | 24.2 | **17.8** | 17.1 |
| Clearing House Funds | **0.7** | 0.6 | **0.8** | 0.9 | **0.6** | 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 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'000 |
|---|---|---|
| **RESULTS** | | |
| Income: | | |
| Income affected by market turnover | **3,701,879** | 3,461,015 |
| Stock Exchange listing fees | **541,744** | 474,214 |
| Income from sale of information | **509,960** | 466,526 |
| Net investment income | **728,259** | 774,248 |
| Gain on disposal of properties | **68,641** | - |
| Other income | **296,752** | 319,515 |
| | **5,847,235** | 5,495,518 |
| Operating expenses | **1,298,512** | 1,028,493 |
| Operating profit | **4,548,723** | 4,467,025 |
| Gain on disposal of an associate | **-** | 206,317 |
| Share of profit of an associate | **-** | 5,587 |
| Profit before taxation | **4,548,723** | 4,678,929 |
| Taxation | **(614,670)** | (666,549) |
| Profit attributable to shareholders | **3,934,053** | 4,012,380 |

The Group recorded a profit attributable to shareholders of $3,934 million for the first nine months of 2008 (first quarter: $1,650 million; second quarter: $1,324 million; third quarter: $960 million) compared with $4,012 million for the same period in 2007 (2007 first quarter: $922 million; second quarter: $1,408 million; third quarter: $1,682 million).

As compared with the same period last year, profit attributable to shareholders for the nine months ended 30 September 2008 decreased marginally as the higher turnover-related income resulting from an increase in the level of activities in the Cash and Derivatives Markets was more than offset by higher operating expenses during the period and the gain on disposal of an associate in 2007 which did not repeat in 2008.

Total operating expenses increased by 26 per cent during the period mainly due to higher staff costs, depreciation charge, information technology and computer maintenance expenses as well as a provision for impairment losses of trade receivables from defaulting Participants (in particular the provision relating to Lehman Brothers Group of $159,151,000).

## Income

### (A) Income Affected by Market Turnover

| | **Unaudited Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'000 | Change |
|---|---|---|---|
| Trading fees and trading tariff | **2,208,517** | 1,962,937 | 13% |
| Clearing and settlement fees | **1,092,317** | 1,014,759 | 8% |
| Depository, custody and nominee services fees | **401,045** | 483,319 | (17%) |
| Total | **3,701,879** | 3,461,015 | 7% |

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 2008 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 2008 was mainly due to the higher market turnover of the Cash Market. Despite being mostly ad valorem fees, clearing and settlement fees are 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. 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. Similarly, scrip fees also decreased as the fees from the first book close of newly listed companies dropped. The decrease was partly offset by a rise in dividend collection fees and stock custody fees. Other than electronic-IPO handling fees, the other fees are generally influenced by the level of Cash Market activity 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**

| | **Nine months ended 30 Sept 2008** | Nine months ended 30 Sept 2007 | Change |
|---|---|---|---|
| Average daily turnover value on the Stock Exchange | **$79.3 billion** | $72.4 billion | 10% |
| Average daily number of derivatives contracts traded on the Futures Exchange | **199,436** | 163,664 | 22% |
| Average daily number of stock options contracts traded on the Stock Exchange | **232,545** | 168,392 | 38% |

## (B) Stock Exchange Listing Fees

| | **Unaudited Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'000 | Change |
|---|---|---|---|
| Annual listing fees | **257,828** | 225,202 | 14% |
| Initial and subsequent issue listing fees | **279,924** | 244,583 | 14% |
| Others | **3,992** | 4,429 | (10%) |
| Total | **541,744** | 474,214 | 14% |

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 CBBCs.

**Key Drivers for Annual Listing Fees**

| | **As at 30 Sept 2008** | As at 30 Sept 2007 | Change |
|---|---|---|---|
| Number of companies listed on Main Board | **1,078** | 1,018 | 6% |
| Number of companies listed on GEM | **181** | 192 | (6%) |
| Total | **1,259** | 1,210 | 4% |

**Key Drivers for Initial and Subsequent Issue Listing Fees**

| | **Nine months ended 30 Sept 2008** | Nine months ended 30 Sept 2007 | Change |
|---|---|---|---|
| Number of newly listed DWs | **3,951** | 4,048 | (2%) |
| Number of newly listed CBBCs | **2,296** | 185 | 1,141% |
| Number of newly listed companies on Main Board | **36** | 52 | (31%) |
| Number of newly listed companies on GEM | **2** | - | N/A |
| Total equity funds raised on Main Board | **$175.7 billion** | $319.0 billion | (45%) |
| Total equity funds raised on GEM | **$6.5 billion** | $13.7 billion | (53%) |

## (C) Income from Sale of Information

| | **Unaudited Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'000 | Change |
|---|---|---|---|
| Income from sale of information | **509,960** | 466,526 | 9% |

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

## (D) Net Investment Income

| | **Unaudited Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'000 | Change |
|---|---|---|---|
| Gross investment income | **803,057** | 1,245,500 | (36%) |
| Interest expenses | **(74,798)** | (471,252) | (84%) |
| Net investment income | **728,259** | 774,248 | (6%) |

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

| | **Nine months ended 30 Sept 2008 $ billion** | Nine months ended 30 Sept 2007 $ billion | Change |
|---|---|---|---|
| Corporate Funds | **9.7** | 7.1 | 37% |
| Margin Funds | **50.5** | 30.9 | 63% |
| Clearing House Funds | **1.7** | 2.3 | (26%) |
| Total | **61.9** | 40.3 | 54% |

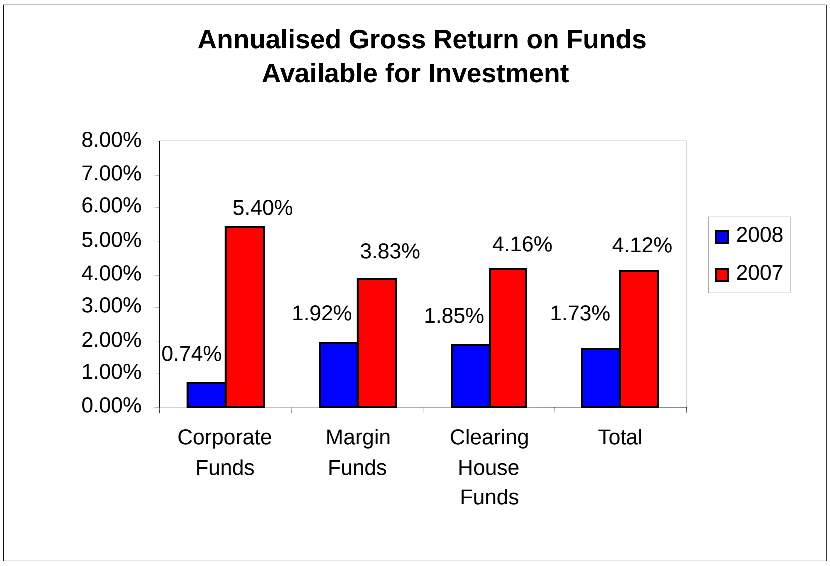
The increase in the average amount of Corporate Funds during the period was mainly due to the profit net of dividends paid.

The significant rise in the 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.

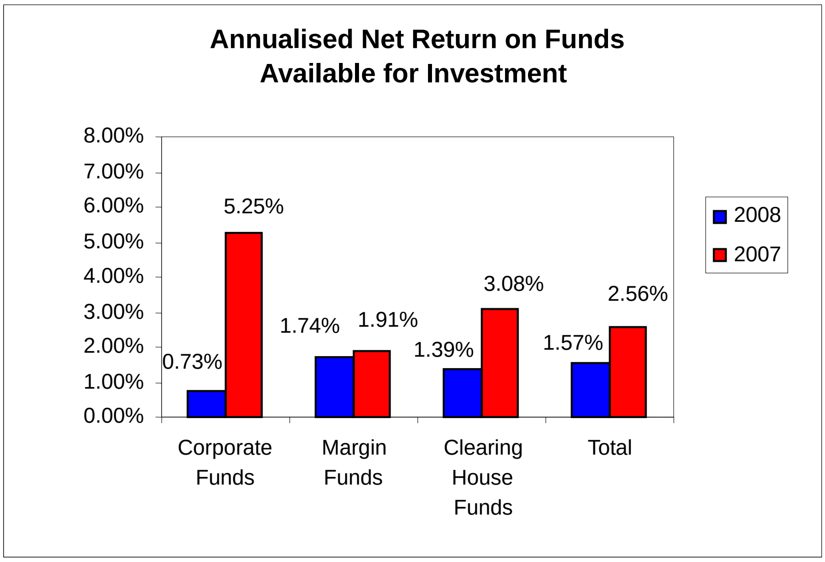
The lower net investment income was primarily due to fair value losses of Corporate Fund investments, reflecting market movements, as opposed to the fair value gains of Corporate Fund investments in the corresponding period of 2007, and the drop in interest rates. The decrease in net investment income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

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




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 fair value losses 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 nine months is set out below.




The net return of the Margin Funds did not drop significantly from 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 Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'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 nine months of 2008 generating a gain of $69 million.

### (F) Other Income

| | **Unaudited Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'000 | Change |
|---|---|---|---|
| Network, terminal user, dataline and software sub-license fees | **217,359** | 204,351 | 6% |
| Participants' subscription and application fees | **25,722** | 25,574 | 1% |
| Brokerage on direct IPO allotments | **5,216** | 58,610 | (91%) |
| Trading booth user fees | **7,162** | 7,216 | (1%) |
| Fair value gain of an investment property | **-** | 1,100 | (100%) |
| Accommodation income | **19,891** | 8,940 | 122% |
| Sale of Trading Rights | **6,835** | 2,000 | 242% |
| Miscellaneous income | **14,567** | 11,724 | 24% |
| Total | **296,752** | 319,515 | (7%) |

Network, terminal user, dataline and software sub-license fees rose mainly due to an increase in open gateway user fees but the increase was partly offset by the decrease in sales of additional throttle.

Brokerage on direct IPO allotments fell sharply as the number of newly listed companies decreased, in particular larger IPOs.

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 Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'000 | Change |
|---|---|---|---|
| Staff costs and related expenses | **650,208** | 605,801 | 7% |
| Information technology and computer maintenance expenses | **179,654** | 151,260 | 19% |
| Premises expenses | **107,829** | 98,826 | 9% |
| Product marketing and promotion expenses | **12,384** | 10,540 | 17% |
| Legal and professional fees | **18,513** | 14,150 | 31% |
| Depreciation | **79,714** | 59,984 | 33% |
| Other operating expenses | **250,210** | 87,932 | 185% |
| Total | **1,298,512** | 1,028,493 | 26% |

Staff costs and related expenses increased by $44 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.

Information technology and computer maintenance expenses of the Group, after excluding services and goods directly consumed by the Participants of $72 million (2007: $52 million), were $108 million (2007: $99 million). The increase in costs of services and goods consumed by the Group was mainly due to higher CCASS/3 maintenance costs and line rentals for the Designated Issuer Website. The increase in costs of services and goods directly consumed by Participants was primarily due to the increase in AMS/3 line rentals and maintenance costs 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 due to higher fees incurred for listing-related matters and professional fees incurred for the review of information technology systems but the increase was partly offset by the one-off consultancy fees for the feasibility study of trading commodities derivatives and emission-related products in Hong Kong in 2007.

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

Other operating expenses rose primarily due to a provision for impairment losses of trade receivables from defaulting Participants (in particular the provision for impairment losses of $159,151,000 relating to Lehman Brothers Group arisen in 2008).

## Gain on Disposal of an Associate

| | **Unaudited Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'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 ("CHIS"), as the Board considered that the sale represented a good opportunity for the Group to realise the gain on the associate.

## Share of Profit of an Associate

| | **Unaudited Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'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 Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'000 | Change |
|---|---|---|---|
| Taxation | **614,670** | 666,549 | (8%) |

The decrease in taxation was mainly attributable to the cut in Hong Kong Profits Tax rate from 17.5 per cent to 16.5 per cent.

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

| | **Unaudited Three months ended 30 Sept 2008 $'000** | Unaudited Three months ended 30 Jun 2008 $'000 |
|---|---|---|
| Income: | | |
| Income affected by market turnover: | | |
| Trading fees and trading tariff | **655,035** | 687,372 |
| Clearing and settlement fees | **317,457** | 354,053 |
| Depository, custody and nominee services fees | **104,950** | 231,876 |
| | **1,077,442** | 1,273,301 |
| Stock Exchange listing fees | **185,784** | 164,848 |
| Income from sale of information | **155,541** | 169,358 |
| Net investment income | **138,308** | 221,881 |
| Other income | **78,829** | 97,299 |
| | **1,635,904** | 1,926,687 |
| Operating expenses | **529,569** | 386,384 |
| Profit before taxation | **1,106,335** | 1,540,303 |
| Taxation | **(146,688)** | (215,638) |
| Profit attributable to shareholders | **959,647** | 1,324,665 |

Profit attributable to shareholders decreased from $1,324 million in the second quarter of 2008 to $960 million in the third quarter of 2008. The fall in profit was mainly due to lower income driven by weaker investor sentiment, lower net investment income and higher operating expenses. The decrease in profit was partly offset by lower taxation charge.

Trading fees and trading tariff, clearing and settlement fees and income from sale of information fell in tandem with the activities in the Cash Market. Depository, custody and nominee services fees dropped significantly due to seasonal fluctuations. Stock Exchange listing fees increased slightly as the number of newly listed DWs and CBBCs increased during the third quarter compared with the second quarter. Other income declined due to lower sales of additional throttle during the third quarter.

Net investment income dropped due to the higher fair value losses of Corporate Fund investments due to market movements and the decrease in net interest income due to the lower average fund size during the third quarter.

**Key Market Indicators**

| | **Three months ended 30 Sept 2008** | Three months ended 30 Jun 2008 | Change |
|---|---|---|---|
| Average daily turnover value on the Stock Exchange | **$63.6 billion** | $76.1 billion | (16%) |
| Average daily number of derivatives contracts traded on the Futures Exchange | **215,417** | 176,748 | 22% |
| Average daily number of stock options contracts traded on the Stock Exchange | **220,110** | 212,191 | 4% |

Operating expenses increased by 37 per cent primarily due to a provision for impairment losses of trade receivables from defaulting Participants (in particular the provision for impairment losses of $159,151,000 relating to Lehman Brothers Group arisen in the third quarter).

Taxation decreased mainly attributable to a decrease in operating profit.

## Working Capital

Working capital decreased by $2,312 million or 31 per cent to $5,104 million as at 30 September 2008 (31 December 2007: $7,416 million). The decrease was primarily due to the payment of the 2007 final dividend of $3,646 million and the 2008 interim dividend of $2,673 million and $32 million of shares purchased for the Employees' Share Award Scheme ("Share Award Scheme"), but the decrease was partly offset by the profit generated during the first nine months of $3,934 million and $66 million of proceeds from shares issued under employee share option schemes and the increase in other working capital of $39 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 2008, the aggregate net open foreign currency positions amounted to HK$2,110 million, of which HK$96 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$3,234 million (31 December 2007: HK$2,926 million). All forward foreign exchange contracts would mature within two months (31 December 2007: two months).

Foreign currency margin deposits received by the Group are mainly hedged by investments in the same currencies, but 25 per cent of the HKD liabilities may be invested in USD deposits for a maximum maturity of two weeks.

## 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 2007.

## Changes since 31 December 2007

There were no other significant changes in the Group's financial position and from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2007.

It is the Group's plan to declare dividends only at the half-year and year-end. Therefore, no dividend will be proposed for the third quarter ended 30 September 2008 (third quarter of 2007: $Nil).

Due to fluctuations in market conditions and changes in the 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.

# OPERATIONAL REVIEW

## Organisational Changes

Following the appointments of Messrs Kevin T King and Pont S K Chiu in the first half of this year, further organisational changes took effect on 1 September 2008 as part of our succession plan and to help improve our competitive advantages and better position ourselves for long-term sustainable growth.

Mr Peter J Curley was appointed the Head of Corporate Strategy after his completion of the Sloan Fellows Programme at the Massachusetts Institute of Technology during his one-year leave of absence. Mr Curley is now responsible for identifying and developing strategic opportunities for HKEx, and will formulate a medium-long term strategy for HKEx's emissions trading.

Together with Mr Curley, Mr Bryan P K Chan, Head of Information Services, became members of the Senior Management Committee ("SMC"), bringing the total number of members to 12. To improve the decision-making process, all business and strategic functions are now represented in the SMC.

The updated organisational chart is posted on the HKEx website.

## HKEx Corporate Website Revamp

A consultant has been selected for the HKEx corporate website revamp project which includes reviewing the HKEx website, making recommendations for improvements and implementing recommendations as 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. The revamped website is anticipated to be launched in the third quarter of 2009.

## Corporate Governance

The directors of HKEx ("Directors") appointed by the Financial Secretary of the Government of the Hong Kong Special Administrative Region of the People's Republic of China and the Chief Executive 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 Securities and Futures Ordinance and HKEx's Articles of Association 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 Code on Corporate Governance Practices contained in Appendix 14 to the Main Board Listing Rules throughout the review period.

As of 31 August 2008, HKEx's Global Rating and Home Market Rating assigned by GovernanceMetrics International, a corporate governance ratings and research firm, were 7.5 and 10.0 respectively out of the maximum of 10.0.

On 30 October 2008, HKEx was named as the best company in Hong Kong, in terms of Corporate Governance in The Asset Magazine's annual Corporate Governance Index 2008.

On 3 November 2008, HKEx received the Gold Award in the "General" Category of the 2008 HKMA Best Annual Reports Awards organised by The Hong Kong Management Association.

## Corporate Social Responsibility ("CSR")

In April 2008, HKEx commissioned the Business Environment Council ("BEC") to conduct a review of its CSR measures and a green audit of its operations to identify areas where HKEx could improve its existing operations in relation to their environmental and social impact, and to suggest additional CSR initiatives for HKEx's consideration. The HKEx Board is supportive of BEC's recommendations in the review report on further enhancing HKEx's CSR measures and developing appropriate sustainable CSR practices. The Board believes that further development of HKEx's CSR would help promote the company's good corporate citizenship and increase its awareness of the importance of CSR.

On 17 September 2008, HKEx established a CSR Committee, chaired by the Chief Executive, to oversee the further development of CSR within the company, and retained BEC as its CSR consultant. The member list and terms of reference of the CSR Committee are posted on the HKEx website.

## PROSPECTS

What started as the sub-prime crisis over a year ago not only hit the US financial institutions and market, but also many of their European counterparts. The speed and force were such that initial measures by governments and central banks appeared inadequate. Such measures were not given a chance to stabilise financial markets globally as the lack of confidence and liquidity persisted. What is much needed is to restore calm in the current climate of fear and panic.

Despite our sound fundamentals and foundation, Hong Kong has not been spared as the local stock market responded vigorously. The HSI lost in total 1720 points within three days between 16 and 18 September 2008, and regained 1695 points in the following day. Similar fluctuations were observed in October 2008. As at the end of September 2008, Hong Kong's market capitalisation had fallen 37 per cent against that as at 30 September last year and 23 per cent, as compared to that as at the last quarter end. The average daily turnover for the third quarter dropped by 16 per cent and 36 per cent against that for the second and first quarters of this year respectively. Given the robust market in the first quarter of this year, the average daily turnover for the nine months ended 30 September 2008 was still 10 per cent higher than that for the corresponding period last year.

While governments and major central banks across the world are introducing unprecedented massive rescue plans to avoid failure of their respective financial markets, the Hong Kong Government and local market regulators, including HKEx, are on vigilant guard and are closely monitoring market developments. In HKEx, stringent risk management measures are in place to ensure the provision of an open, orderly and fair marketplace for trading and clearing of all exchange products to help reinforce investors' confidence in the Hong Kong financial markets. As one of the signatories to the open statement of the World Federation of Exchanges issued on 12 October 2008, HKEx, among other global exchanges, affirmed to remain open throughout this period of crisis and to fulfil its role as a continuous, transparent and open market for establishing and disseminating prices for exchange-traded instruments. Nonetheless, investors should consider carefully their position before making any investment decisions and to implement prudent risk management measures especially when uncertainty and volatility remain.

Worsening sentiment in the secondary market, both in Hong Kong and abroad, has an adverse impact in recent months on IPOs on the Exchange and the number of IPO applications being filed, despite a total of 127 IPO applications received in the first nine months of 2008 (which is higher than the total number of IPO applications received in a year since 2005). In light of a tight credit environment, going public remains a development strategy of many companies. While the annual growth of Asia, in particular China, is forecast at a relatively higher percentage than the rest of the world, HKEx will continue its activities to promote listing in Hong Kong in the form of shares or HDRs to potential issuers, especially those from the Mainland and the other parts of Asia.

As part of our on-going effort to better serve the market, we are studying the feasibility of providing free basic real-time market prices on websites. We will also expand our products and services to strengthen our competitiveness in the longer term. We re-launched gold futures on 20 October 2008 and plan for the trading in emissions-related products in the future.

HKEx was recently ranked as one of Hong Kong's five most-admired companies in terms of financial reputation in a reader's survey by *Wall Street Journal Asia*. To further promote the company's good corporate citizenship, we have a CSR Committee to lead the implementation of CSR policies within HKEx.

The challenge ahead is stabilisation of the global financial markets and once this is done, we need to turn our attention to what can be done to avoid a massive economic contraction. To do so we should focus on the big picture whilst we address the numerous issues that may arise.

# CONDENSED CONSOLIDATED INCOME STATEMENT

| | Note | **Unaudited Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'000 | **Unaudited Three months ended 30 Sept 2008 $'000** | Unaudited Three months ended 30 Sept 2007 $'000 |
|---|---|---|---|---|---|
| **INCOME** | 2 | | | | |
| Trading fees and trading tariff | | **2,208,517** | 1,962,937 | **655,035** | 888,118 |
| Stock Exchange listing fees | | **541,744** | 474,214 | **185,784** | 180,214 |
| Clearing and settlement fees | | **1,092,317** | 1,014,759 | **317,457** | 443,485 |
| Depository, custody and nominee services fees | | **401,045** | 483,319 | **104,950** | 174,896 |
| Income from sale of information | | **509,960** | 466,526 | **155,541** | 190,840 |
| Net investment income | 4 | **728,259** | 774,248 | **138,308** | 321,508 |
| Gain on disposal of properties | 11 | **68,641** | - | **-** | - |
| Other income | 5 | **296,752** | 319,515 | **78,829** | 139,519 |
| | 3 | **5,847,235** | 5,495,518 | **1,635,904** | 2,338,580 |
| **OPERATING EXPENSES** | | | | | |
| Staff costs and related expenses | | **650,208** | 605,801 | **198,222** | 219,253 |
| Information technology and computer maintenance expenses | | **179,654** | 151,260 | **58,128** | 50,563 |
| Premises expenses | | **107,829** | 98,826 | **38,107** | 33,251 |
| Product marketing and promotion expenses | | **12,384** | 10,540 | **2,747** | 3,432 |
| Legal and professional fees | | **18,513** | 14,150 | **9,663** | 9,760 |
| Depreciation | | **79,714** | 59,984 | **29,776** | 17,528 |
| Other operating expenses | 6 | **250,210** | 87,932 | **192,926** | 29,062 |
| | 3 | **1,298,512** | 1,028,493 | **529,569** | 362,849 |
| **OPERATING PROFIT** | 3 | **4,548,723** | 4,467,025 | **1,106,335** | 1,975,731 |
| **GAIN ON DISPOSAL OF AN ASSOCIATE** | 3/7 | **-** | 206,317 | **-** | - |
| **SHARE OF PROFIT OF AN ASSOCIATE** | 3 | **-** | 5,587 | **-** | - |
| **PROFIT BEFORE TAXATION** | 3 | **4,548,723** | 4,678,929 | **1,106,335** | 1,975,731 |
| **TAXATION** | 8 | **(614,670)** | (666,549) | **(146,688)** | (293,652) |
| **PROFIT ATTRIBUTABLE TO SHAREHOLDERS** | | **3,934,053** | 4,012,380 | **959,647** | 1,682,079 |
| **Basic earnings per share** | 9(a) | **$3.67** | $3.76 | **$0.89** | $1.58 |
| **Diluted earnings per share** | 9(b) | **$3.65** | $3.72 | **$0.89** | $1.56 |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | **Unaudited Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'000 | **Unaudited Three months ended 30 Sept 2008 $'000** | Unaudited Three months ended 30 Sept 2007 $'000 |
|---|---|---|---|---|
| Profit attributable to shareholders | **3,934,053** | 4,012,380 | **959,647** | 1,682,079 |
| Other comprehensive income: | | | | |
| Available-for-sale financial assets: | | | | |
| Change in fair value | **67,190** | 20,416 | **61,637** | 46,370 |
| Realisation of change in fair value on maturity | **(58,201)** | (10,188) | **(16,851)** | (5,953) |
| Less: Reclassification adjustment: | | | | |
| Gains included in profit or loss on disposal | **(4,678)** | - | - | - |
| Deferred tax | **(531)** | (1,451) | **(7,391)** | (3,708) |
| | **3,780** | 8,777 | **37,395** | 36,709 |
| Cash flow hedges: | | | | |
| Fair value gains of hedging instruments | **-** | 132 | **-** | - |
| Less: Reclassification adjustments: | | | | |
| Gains reclassified to profit or loss as information technology and computer maintenance expenses | **-** | (70) | **-** | - |
| Gains reclassified to profit or loss as net investment income | **-** | (62) | **-** | - |
| | **-** | - | **-** | - |
| Leasehold buildings: | | | | |
| Change in valuation | **-** | (44) | **-** | - |
| Deferred tax arising from change in valuation | **-** | 7 | **-** | - |
| | **-** | (37) | **-** | - |
| Less: Reclassification adjustment: | | | | |
| Share of other comprehensive income of an associate reclassified to profit or loss on disposal | **-** | (58) | **-** | - |
| Other comprehensive income attributable to shareholders, net of tax | **3,780** | 8,682 | **37,395** | 36,709 |
| Total comprehensive income attributable to shareholders | **3,937,833** | 4,021,062 | **997,042** | 1,718,788 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | **Unaudited at 30 Sept 2008 $'000** | Audited at 31 Dec 2007 $'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Fixed assets | | **303,659** | 317,065 |
| Lease premium for land | | **60,326** | 60,708 |
| Clearing House Funds | | **1,430,375** | 2,192,204 |
| Available-for-sale financial assets | | **-** | 25,270 |
| Deferred tax assets | | **4,584** | 3,610 |
| Other financial assets | | **20,034** | 19,177 |
| Other assets | | **3,212** | 3,212 |
| | | **1,822,190** | 2,621,246 |
| **CURRENT ASSETS** | | | |
| Accounts receivable, prepayments and deposits | 10 | **11,158,513** | 18,364,129 |
| Lease premium for land | | **509** | 509 |
| Tax recoverable | | **126** | 148 |
| Margin Funds on derivatives contracts | | **40,928,324** | 55,428,888 |
| Financial assets at fair value through profit or loss | | **2,969,259** | 2,996,555 |
| Available-for-sale financial assets | | **2,324,231** | 3,041,737 |
| Time deposits with original maturities over three months | | **36,416** | 682,174 |
| Cash and cash equivalents | | **6,769,547** | 4,744,711 |
| | | **64,186,925** | 85,258,851 |
| Non-current assets held for sale | 11 | **-** | 64,092 |
| | | **64,186,925** | 85,322,943 |
| **CURRENT LIABILITIES** | | | |
| Margin deposits from Clearing Participants on derivatives contracts | | **40,928,324** | 55,428,888 |
| Accounts payable, accruals and other liabilities | 12 | **16,734,734** | 21,375,909 |
| Financial liabilities at fair value through profit or loss | | **529** | 6,149 |
| Participants' admission fees received | | **5,050** | 3,050 |
| Deferred revenue | | **177,813** | 375,174 |
| Taxation payable | | **1,201,293** | 687,726 |
| Provisions | | **35,079** | 29,630 |
| | | **59,082,822** | 77,906,526 |
| **NET CURRENT ASSETS** | | **5,104,103** | 7,416,417 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **6,926,293** | 10,037,663 |

| | Note | **Unaudited at 30 Sept 2008 $'000** | Audited at 31 Dec 2007 $'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Participants' admission fees received | | **80,100** | 82,550 |
| Participants' contributions to Clearing House Funds | | **719,150** | 1,496,855 |
| Deferred tax liabilities | | **27,653** | 36,873 |
| Financial guarantee contract | | **19,909** | 19,909 |
| Provisions | | **24,923** | 24,128 |
| | | **871,735** | 1,660,315 |
| **NET ASSETS** | | **6,054,558** | 8,377,348 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **1,074,874** | 1,070,285 |
| Share premium | | **346,631** | 266,170 |
| Shares held for Share Award Scheme | | **(79,950)** | (47,803) |
| Employee share-based compensation reserve | | **53,178** | 49,669 |
| Revaluation reserves | | **56,661** | 56,036 |
| Designated reserves | | **711,961** | 694,853 |
| Retained earnings | 13 | **3,891,203** | 6,288,138 |
| **SHAREHOLDERS' FUNDS** | | **6,054,558** | 8,377,348 |
| **TOTAL ASSETS** | | **66,009,115** | 87,944,189 |
| **TOTAL LIABILITIES** | | **59,954,557** | 79,566,841 |
| **SHAREHOLDERS' FUNDS PER SHARE** | | **$5.64** | $7.83 |

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

## 1. Basis of Preparation and Accounting Policies

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

The Group's turnover comprises trading fees and trading tariff from securities and options traded on the Stock Exchange and derivatives contracts traded on the 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, CBBCs, warrants and rights. Currently, the Group operates two Cash Market platforms, the Main Board and 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.

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

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

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

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

| | **Unaudited Nine months ended 30 Sept 2008** | | | | |
|---|---|---|---|---|---|
| | **Cash Market $'000** | **Derivatives Market $'000** | **Clearing Business $'000** | **Information Services $'000** | **Group $'000** |
| Income from external customers | **2,421,588** | **525,383** | **1,592,033** | **511,331** | **5,050,335** |
| Net investment income | **51,364** | **664,811** | **11,960** | **124** | **728,259** |
| Gain on disposal of properties | **33,442** | **11,580** | **19,116** | **4,503** | **68,641** |
| Total income | **2,506,394** | **1,201,774** | **1,623,109** | **515,958** | **5,847,235** |
| Operating expenses | | | | | |
| Direct costs | **436,108** | **105,611** | **431,454** | **39,229** | **1,012,402** |
| Indirect costs | **132,387** | **44,056** | **91,560** | **18,107** | **286,110** |
| | **568,495** | **149,667** | **523,014** | **57,336** | **1,298,512** |
| Reportable segment profit before taxation | **1,937,899** | **1,052,107** | **1,100,095** | **458,622** | **4,548,723** |

| | Unaudited Nine months ended 30 Sept 2007 | | | | |
|---|---|---|---|---|---|
| | Cash Market $'000 | Derivatives Market $'000 | Clearing Business $'000 | Information Services $'000 | Group $'000 |
| Income from external customers | 2,261,561 | 417,052 | 1,573,543 | 468,014 | 4,720,170 |
| Net investment income | 112,795 | 490,364 | 170,504 | 585 | 774,248 |
| Fair value gain of an investment property | 1,100 | - | - | - | 1,100 |
| Total 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 |
| Operating profit | 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 profit of an associate | - | - | 5,587 | - | 5,587 |
| Reportable segment profit before taxation | 1,890,674 | 765,432 | 1,608,811 | 414,012 | 4,678,929 |

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).

## 4. Net Investment Income

| | **Unaudited Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'000 | **Unaudited Three months ended 30 Sept 2008 $'000** | Unaudited Three months ended 30 Sept 2007 $'000 |
|---|---|---|---|---|
| Interest income | | | | |
| - bank deposits | **439,744** | 582,815 | **92,320** | 283,639 |
| - listed available-for-sale financial assets | **8,049** | 20,334 | **3,338** | 5,263 |
| - unlisted available-for-sale financial assets | **414,096** | 473,149 | **101,546** | 163,455 |
| | **861,889** | 1,076,298 | **197,204** | 452,357 |
| Interest expenses | **(74,798)** | (471,252) | **(2,015)** | (188,370) |
| Net interest income | **787,091** | 605,046 | **195,189** | 263,987 |
| Net realised and unrealised gains/(losses) and interest income on financial assets and financial liabilities at fair value through profit or loss | | | | |
| On designation | | | | |
| - bank deposits with embedded derivatives | **167** | - | **167** | - |
| Held for trading | | | | |
| - listed securities | **(59,021)** | 122,423 | **(30,191)** | 45,652 |
| - unlisted securities | **20,989** | 38,210 | **835** | 20,778 |
| - exchange differences | **(27,150)** | 2,738 | **(28,613)** | (10,554) |
| | **(65,182)** | 163,371 | **(57,969)** | 55,876 |
| | **(65,015)** | 163,371 | **(57,802)** | 55,876 |
| Realised gains on disposal of unlisted available-for-sale financial assets | **1,460** | - | **-** | - |
| Dividend income from listed financial assets at fair value through profit or loss | **3,289** | 5,790 | **865** | 1,778 |
| Other exchange differences on loans and receivables | **1,434** | 41 | **56** | (133) |
| Net investment income | **728,259** | 774,248 | **138,308** | 321,508 |
| Net investment income/(loss) was derived from: | | | | |
| Corporate Funds | **52,551** | 278,026 | **(27,849)** | 105,611 |
| Margin Funds | **658,417** | 443,695 | **160,997** | 192,819 |
| Clearing House Funds | **17,291** | 52,527 | **5,160** | 23,078 |
| | **728,259** | 774,248 | **138,308** | 321,508 |

## 5. Other Income

| | **Unaudited Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'000 | **Unaudited Three months ended 30 Sept 2008 $'000** | Unaudited Three months ended 30 Sept 2007 $'000 |
|---|---|---|---|---|
| Network, terminal user, dataline and software sub-license fees | **217,359** | 204,351 | **57,539** | 96,490 |
| Participants' subscription and application fees | **25,722** | 25,574 | **8,593** | 8,523 |
| Brokerage on direct IPO allotments | **5,216** | 58,610 | **639** | 22,541 |
| Trading booth user fees | **7,162** | 7,216 | **2,385** | 2,428 |
| Fair value gain of an investment property | **-** | 1,100 | **-** | - |
| Accommodation income on securities deposited by Participants as alternatives to cash deposits of the Margin Funds | **19,891** | 8,940 | **4,675** | 3,600 |
| Sale of Trading Rights | **6,835** | 2,000 | **-** | 2,000 |
| Miscellaneous income | **14,567** | 11,724 | **4,998** | 3,937 |
| | **296,752** | 319,515 | **78,829** | 139,519 |

## 6. Other Operating Expenses

| | **Unaudited Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'000 | **Unaudited Three months ended 30 Sept 2008 $'000** | Unaudited Three months ended 30 Sept 2007 $'000 |
|---|---|---|---|---|
| Provision for/(reversal of provision for) impairment losses of trade receivables (note a) | **165,437** | 62 | **165,120** | (311) |
| Insurance | **3,589** | 3,289 | **1,242** | 876 |
| Financial data subscription fees | **3,302** | 2,976 | **1,145** | 990 |
| Custodian and fund management fees | **8,889** | 6,899 | **2,829** | 2,439 |
| Bank charges | **7,636** | 15,870 | **2,149** | 6,244 |
| Repairs and maintenance expenses | **6,101** | 6,424 | **2,023** | 2,085 |
| License fees | **11,413** | 10,277 | **3,516** | 3,624 |
| Communication expenses | **4,006** | 3,992 | **1,241** | 1,294 |
| Other miscellaneous expenses | **39,837** | 38,143 | **13,661** | 11,821 |
| | **250,210** | 87,932 | **192,926** | 29,062 |

(a) Amount for 2008 included $159,151,000 of provision for impairment losses of trade receivables of Lehman Brothers Group, of which $157,141,000 arose from LBSA's default on market contracts and $2,010,000 relates to miscellaneous billings and receivables.

On 16 September 2008, the SFC issued a restriction notice on LBSA, which prohibited LBSA from settling its outstanding positions in CCASS. Following the issue of the SFC restriction notice, LBSA was declared a defaulter and its outstanding positions were closed out by HKSCC in accordance with the General Rules of CCASS. HKSCC incurred a loss of $157,141,000 (including costs and expenses) as a result of such closing-out. LBSA submitted a winding-up petition and provisional liquidators were appointed on 17 September 2008. HKSCC will seek recovery of the closing-out loss via the liquidation process and after giving due regard to its entitlement to recover the loss, or part thereof, from the HKSCC Guarantee Fund and other avenues available to the HKSCC for the recovery of such loss. The HKSCC Guarantee Fund presently stands at $394,055,000 (including $26,220,000 of bank guarantees).

## 7. 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 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 nine months ended 30 September 2007.

## 8. Taxation

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

| | **Unaudited Nine months ended 30 Sept 2008 $'000** | Unaudited Nine months ended 30 Sept 2007 $'000 | **Unaudited Three months ended 30 Sept 2008 $'000** | Unaudited Three months ended 30 Sept 2007 $'000 |
|---|---|---|---|---|
| Provision for Hong Kong Profits Tax for the period (note a) | **625,546** | 658,713 | **155,174** | 285,436 |
| Overprovision in respect of prior years | **(151)** | (1) | **(151)** | (1) |
| | **625,395** | 658,712 | **155,023** | 285,435 |
| Deferred taxation | **(10,725)** | 7,837 | **(8,335)** | 8,217 |
| | **614,670** | 666,549 | **146,688** | 293,652 |

(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.

## 9. 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 2008** | Unaudited Nine months ended 30 Sept 2007 | **Unaudited Three months ended 30 Sept 2008** | Unaudited Three months ended 30 Sept 2007 |
|---|---|---|---|---|
| Profit attributable to shareholders ($'000) | **3,934,053** | 4,012,380 | **959,647** | 1,682,079 |
| Weighted average number of shares in issue less shares held for Share Award Scheme | **1,071,737,234** | 1,066,796,137 | **1,073,349,273** | 1,067,944,265 |
| Basic earnings per share | **$3.67** | $3.76 | **$0.89** | $1.58 |

(b) Diluted earnings per share

| | **Unaudited Nine months ended 30 Sept 2008** | Unaudited Nine months ended 30 Sept 2007 | **Unaudited Three months ended 30 Sept 2008** | Unaudited Three months ended 30 Sept 2007 |
|---|---|---|---|---|
| Profit attributable to shareholders ($'000) | **3,934,053** | 4,012,380 | **959,647** | 1,682,079 |
| Weighted average number of shares in issue less shares held for Share Award Scheme | **1,071,737,234** | 1,066,796,137 | **1,073,349,273** | 1,067,944,265 |
| Effect of employee share options | **5,878,512** | 10,120,460 | **4,125,086** | 9,330,276 |
| Effect of Awarded Shares | **1,148,411** | 1,225,631 | **1,164,812** | 1,255,543 |
| Weighted average number of shares for the purpose of calculating diluted earnings per share | **1,078,764,157** | 1,078,142,228 | **1,078,639,171** | 1,078,530,084 |
| Diluted earnings per share | **$3.65** | $3.72 | **$0.89** | $1.56 |

### 10. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits amounted to $11,158,513,000 (31 December 2007: $18,364,129,000). These mainly represented the Group's CNS money obligations receivable under the T+2 settlement cycle, which accounted for 94 per cent (31 December 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.

### 11. Non-current Assets Held for Sale

| | **Unaudited at 30 Sept 2008 $'000** | Audited at 31 Dec 2007 $'000 |
|---|---|---|
| Leasehold building | - | 7,524 |
| Investment property | - | 24,200 |
| Lease premium for land of leasehold property | - | 32,368 |
| | - | 64,092 |
| Reserves associated with assets held for sale recognised in other comprehensive income (leasehold buildings revaluation reserve) | - | 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 nine months ended 30 September 2008.

### 12. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities amounted to $16,734,734,000 (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 63 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.

## 13. Retained Earnings (Including Proposed/Declared Dividends)

| | **Unaudited 2008 $'000** | Audited 2007 $'000 |
|---|---|---|
| At 1 Jan | **6,288,138** | 3,366,989 |
| Profit for the period/year (note a) | **3,934,053** | 6,169,278 |
| Surplus of net investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves | **(17,108)** | (67,037) |
| Transfer from leasehold buildings revaluation reserve on disposal of a leasehold property | **3,155** | - |
| | **(13,953)** | (67,037) |
| Dividends: | | |
| 2007/2006 final dividend | **(3,634,850)** | (1,266,387) |
| Dividend on shares issued for employee share options exercised after 31 Dec 2007/31 Dec 2006 | **(11,309)** | (3,879) |
| | **(3,646,159)** | (1,270,266) |
| 2008/2007 interim dividend | **(2,670,320)** | (1,911,131) |
| Dividend on shares issued for employee share options exercised after 30 Jun 2008/30 Jun 2007 | **(3,055)** | (1,062) |
| | **(2,673,375)** | (1,912,193) |
| Unclaimed dividend forfeited | **2,566** | 2,454 |
| Vesting of shares of Share Award Scheme | **(67)** | (1,087) |
| At 30 Sept 2008/31 Dec 2007 | **3,891,203** | 6,288,138 |
| Representing: | | |
| Retained earnings | **3,891,203** | 2,652,760 |
| Proposed/declared dividends | **-** | 3,635,378 |
| At 30 Sept 2008/31 Dec 2007 | **3,891,203** | 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 $17,108,000 (year ended 31 December 2007: $67,037,000).

## REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the nine months ended 30 September 2008 in conjunction with HKEx's external auditor.

Management has appointed the external auditor to carry out certain agreed-upon procedures in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated financial statements for the nine months ended 30 September 2008.

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

During the nine months ended 30 September 2008, neither HKEx nor any of its subsidiaries purchased, sold or redeemed any of HKEx's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Exchange a total of 214,600 HKEx shares at a total consideration of $32,494,000.

## PUBLICATION OF RESULTS AND QUARTERLY REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2008

This results announcement is published on HKExnews at www.hkexnews.hk and the HKEx website at www.hkex.com.hk/relation/relation.htm. The Quarterly Report for the nine months ended 30 September 2008 will be available on both websites and despatched to Shareholders on or about Wednesday, 26 November 2008.

## BOARD OF DIRECTORS

Mr Henry H L Fan has taken a leave of absence from meetings of the Board and the Nomination Committee of HKEx effective 22 October 2008.

As at the date of this announcement, the HKEx Board comprises 12 Independent Non-executive Directors, namely Mr ARCULLI, Ronald Joseph (Chairman), Mrs CHA May-Lung, Laura, Dr 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 WILLIAMSON, John Mackay McCulloch 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, 12 November 2008