

# DEMUTUALIZATION OF STOCK EXCHANGES

A case study:

London Stock Exchange and Hong Kong Stock Exchange

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## Abstract

The focus of this study is to evaluate the impact of corporate ownership structure on the overall performance of stock exchanges. This study distinguishes in particular mutual versus demutualized ownership. London Stock Exchange and Hong Kong Stock Exchange are chosen as study cases, because London Stock Exchange is one of the world leading stock exchanges and Hong Kong Stock Exchange is definitely one of the most important emerging market stock exchanges. That is why the results obtained by comparing these two stock exchanges could serve as good indicator in understanding the effects of demutualization process on the whole stock exchange sector and retain the subtle differences in micro-behavior of the stock exchanges undergone the same transformation.

In this paper the simple descriptive statistics is used as the method of analysis, in association to a profound review of the literature in this area. The data illuminate the fact that demutualized stock exchanges hold a stronger operating performance and a better performance in term of shareholder's return than mutual exchanges. The result is generally in line with the basic theories in the area of corporate governance and empirical studies in this specific area like Aggarwal (2006), Mendiola and O'Hara (2003) and Hart and Moore (1996).

**Key words:** stock exchange, demutualization, ratio, performance, mutual, organizational structure, profit.

## **CHAPTER 1 INTRODUCTION**

The demutualization of stock exchanges is a recent new phenomenon in the economic world with a history of approximately 20 years, meaning that till the early 1990s, most of world stock exchanges were non-profit, mutual organizations with monopoly power, owned by their members. Their most important characteristic is a very strong and close identity between the owners of the stock exchange and its clients, final consumers of its trading services, because usually, the owners are at the same time its clients, sharing the profits of the company in accordance with the level of their participation in the ownership. Due to the recent years' technology improvements and competitive environment changes, new opportunities alongside with new threats were created for stock exchanges. As an answer to these new threats stock exchanges began to change their ownership organizational form. In our studies by the means of descriptive statistics analysis using the examples of London Stock Exchange and Hong Kong Stock Exchange we show that demutualized exchanges have a better post listing share and operative performance than mutual exchanges. Our analysis of the effect of the change in the ownership form of stock exchanges has been influenced by the research of Aggarwal (2006) and Mendiola and O'Hara (2003). Some empirical work in this area was made by Hart and Moore (1996), Domowitz and Steil (1999), Pirrong (2000), Karmel (2000), Schmiedel (2001), Schmiedel (2002) and Elliot (2002).

### **1.1) Problem of study**

As authors of this paper we intended to answer the following question: *Does the effectiveness and performance of a stock exchange increase after it changes its ownership form from mutual to for-profit?* To answer this question we analyzed the post listing share price performance of London Stock Exchange and Hong Kong

Stock Exchanges using descriptive statistics and the evolution of the main financial ratios for the above-mentioned stock exchanges for the period 1999-2007.

### **1.2) Purpose of study**

The purpose of this study is to evaluate the impact of corporate ownership structure on the overall performance of stock exchanges. This study distinguishes in particular mutual versus demutualized ownership.

### **1.3) Methodology and Data Collection**

In our paper we have used secondary data (1997-2007) in the majority of cases from research papers and economic journals alongside with data from internet websites. Thus for analyzing stock prices we used the daily stock price statistics from [www.reuters.com](http://www.reuters.com) and [www.finance.yahoo.com](http://www.finance.yahoo.com). For evaluating operating performance we used reports and data from the official web-sites of our two analyzed stock exchanges: [www.londonstockexchange.com](http://www.londonstockexchange.com) and [www.hkex.com](http://www.hkex.com), alongside with data provided by World Federation of Exchanges on their web-site [www.world-exchanges.org/statistics](http://www.world-exchanges.org/statistics). Methods that we used in our paper to analyze the operating and market performance are descriptive statistics for evaluating the post listing share price performance and the financial ratio analysis using the accounting data to evaluate stock exchanges market performance as well as their risk and return relationships profile.

### **1.4) Limitation of study**

Our thesis has of course some limitations and constraints related to the fact that time period used for analysis was short due to recent history of demutualization. Also when

the difference in governance structure is analyzed, the data that are not dependent of the organizational form should be used. That is why using the share prices as performance indicator is rather limited.

### **1.5) Paper outline**

The paper is organized as follows: Chapter 1 describes the problem of the thesis, data and methodology that we have used in our paper alongside with a literature review of this topic. Chapter 2 gives the reader a widely overlooking introduction to the demutualization process and will specialize with theoretical and empirical reference about the historical evolution of stock exchanges, reasons and forces that sustained the process of demutualization. In Chapter 3 we are presenting our data and the results we got. Chapter 4 concludes our thesis by summarizing up our results and presenting some questions about further researches of this topic.

### **1.6) Literature Review**

In the academic world there are different and continuous discussions about the forms of stock exchange ownership, its efficiency and effects, but in general the most often used perspective in analysis is the social welfare one. One of the most prolific and important works from this perspective was accomplished by Hart and Moore (1996). In their paper are the discussing the competition conditions needed in order to make a stock exchange to change its organizational structure from mutual to an outsider-owned, showing that a for-profit exchange increase social welfare. Their pricing models show that, when there is a relatively high competition level, an outsider-owned structure is more socially preferable than a mutual structure. An interesting point of view in the examination of this area was conducted by Schmiedel in two of his papers in which as a method of evaluation, the efficiency frontier methods were

used for analyzing stock exchange performance. In his papers the author for calculating efficiency scores uses accounting data, information about the staff and transaction data, while share price data are not taken into consideration. In the first paper, Schmiedel (2001) a parametric stochastic frontier model was used for estimating European stock exchanges cost efficiency during the period 1985 and 1999. Conducting the regression analysis, the author found that demutualization had a positive effect on cost efficiency. In the second paper, Schmiedel (2002), a non-parametric model had been already used for estimating stock exchanges efficiency during the period 1993 and 1999. In this paper the author shows that in fact technical efficiency and the mean of factor productivity gains are much higher for mutual stock exchanges. Also authors like Krishnamurti et al. (2003) had provided an empirical contribution for the area of stock exchange ownership forms by comparing the market quality of National Stock Exchange, a demutualized exchange, with that of the mutually owned Bombay Stock Exchange. One important and interesting aspect in analyzing demutualization is the impact of demutualization on stock exchange operating performance. Unfortunately this subject was not a very often mentioned subject to academic interest. There are very few papers on this topic and that is why we could mention only few authors who had analyzed this aspect of demutualization in their work. Domowitz and Steil (1999) in their work analyzed the impact of introducing automated systems on trading costs and organizational structure of stock exchange. The paper by Mendiola and O'Hara (2003) analyzes the share price performance of publicly listed exchanges after their IPO. In spite of the fact that the results they have obtained are interesting, it is very difficult to measure the difference or just to compare the performance of for-profit stock exchanges and mutual stock exchanges because of the insufficient share price information for mutual exchanges. Also it is difficult to say anything about the performance of a for-profit stock exchange prior to its public listing. In a similar way, the paper of Aggarwal (2006), which employs different accounting profitability measures as indicators for operating

performance, only focuses on demutualized, for-profit exchanges. Another important aspect of this topic was studied by Elliot (2002), Pirrong (2000) and Karmel (2000). These authors devoted themselves in studying the effect of regulatory issues, because after demutualization stock exchanges are regulating their trading markets by themselves. That is why the collision between the interests of a for-profit exchange and the fair conduct of trading was a particular interest for the above-mentioned authors.

## **CHAPTER 2 Former researches and empirical foundation**

The increasing process of globalization and internationalization of financial markets has washed off the boundaries to access and has put stock exchanges in direct competition with each other as well as with newly emerged electronic trading platforms, commonly referred to as “Electronic Communication Networks” (ECNs). According to the definition provided by SEC the ECN is defined as *“any electronic system that widely disseminates to third parties orders entered into it by an exchange market maker or over-the-counter (“OTC”) market maker, and permits such orders to be executed in whole or in part”*. According to Galper (1999) technological advancement has fundamentally altered the landscape, enabling exchanges to overcome national boundaries and reducing the intermediary role of exchange members. At the same time, these improvements led to the reduction of trading costs and facilitate the possibility for investors of conducting trading on more than one stock exchange. This means that investors are no longer tied up in their trading activity by such limitations as trading time or geographical location. Of course these changes have seriously affected the sources of income of stock exchanges: membership fees, listing fees, trading revenues and sale of company data. Lee (2002) and Otchere (2006) pointed that the significance of these revenue sources is changing. For example, listing fees have dramatically reduced, as the marginal cost for adding new members moves to zero. Because of a high pressure on its traditional income sources, stock exchanges might have to look for other revenue opportunities, but their ability to do so could be limited by the members if the undertaken endangers the own interests of the members. Domowitz and Steil (1999) argue that members may oppose “innovations” that reduce demand for their intermediation services even if such innovations would enhance the value of the exchange. That is why the mutual organizational structure of ownership could be considered as an obstacle to the exchange’s efforts to remain competitive and profitable and even because of its rigid

nature the mutual organizational structure could create serious threats to the financial stability and health of stock exchanges in the changing environment. According to the World Federation of Exchange (WFE, 2007), in the mid-1990s approximately 90% of the exchanges within the Federation were mutual companies. By 2000, 63% of them had changed their mutual structure and in 2006 the weight of mutual's dropped to 13%.

### **2.1) Historical evolution of organizational transformation of stock exchanges**

Since the demutualization by the Stockholm Stock Exchange which took place in 1993 with the change of its organizational form from a non-profit to a for-profit, publicly listed organization, a significant number of stock exchanges have experienced similar changes, this process gaining a global scale (the data confirming this statement are shown in table 1). For example, the Australian Stock Exchange became one of the first stock exchanges that went public and became a listed company. In the same way, the London Stock Exchange, the Deutsche Börse, alongside with other major European stock exchanges also become public companies. In Americas, the Toronto Stock Exchange demutualized in 2000, followed by its owner, the TSX Group, which went public in 2002. In Asia, both of the most important stock exchanges: Hong Kong Stock Exchange (2000) and Singapore exchange (1999) are already listed companies. The only significant and important stock exchange which did not listed its share (despite the fact that it demutualized in 2001), is the Tokyo Stock Exchange. Also the United States, the Chicago Mercantile Exchange demutualized in 2000. In 2003 CME conducted a later initial public offering (IPO) and listed its shares on the New York Stock Exchange. On April 20th, 2005 New York Stock Exchange announced that it is planning a merger with a publicly listed electronic exchange Archipelago, the new company becoming a public listed for-profit organization. It is worth noting that NYSE is one the last major global exchanges that is undertaking such an organizational transformation. This tendency is evident both across different continents as well as across stock exchanges that trade

different types of securities. Also India, Pakistan, Brazil, the Philippines, and some other countries' stock exchanges announced in 2005 their plans to demutualize and to list their shares. While the largest derivative exchanges (CME, LIFFE, Eurex, International Securities Exchange and CBOT) are already publicly listed, others including the New York Mercantile Exchange (NYMEX) and International Petroleum Exchange have demutualized and are planning public listings. This seemingly unstoppable organizational transformation of exchanges from member owned mutual to joint-stock companies is unparalleled.

	Year of Demutualization		Year of Demutualization
<b>Major European Exchanges</b>		<b>Major Asian/Oceania Exchanges</b>	
London Stock Exchange	2000	Tokyo Stock Exchange	2001
Euronext	2000	Osaka Stock Exchange	2001
Deutsche Boerse	2000	Hong Kong Stock Exchange	2000
BME Spanish Exchanges	2001	Australia Stock Exchange	1998
Swiss Exchange	2002	Taiwan SE Corp.	No Plans
OMX Group	1993	Korea Exchange	No Plans
Borsa Italiana	1997	Singapore Stock Exchange	1999
Oslo Børs	2001	Bursa Malaysia	2004
Hellenic Stock Exchange	1999	Philippines Stock Exchange	2001
<b>Major North American Exchanges</b>		New Zealand Stock Exchange	2003
NYSE	2006	Sydney Futures Exchange*	2000
Nasdaq (including AMEX)	2001		
Toronto Stock Exchange	2000		
American Stock Exchange			
Chicago Mercantile Exchange*	2002		
CBOT*	2005		
CBOE*			
International Securities Exchange*	2002		

Table 1 - Year of Demutualization of Major Exchanges; Source: Reena Aggrawal and Sandeep Dahiya, "The Demutualization and Public Offering of Financial Exchanges", November 6, 2005

According to the data of the World Federation of Exchanges the weight of mutuals dropped out dramatically from 40% in 1999 to only 25% in 2003. In the same period of time, the number of demutualized stock exchanges raised from 10% in 1999 to 25% in 2003. Also looking at the situation of the most important world stock exchanges, from 10 of them grouped by market capitalization in 2005, we observe that 80% demutualized, and 7 stock exchanges from those 10 have already self listed. The fact that almost all major exchanges have undergone demutualization and became public companies is showing the necessity of having a structure that will allow the exchange to be able to respond to the industry challenges (Otc here, 2007).

As it shown in figure 1 it is absolutely clear that the majority of stock exchanges have already changed their organizational structure. As we can see 70% of the entire stock

market capitalization is at this moment on demutualized and listed exchanges. Stock Exchanges that demutualized but have not yet listed their shares account for other 19%. Also we can see that Europe and Americas are dominated by listed exchanges. In Asia demutualized and listed exchanges represents 26%, but the total weight of demutualized stock exchanges represents for 81%.

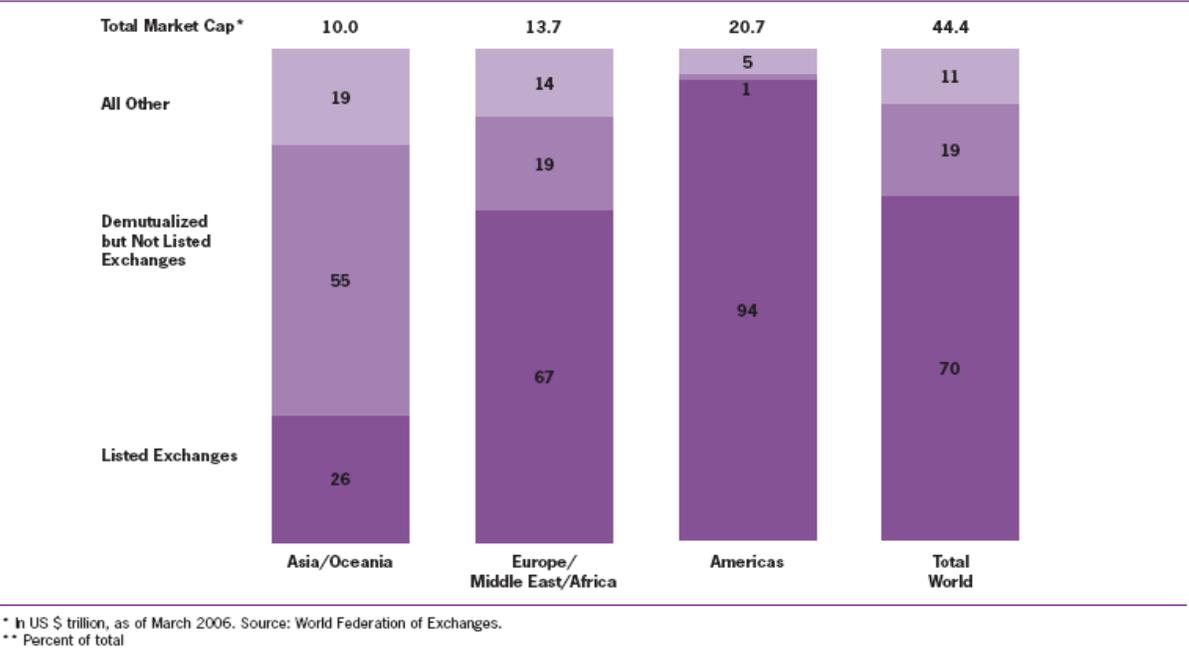
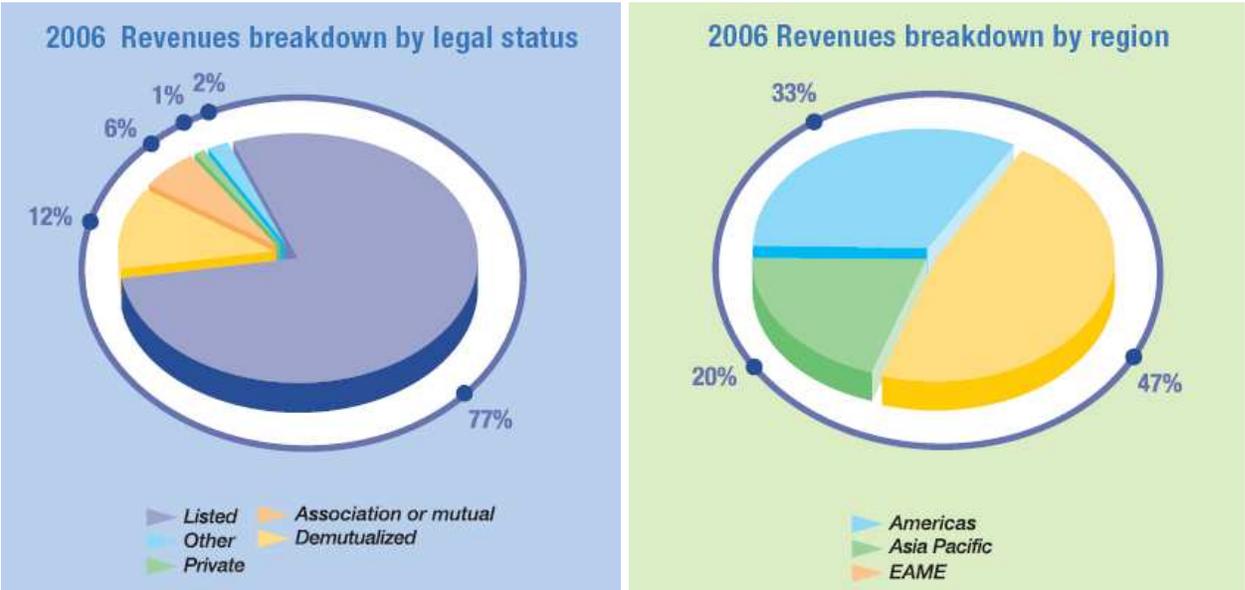


Figure 1 - World Federation of Exchanges, 2006. WFE Annual Report & Statistics 2006

In 2006 listed exchanges represented 75% of revenues and cost of the industry (Figure 2)



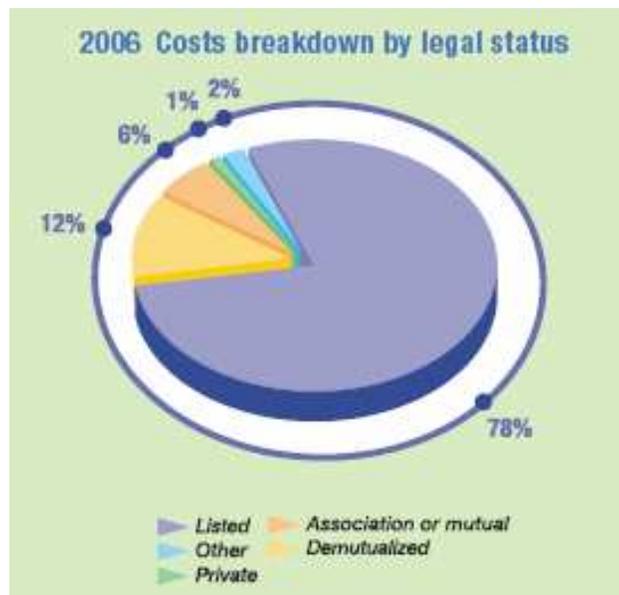


Figure 2 - World Federation of Exchanges, 2007. WFE Annual Report & Statistics 2007

## **2.2) Reasons and forces that led to demutualization of stock exchanges**

Technology improvements, increasing economic competition and the associated costs led stock exchanges to revise their entrepreneurial strategies. As an answer, a large number of stock exchanges have demutualized (Aggarwal, 2002). Besides, the increasing conflicts in the stock exchanges member's interests and tough competition led to a reduction in the stock exchanges wealth. As a result, this led to a change in the stock exchanges governance structure, or saying it otherwise to demutualization (Serifsoy, 2006). At the beginning, stock exchanges were conducted as non-profit firms with significant membership fees being charged for the access to trading floors. The rise of electronic trading systems (ETS) allowed a reduction of the marginal cost close to zero for accepting a new member which at its turn is a motive for demutualization. In addition many of the largest institutional traders have developed capabilities to "internalize" a large volume of trade wherein they can match the buy and sell orders without going to the exchange. These developments have strained the traditional organizational structure of stock exchanges.

Alongside with other factors that fastened up the demutualization, for example such initiatives as the Single European Market, and the Big Bang<sup>1</sup> reforms in United Kingdom, made securities trading much more competitive.

### **2.2.1) Conflicts of interests between the existing owners**

In the mutual exchange, the main problem is the balance between members/owners' interest with that of the investors. Just as stock exchanges become more and more sophisticated, the interests of various member groups began to diverge. This has led to tremendous tensions in the governance and decision making of stock exchanges. In some sense, demutualization can be perceived as a solution of conflict of interest by segregating the ownership from the membership and trading rights thus allowing a proper running of the stock exchanges' management. Also by transforming itself into a for-profit investor owned organization, the managers of the stock exchange are able now to focus on a single group, its owners. This simplification of governance structure allows for faster decision making. The performance improvement could be explained by the fact that self-listing is a perfect opportunity for managers of the stock exchange to accept profitable projects that they would have not taken under the mutual structure.

Despite its advantages, demutualization is not without its distinct regulatory challenges, such as how to rationally divide governance of the demutualized exchange among other exchange, the government and other self regulatory organizations (SROs). However, one of the most important regulatory challenges inherent in the demutualization of stock exchanges is the management of conflicts of interest. The for-profit nature raises the possibility that exchanges may be so preoccupied with profits that it may:

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<sup>1</sup> The reforms changes concerning the stock exchange that came into effect in UK in 1986, were to be usually called in the literature to as the "Big Bang.". Fixed commission charges were abolished, leading to an alternation in the structure of the market, and the right of member firms to act as market makers as well as agents was also abolished.

- (1) Abuse its position as both market participant and market regulator to its own advantage;
- (2) Sacrifice effective regulation in order to achieve the short term goal of maximizing shareholder profits.

Conflicts of interest can be managed in a number of ways, notably by reorganizing the corporate structure of the exchange itself. Many demutualized exchanges have addressed conflicts of interests by dividing their business branch from their regulatory branch, with this regulatory branch being subject to governmental oversight. Legislation provides another means by which conflicts of interest can be managed. For example, a government may pass legislation limiting share ownership in a demutualized exchange so as to avoid giving a single shareholder undue influence over the affairs of the exchange, or may impose stringent reporting obligations on a demutualized exchange to ensure that it is in compliance with its supervisory obligations.

### **2.2.2) Increasing role and competition from the alternative trading systems**

The technological improvements from the last decade offered the possibility of conducting trades using remote connections and thus a number of alternative trading platforms have risen. This fact put a lot of pressure on the traditional stock exchanges in the way that they were pushed to adopt new and more efficient electronic trading systems. One interesting fact is that in Europe where the process of demutualization started much earlier than in the rest regions of the world the weight of the ECN's is still very small and not significant. By following the demutualization path the European stock exchanges were able to gain more operational freedom. The new electronic trading systems which were adopted by stock exchanges allowed them to reduce the importance of regional location in the process of executing trades. In return this put a lot of pressure on small regional exchanges, because the liquidity began to

move towards larger exchanges. As a result the change in the organizational structure from mutual to publicly-listed companies opened for these exchanges the opportunity of undertaking mergers and acquisitions just to face this growing threat. Also by adopting the new technological developments the stock exchanges could thus integrate better their trading activities with clearing and settlement, which in turn also led to consolidation in the securities industry.

### **2.2.3) Mergers between financial exchanges around the world**

Mergers and acquisitions also can be viewed as a factor that fastened the process of demutualization, because this give the opportunity for stock exchanges to face reality of the changes in the economic environment, enhance available synergies and even to survive. From the most recent merger news NASDAQ Stock Market declared that it is now in the last stage of definitive agreement with Philadelphia Stock Exchange concerning the acquisition of the later one. This step definitely points that NASDAQ at the moment is seeking alternatives of diversifying its activities from only cash equity trading to also the equity option trading. Also alongside with Philadelphia Stock Exchange acquisition, NASDAQ was engaged in a deal with Borse Dubai concerning the takeover of Scandinavian exchange operator OMX. On May 25, 2007 NASDAQ agreed to buy the Swedish-Finnish financial company that controls 7 Nordic and Baltic stock exchanges OMX for USD 3.7 billion to form NASDAQ OMX Group. As of February 27, 2008, the deal has just been completed. This deal supposes that Borse Dubai after the acquisition of OMX will pass it to NASDAQ for 19.9% of the newly created company alongside with the 28% of NASDAQ share in London Stock Exchange. Also during the recent years world's biggest futures exchange was created as a result of the merger of the Chicago Board of Trade (CBT) with the Chicago Mercantile Exchange (CME). From other mergers plans there were announced some rumors about a possible partnership of Bursa Malaysia with CME.

The possible partnership with Bursa Malaysia is explained by the fact that Bursa Malaysia at the moment is looking for new sources for expanding its business just in order to face the competition from Singapore Exchange, its neighbor, which had a very high growth in option trading in the recent years.

The present tendencies show that the factors that have supported the demutualization of stock exchanges are going to be important in the future as well. The non-profit organization structure is in many aspects too limited and is frequently driving to decision blocking as competing interests influence the stock exchange strategy. Most of stock exchanges have accepted this and already transformed themselves into for-profit corporations (Aggarwal, 2006).

## CHAPTER 3 Data analysis

In this part of the thesis by the means of descriptive statistics we are evaluating the performance of London Stock Exchange and Hong Kong Stock Exchange after demutualization using post listing daily share prices just to evaluate the stock price performance alongside with the analysis of the most important financial ratios using the official financial statements of the above-mentioned stock exchanges.

### 3.1) Stock price performance

In this section we discuss the case of the London Stock Exchange and Hong Kong Stock Exchange as examples of the stock price performance of exchanges that have successfully listed their stocks<sup>2</sup>. Figure 3 shows the cumulative daily return<sup>1</sup> performance until April 3 2009 (for London Stock Exchange we use as the starting listing date 23.07.2001 and for Hong Kong Stock Exchange the listing date is 01.03.2002).

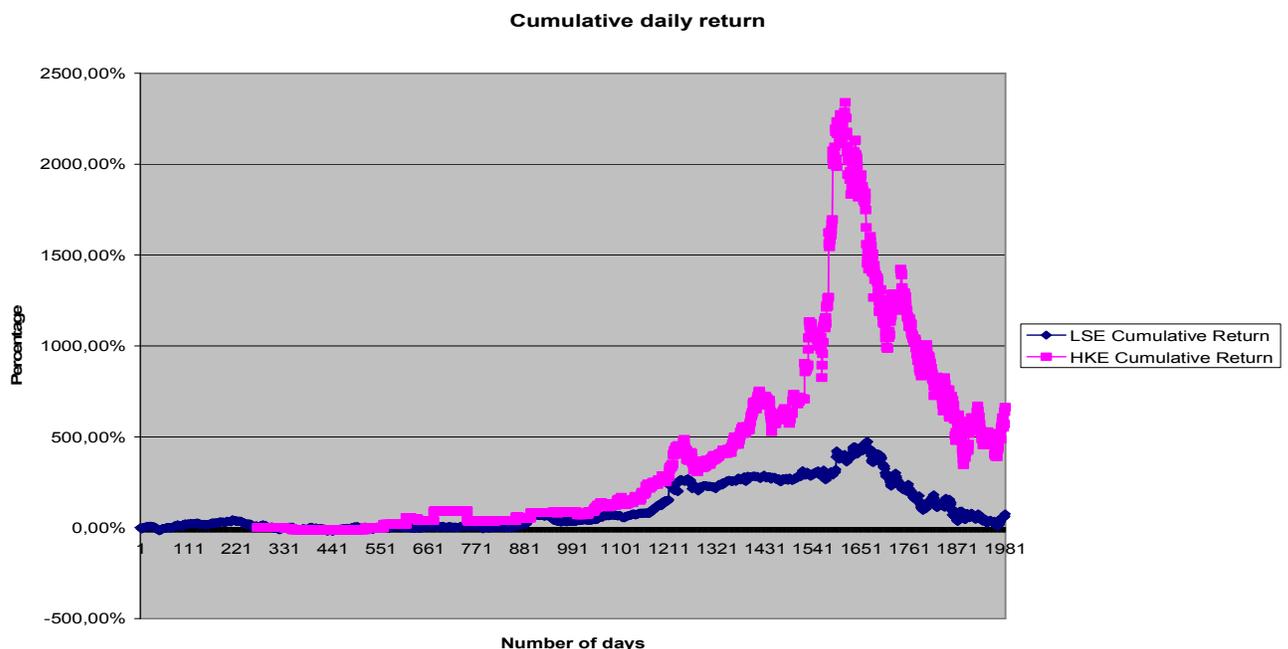


Figure 3. Cumulative daily return of London Stock Exchange and Hong Kong Stock Exchange

<sup>2</sup> Daily stock prices data were taken from [www.reuters.com](http://www.reuters.com) and [www.finance.yahoo.com](http://www.finance.yahoo.com)

As we can see in figure 3 the cumulative return had strong performance leading up to the third quarter of the year 2007. London Stock Exchange cumulative return reached its maximum on December 31 with a total value of 473, 62%. On the other hand a much more spectacular result was achieved by Hong Kong Stock Exchange which on October 31 hit the value of 2286, 52%! Such outstanding result could be explained by a very high rate of economic development that Asian countries experienced at that time, especially China. As beginning with the year 2008 and with the deepening world economic crisis, the cumulative return of stock exchanges went down as well, and the example of London Stock Exchange and Hong Kong Stock Exchange just proves this statement. Despite this, at April 3 2009 both stock exchanges still show a considerable cumulative return: 75,80% for London Stock Exchange and 662,41% for Hong Kong Stock Exchange. Also using the historical share price evolution we were able to check if the CAPM holds for our analyzed stock exchanges. Thus, the results obtained by conducting a daily analysis of share price change for London Stock Exchange and Hong Kong Stock Exchange definitely sustain the CAPM model. From the table 2 Hong Kong Stock Exchange has a higher average daily return of 0,17% versus 0,06% which is explained by the higher risk of holding Hong Kong Stock Exchange shares: 3,21% versus 2,65% .

<b>Exchange</b>	<b>Average</b>	<b>Standard deviation</b>	<b>Variance</b>
London Stock Exchange	<b>0,06%</b>	<b>2,65%</b>	<b>0,07%</b>
Hong Kong Stock Exchange	<b>0,17%</b>	<b>3,21%</b>	<b>0,10%</b>

Table 2 Risk and return analysis for LSE and HKE on a daily basis from the listing date till April 3 2009/for LSE we used as listing date July 23 2001 and for HKE March 01 2002.

As well, in case an investor is considering investing in both of our analyzed stock exchanges as parts of a well diversified portfolio with non-systematic risk

approaching zero, then instead of using the total risk we used the firm specific risk or  $\beta$ . Thus for London Stock Exchange  $\beta=1,27$  and for Hong Kong Stock Exchange  $\beta=1,57$ . <sup>3</sup>Once again a stock with a higher risk is offering a higher return.

Using the data from the Table 3 we compared the long run performance of London Stock Exchange and Hong Kong Stock Exchange with the performance of relevant stock market index. Essentially, we computed the buy and hold returns to an investor who bought the newly listed stock on the first day versus buy and hold returns of investing in a comparable market index.

The strong post-listing returns probably reflect the attractiveness of underlying business model of these two exchanges in particular and of stock exchange sector in general. Some analysts have argued that most exchanges enjoy quasi monopoly status whose competitors face significant barriers to entry. If these arguments have merit we

Exchange	Listing date	Cumulative Returns /Listing to April 3 2009		
		Exchange	Comparable Index	Difference
London Stock Exchange	23.07.2001	75,80%	-25,20%	101,00%
Hong Kong Stock Exchange	01.03.2002	662,41%	-4,15%	666,56%

Table 3. Cumulative returns/Listing to April 3 2009

should expect to see superior operating performance by these two public listed exchanges. Next, we examine the operating performance of exchanges.

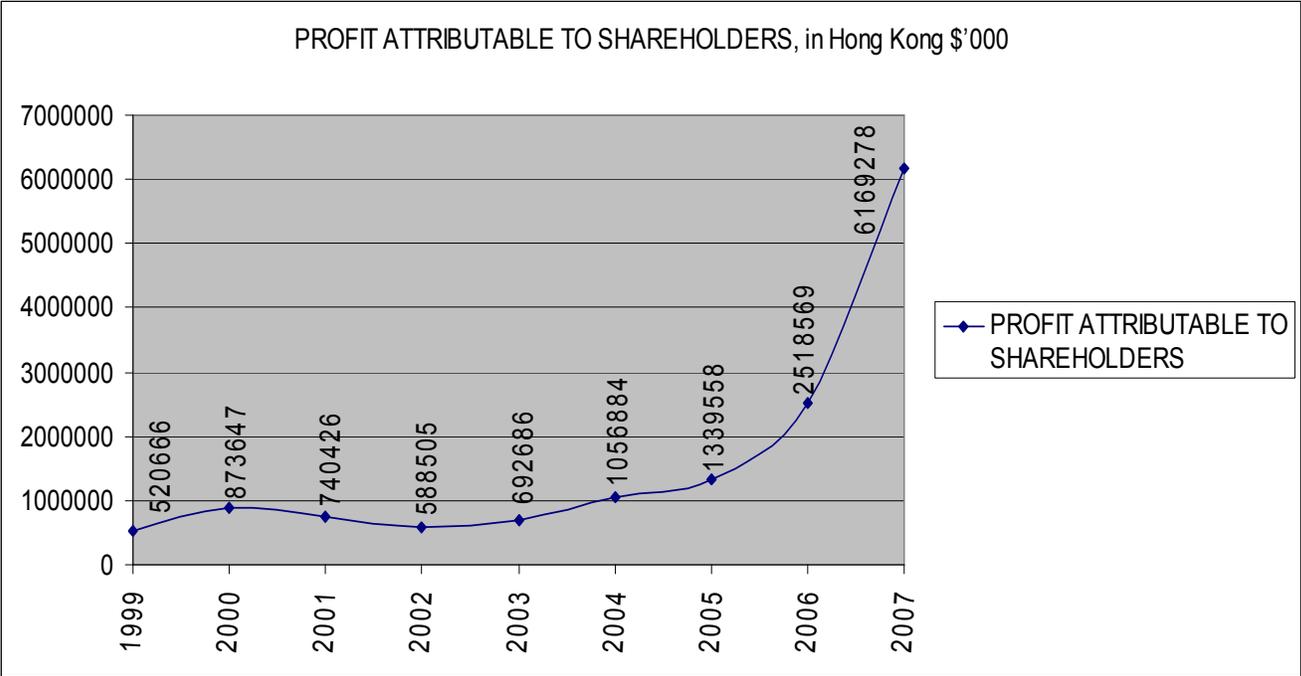
Also the effect of changing the organizational structure can be seen on such important features as the number of companies listed on the stock exchange and as well as the domestic market capitalization. Using the data provided by World Federation of Exchanges we observe a positive relationship between demutualization and the above mentioned features. Thus, after changing organizational structure the number of listed

<sup>3</sup>  $\beta$  data for LSE and HKE were taken from [www.reuters.com](http://www.reuters.com)

companies increased for LSE by almost 42% since 2001 (year of demutualization) and by 57% for HKE since 2000 (year of demutualization). For the same time period the domestic market capitalization increased by 77,93% for LSE and by 325,8% for HKE. These results definitely show that the efficiency and performance of our two stock exchanges improved after demutualization.

**3.2) Operating performance**

In our analysis of operating performance we used some widely used measures such as the Return on Equity, Return on Assets and Operating Margin for the 2007 fiscal year<sup>4</sup>. As reported in Figure 3, during 9 years between the years 1999 and 2007 the profits of the analyzed stock exchanges showed a strong growing tendency, with 178,5 million pounds for London Stock Exchange and 6169,27 million (approximately) Hong Kong dollars for Hong Kong Stock Exchange at the end of the year 2007.



<sup>4</sup> All ratios used in our analysis were calculated using the data from financial statements presented in Appendix.

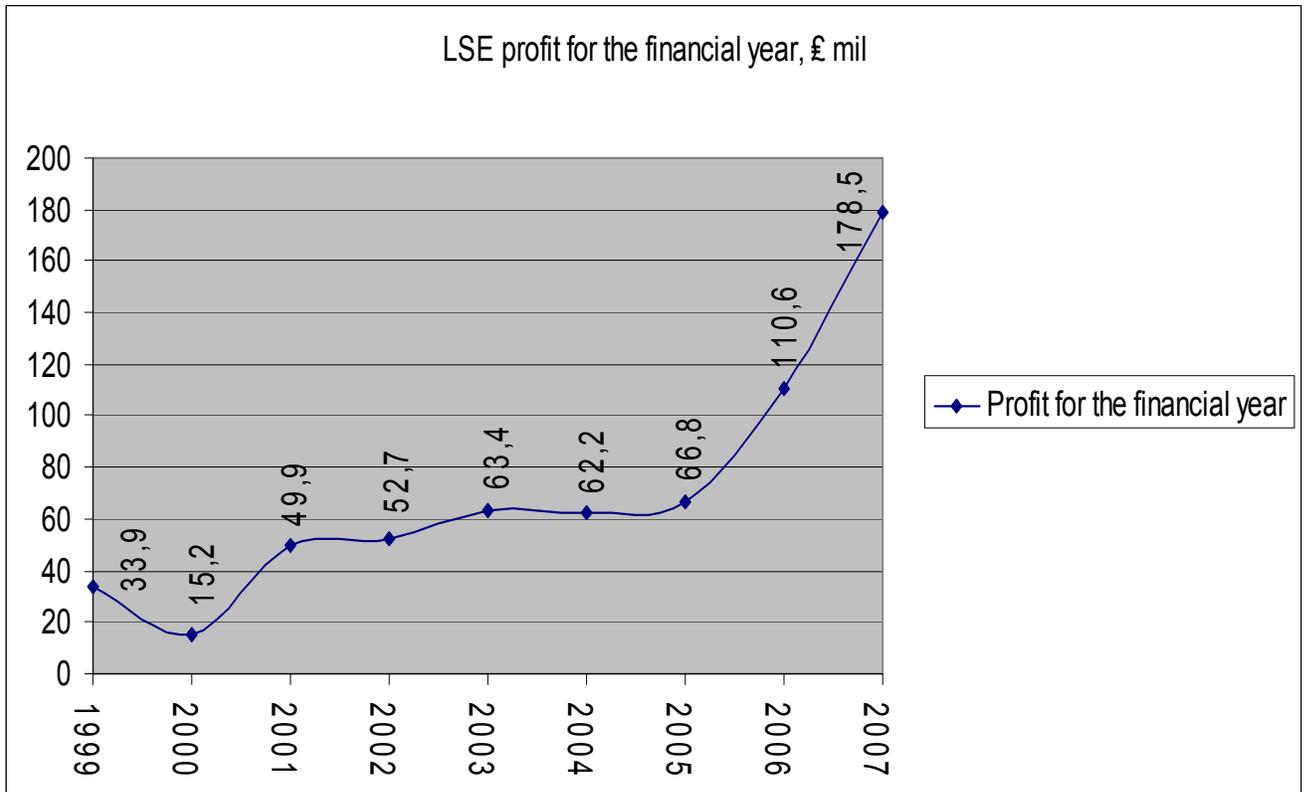


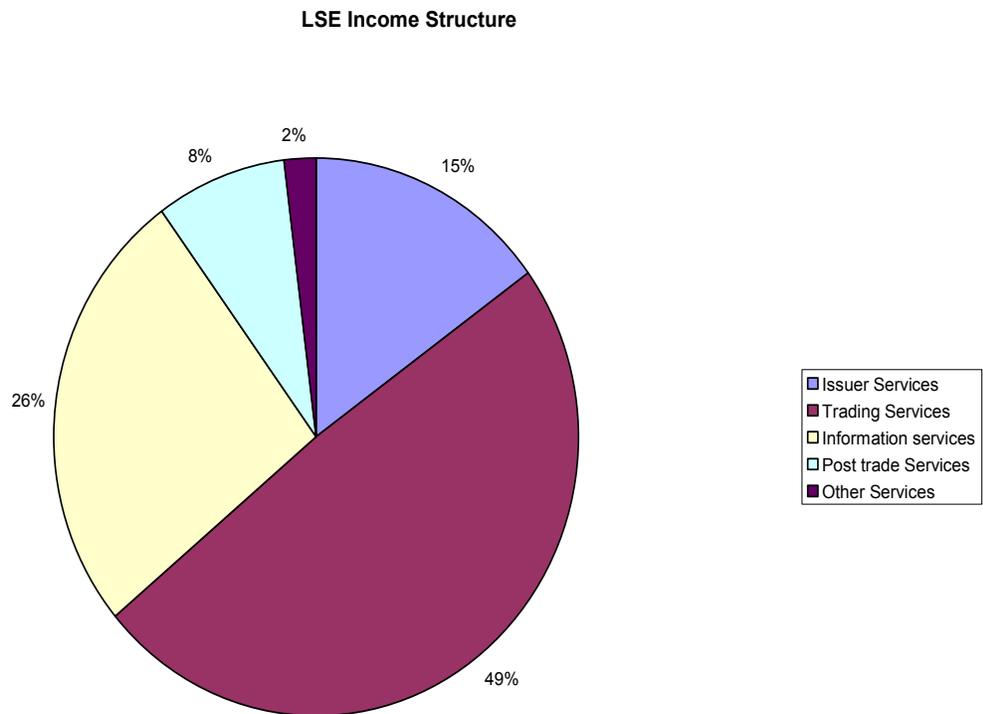
Figure 3 Historical evolution of profits for LSE and HKE for the period of 1999-2007

At the same time at the end of the year 2007 the profit margin for London and Hong Kong stock exchanges was 32.67% and 73,53% respectively. Also an interesting feature to observe is the structure of the revenues of London Stock Exchange and Hong Kong Stock Exchange. Thus the most important sources of LSE in 2007 were income from trading services with 49%, income from sale of information with 26%, income from listing activities with 15%. For HKE the situation is different. Thus, the major sources of its income were: trading activities (same as trading services) 37%, post trading activities (Clearing and settlement fees + Depository, custody and nominee services fees) 26% and investment activities 15%. In table 4 as well as in figure 4 the differences between income sources are shown in a more detailed way.

LSE income sources				mil £
<b>Issuer Services</b>	<b>Trading Services</b>	<b>Information services</b>	<b>Post trade Services</b>	<b>Other Services</b>
15%	49%	26%	8%	2%

HKE income sources						\$'000
<b>Trading fees and trading tariff</b>	<b>Stock Exchange listing fees</b>	<b>Clearing and settlement fees</b>	<b>Depository, custody and nominee services fees</b>	<b>Income from sale of information</b>	<b>Net investment income</b>	<b>Other income</b>
37%	8%	19%	7%	8%	15%	6%

Table 4. Major income sources for the year 2007



#### HKE Income Structure

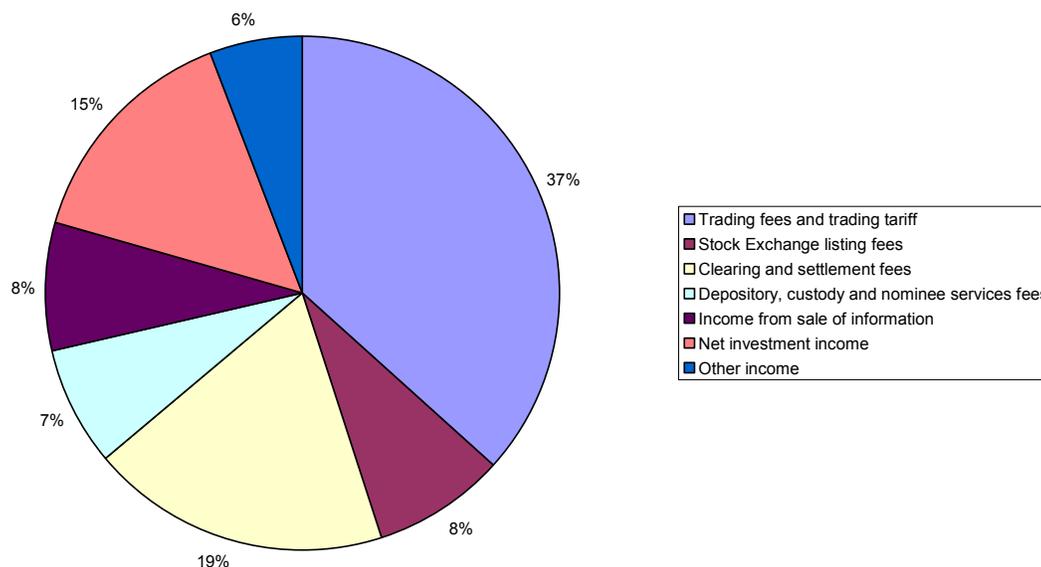


Figure 4 LSE and HKE Income structure for 2007

One of the most important features that describe the company's performance is the ROE. Both of our stock exchanges have a double-digit number for return on equity. At the end of the year 2007 the ROE for London Stock Exchange was 14,07% and the ROE for Hong Kong Stock Exchange was 74,64%. At the same time the return on assets (ROA) of our stock exchanges was 0.91% and 7,01% for London and Hong Kong stock exchanges respectively. Another feature that characterizes the performance is the liquidity ratio. For the year 2007 both stock exchanges had a current liquidity ratio close to 1: 0,98 for LSE and 1,0 for HKE. Such a level of liquidity indicates that usually the stock exchanges do not encounter any problems in covering their current liabilities. Among other financial ratios we can mention that both of our stock exchanges are using almost the same percentage of debt in their capital structure. Thus for the year 2007 the debt/assets for LSE and HKE were 0,94 and 0,9 respectively. Also for the same time period both stock exchanges were showing very high level of leverage. Thus the Leverage (debt/equity) and equity

multiplier for LSE were 14,42 and 15,42. Almost the same situation is experienced by HKE: Leverage level of 9,5 and Equity multiplier level of 10,5. Besides the above-mentioned financial ratios, LSE and HKE have very close numbers in terms of business risk ratio (Standard deviation of Operating Profit/Average of Operating Profit). So, during the period 1999-2007, the business risk ratio for LSE was 0,74 while the same ratio for HKE was 0.69.

## **CHAPTER 4 Conclusion and research perspective**

The purpose of this study was to evaluate the impact of corporate ownership structure on the overall performance of stock exchanges. This study was centered in particular on mutual versus demutualized ownership.

As our results are showing, after undergoing demutualization both of our stock exchanges showed a positive change in their performance. Thus, looking at the results for post listing stock price performance the cumulative return was positive and large, even in present crisis times. Alongside with this the high increase in market capitalization for both of our analyzed stock exchanges after demutualization are definitely a sign of an increased efficiency. Same positive results can be observed by examining the operative performance of these 2 stock exchanges. Thus as London Stock Exchange as well as Hong Kong Stock Exchanges have continuously growing profits with large profit margin and high value of returns on equity (ROE). All other financial ratios are just supporting the above-mentioned statement. So, as a consequence, the process of demutualization has positive effects on the performance and efficiency of the stock exchange and the results we got confirmed that demutualized versus mutual ownership in the stock exchange sector hold a better operative, as well as better post listing stock price performance. Despite this, our results as well as other similar results are subject to some limitations: time period used for analysis was short due to recent history of demutualization. Also when the difference in governance structure is analyzed, the data that are not dependent of the organizational form should be used. That is why using the share prices as performance indicator is rather limited.

#### **4.1) Conclusions**

Stock exchanges are continuously looking to conduct their activity as for-profit organizations using business strategies capable to face competition challenges posed by other competitors or new electronic trading platforms. That is why even the existence of stock exchanges is deeply tied up with their ability in generating high of trading volumes and offering the execution of their services at efficient and low costs. In general, the demutualization of stock exchanges is offering a certain range of advantages:

- Abolishment of the member's intermediation monopoly.
- A more effective and better response to the investors (direct and cost effective exchange access).
- Generation of required level of investments that is offering the appropriate returns to their owners.
- Demutualization leads itself to improved governance. This is achieved by:
  - (i) Drifting the stock exchange ownership to a larger investors' group with proper protection measures preventing a high power/ownership concentration.
  - (ii) Stock exchange management should be performed by a professional board.
  - (iii) More competitive services should be offered by investing in new automated trading platforms.

The demutualized stock exchanges are continuously pushed to adopt cost efficient strategies and broad up their revenue sources in order to improve their competitiveness. Alongside with this, the obtained gains are reinvested in new technology or in the modernization of the existing one which at its turns positively affects the stock exchange performance.

In the end, it is worth to mention that the stock exchange organizational structure will only produce the difference if the company itself will be well, fairly and efficiently governed.

## **4.2) Further research perspective**

After analyzing from different points of view the process of demutualization of stock exchanges, we would like to raise some questions to research about the future perspective of stock exchanges' development.

### **4.2.1) Could ever stock exchanges go bankrupt?**

Despite all advantages and opportunities that raise from the process of demutualization it is still too early to make an evaluation of the success of demutualization. An important problem is how a demutualized and privately owned stock exchange should be regulated? Also just because as in the case of all other privately owned firms it will be interesting for stock exchanges to observe in which way the conflicts of interests between owners and investors (stock exchanges' clients) could be solved. During the recent years stock exchanges showed a solid financial performance. However, in crisis time any for-profit firm could find itself in financial difficulties. That is why it will be very interesting to observe how stock exchanges will avoid bankruptcy probability and of course if they will be even allowed to go bankrupt as any other ordinary for-profit firm.

### **4.2.2) Will the mergers and consolidation of stock exchanges lead to a reduced competition and as a result to an increase in prices for its clients?**

There are a lot of controversial opinions about the future consequences of stock exchanges' consolidation. One important feature of consolidation is a reduction in the number of its market participants through mergers and acquisitions. That is why such a reduction could be seen as a decrease of competition in this financial area. As a result of a reduced competition its clients could end up with higher prices because of higher profit margins that could be adopted by stock exchanges after this consolidation wave.

**4.2.3) As a consolidation consequence and a widening range of activities performed by demutualized stock exchanges could the reduced quality of its services be a possible threat for entire financial system?**

When we are talking about any for-profit company we are definitely paying attention to the quality of products or services provided by this company especially in case when these products and services are crucial for the stability and future development of the whole world economy. In case of stock exchanges this is getting even more important because its products in a straight forward way are influencing the world business cycle. That is why inadequate quality of information concerning prices, inadequate trading, listing and settlement services can negatively affect the whole world community. For example low quality in information could lead to a possible creation of “wrong” prices that on its turn could lead to a wrong or bad resources allocation; the “not appropriate” clearing and settlement procedures could menace the whole financial system stability. All these inefficiencies and threats become bigger as the stock exchange become more and more consolidated and concentrated.

## Appendices

### Balance Sheet of London Stock Exchange

	1999		2000		2001		2002		2003		2004		2005		2006		2007	
ASSETS	mil €	%	mil €	%	mil €	%												
<b>Non-current assets</b>																		
Property, plant and equipment	114.4	31.33%	117.1	35.99%	115.4	31.56%	126.3	29.56%	168.3	34.35%	71.7	19.89%	64.1	15.49%	58.8	22.01%	72.8	0.37%
Intangible assets	0	0.00%	0	0.00%	0	0.00%	14.1	3.30%	24.3	4.96%	65	18.04%	51.6	12.47%	55.8	20.89%	1821.9	9.31%
Available for sale investments	0.4	0.11%	10.1	3.10%	12.1	3.31%	10.1	2.36%	6.8	1.39%	0.4	0.11%	0.4	0.10%	0.4	0.15%	0.4	0.00%
Investment in joint venture	2.1	0.58%	2.3	0.71%	1.5	0.41%	1.5	0.35%	1.5	0.31%	2.2	0.61%	1.7	0.41%	1.9	0.71%	1.9	0.01%
Investment in associates	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	2.3	0.01%
Investments in subsidiary undertakings	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Deferred tax assets	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	14.8	4.11%	19.8	4.79%	15.9	5.95%	10	0.05%
Other non-current assets	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	12.2	0.06%
<b>Total Non-current assets</b>	<b>116.9</b>	<b>32.01%</b>	<b>129.5</b>	<b>39.80%</b>	<b>129</b>	<b>35.27%</b>	<b>152</b>	<b>35.57%</b>	<b>200.9</b>	<b>41.01%</b>	<b>154.1</b>	<b>42.76%</b>	<b>137.6</b>	<b>33.26%</b>	<b>132.8</b>	<b>49.72%</b>	<b>1921.5</b>	<b>9.82%</b>
<b>Current assets</b>																		
Trade and other receivables	47.9	13.12%	48	14.75%	46.8	12.80%	64.3	15.05%	61.1	12.47%	81.9	22.72%	49.3	11.92%	61.4	22.99%	121.1	0.62%
CCP clearing business assets	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	17303.3	88.44%
Current tax	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	3.9	0.02%
Assets held at fair value	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	13.8	0.07%
Cash and cash equivalents	200.4	54.87%	147.9	45.45%	189.9	51.93%	211	49.38%	227.9	46.52%	124.4	34.52%	226.8	54.82%	72.9	27.29%	200.6	1.03%
<b>Total Current assets</b>	<b>248.3</b>	<b>67.99%</b>	<b>195.9</b>	<b>60.20%</b>	<b>236.7</b>	<b>64.73%</b>	<b>275.3</b>	<b>64.43%</b>	<b>289</b>	<b>58.99%</b>	<b>206.3</b>	<b>57.24%</b>	<b>276.1</b>	<b>66.74%</b>	<b>134.3</b>	<b>50.28%</b>	<b>17642.7</b>	<b>90.18%</b>
<b>Total assets</b>	<b>365.2</b>	<b>100.00%</b>	<b>325.4</b>	<b>100.00%</b>	<b>365.7</b>	<b>100.00%</b>	<b>427.3</b>	<b>100.00%</b>	<b>489.9</b>	<b>100.00%</b>	<b>360.4</b>	<b>100.00%</b>	<b>413.7</b>	<b>100.00%</b>	<b>267.1</b>	<b>100.00%</b>	<b>19564.2</b>	<b>100.00%</b>
<b>LIABILITIES</b>																		
<b>Current liabilities</b>																		
Trade and other payables	59.1	16.18%	58.8	18.07%	62.7	17.15%	64	14.98%	78.9	16.11%	49.1	13.62%	51.1	12.35%	129.4	48.45%	146.2	0.75%
Derivative financial instruments	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	7.9	0.04%
CCP clearing business liabilities	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	17307.7	88.47%
Current tax	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	13	3.61%	11.9	2.88%	20.6	7.71%	16.1	0.08%
Borrowings	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	2.8	0.78%	0.6	0.15%	171.4	64.17%	436	2.23%
Provisions	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	11.9	3.30%	15.1	3.65%	8	3.00%	5.2	0.03%
Other current liabilities	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	1.8	0.01%
<b>Total Current liabilities</b>	<b>59.1</b>	<b>16.18%</b>	<b>58.8</b>	<b>18.07%</b>	<b>62.7</b>	<b>17.15%</b>	<b>64</b>	<b>14.98%</b>	<b>78.9</b>	<b>16.11%</b>	<b>76.8</b>	<b>21.31%</b>	<b>78.7</b>	<b>19.02%</b>	<b>329.4</b>	<b>123.32%</b>	<b>17920.9</b>	<b>91.60%</b>
<b>Non-current liabilities</b>																		
Borrowings	30	8.21%	0	0.00%	0	0.00%	0	0.00%	0.5	0.10%	0.5	0.14%	0.5	0.12%	248.7	93.11%	248.4	1.27%
Deferred tax liabilities	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	95.7	0.49%
Retirement benefit obligations	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	18.7	5.19%	20.3	4.91%	15	5.62%	7.6	0.04%
Provisions	31	8.49%	24.6	7.56%	21.7	5.93%	41.6	9.74%	38.4	7.84%	28.1	7.80%	25.4	6.14%	23.9	8.95%	23.2	0.12%
<b>Total Non-current liabilities</b>	<b>61</b>	<b>16.70%</b>	<b>24.6</b>	<b>7.56%</b>	<b>21.7</b>	<b>5.93%</b>	<b>41.6</b>	<b>9.74%</b>	<b>38.9</b>	<b>7.94%</b>	<b>47.3</b>	<b>13.12%</b>	<b>46.2</b>	<b>11.17%</b>	<b>287.6</b>	<b>107.68%</b>	<b>374.9</b>	<b>1.92%</b>
<b>Total liabilities</b>	<b>120.1</b>	<b>32.89%</b>	<b>83.4</b>	<b>25.63%</b>	<b>84.4</b>	<b>23.08%</b>	<b>105.6</b>	<b>24.71%</b>	<b>117.8</b>	<b>24.05%</b>	<b>124.1</b>	<b>34.43%</b>	<b>124.9</b>	<b>30.19%</b>	<b>617</b>	<b>231.00%</b>	<b>18295.8</b>	<b>93.52%</b>
<b>Net assets</b>	<b>245.1</b>	<b>67.11%</b>	<b>242</b>	<b>74.37%</b>	<b>281.3</b>	<b>76.92%</b>	<b>321.7</b>	<b>75.29%</b>	<b>372.1</b>	<b>75.95%</b>	<b>236.3</b>	<b>65.57%</b>	<b>288.8</b>	<b>69.81%</b>	<b>-349.9</b>	<b>-131.00%</b>	<b>1268.4</b>	<b>6.48%</b>
<b>EQUITY</b>																		
<b>Capital and reserves attributable to the Company's equity holders</b>																		
Ordinary share capital	0	0.00%	1.5	0.46%	14.9	4.07%	14.9	3.49%	14.9	3.04%	14.9	4.13%	14.9	3.60%	253	94.72%	19.1	0.10%
Share premium	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	4.3	1.04%	0	0.00%	0	0.00%
Retained earnings	171.7	47.02%	192.8	59.25%	220.6	60.32%	262.6	61.46%	314.1	64.12%	220.3	61.13%	268	64.78%	-351.7	-131.67%	-325.6	-1.66%
Other reserves	73.4	20.10%	47.7	14.66%	45.8	12.52%	44	10.30%	42.1	8.59%	0	0.00%	0	0.00%	-253.8	-95.02%	1479.7	7.56%
<b>Total Capital and reserves attributable to the Company's equity holders</b>	<b>245.1</b>	<b>67.11%</b>	<b>242</b>	<b>74.37%</b>	<b>281.3</b>	<b>76.92%</b>	<b>321.5</b>	<b>75.24%</b>	<b>371.1</b>	<b>75.75%</b>	<b>235.2</b>	<b>65.26%</b>	<b>287.2</b>	<b>69.42%</b>	<b>-352.5</b>	<b>-131.97%</b>	<b>1173.2</b>	<b>6.00%</b>
Minority interest in equity	0	0.00%	0	0.00%	0	0.00%	0.2	0.05%	1	0.20%	1.1	0.31%	1.6	0.39%	2.6	0.97%	95.2	0.49%
<b>Total equity</b>	<b>245.1</b>	<b>67.11%</b>	<b>242</b>	<b>74.37%</b>	<b>281.3</b>	<b>76.92%</b>	<b>321.7</b>	<b>75.29%</b>	<b>372.1</b>	<b>75.95%</b>	<b>236.3</b>	<b>65.57%</b>	<b>288.8</b>	<b>69.81%</b>	<b>-349.9</b>	<b>-131.00%</b>	<b>1268.4</b>	<b>6.48%</b>

HKE balance sheet

	1999		2000		2001		2002		2003		2004		2005		2006		2007	
	\$'000	%	\$'000	%	\$'000	%	\$'000	%	\$'000	%	\$'000	%	\$'000	%	\$'000	%	\$'000	%
<b>NON-CURRENT ASSETS</b>																		
Fixed assets	620171	4.29%	689341	4.87%	786110	5.72%	748108	5.33%	482927	2.44%	324300	1.51%	257876	1.12%	210161	0.52%	317065	0.36%
Investment property	0	0.00%	0	0.00%	0	0.00%	0	0.00%	10000	0.05%	13300	0.06%	17700	0.08%	19300	0.05%	0	0.00%
Lease premiums for land	0	0.00%	0	0.00%	0	0.00%	0	0.00%	95218	0.48%	94670	0.44%	94123	0.41%	93675	0.23%	60708	0.07%
Investment in an associate	0	0.00%	0	0.00%	0	0.00%	35636	0.25%	36648	0.19%	38731	0.18%	64581	0.28%	68377	0.17%	0	0.00%
Clearing House Funds	887935	6.14%	889895	6.28%	944154	6.87%	980748	6.99%	1551330	7.83%	1861487	8.68%	1340410	5.85%	2270531	5.61%	2192204	2.49%
Compensation Fund Reserve Account	42033	0.29%	31107	0.22%	35146	0.26%	35827	0.26%	36859	0.19%	37451	0.17%	38410	0.17%	0	0.00%	0	0.00%
Cash and Derivatives Market Development Fund	100914	0.70%	914	0.01%	914	0.01%	914	0.01%	925	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Non-trading securities	516587	3.57%	609500	4.30%	52366	0.38%	87604	0.62%	77258	0.39%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Available-for-sale financial assets	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	25270	0.03%
Time deposit with maturity over one year	0	0.00%	0	0.00%	0	0.00%	0	0.00%	393466	1.99%	38941	0.18%	38768	0.17%	38886	0.10%	0	0.00%
Deferred tax assets	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	1227	0.01%	3060	0.01%	3330	0.01%	3610	0.00%
Other financial assets	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	17162	0.07%	18583	0.05%	19177	0.02%
Other assets	0	0.00%	0	0.00%	0	0.00%	0	0.00%	4814	0.02%	13142	0.06%	3212	0.01%	3212	0.01%	3212	0.00%
<b>TOTAL NON-CURRENT ASSETS</b>	<b>2167640</b>	<b>14.99%</b>	<b>2220757</b>	<b>15.67%</b>	<b>1818690</b>	<b>13.23%</b>	<b>1888737</b>	<b>13.46%</b>	<b>2689435</b>	<b>13.58%</b>	<b>2423249</b>	<b>11.30%</b>	<b>1875302</b>	<b>8.18%</b>	<b>2725955</b>	<b>6.74%</b>	<b>2621246</b>	<b>2.98%</b>
<b>CURRENT ASSETS</b>																		
Accounts receivable, prepayments and deposits	2827953	19.56%	2673486	18.87%	2334767	16.99%	3118199	22.22%	4644680	23.45%	4691846	21.88%	3286835	14.33%	10201562	25.21%	18364129	20.88%
Lease premiums for land	0	0.00%	0	0.00%	0	0.00%	0	0.00%	548	0.00%	548	0.00%	548	0.00%	548	0.00%	509	0.00%
Tax recoverable	11823	0.08%	2686	0.02%	5857	0.04%	1774	0.01%	1558	0.01%	91	0.00%	108	0.00%	0	0.00%	148	0.00%
Margin Funds on derivatives contracts	5860064	40.52%	5381719	37.98%	4803107	34.94%	4551601	32.43%	7874510	39.75%	10529692	49.10%	13648581	59.52%	21666474	53.54%	55428888	63.03%
Financial assets at fair value through profit or loss	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	2761593	12.88%	2643788	11.53%	2878224	7.11%	2996555	3.41%
Trading securities	0	0.00%	0	0.00%	3182527	23.15%	3490046	24.87%	3212998	16.22%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Available-for-sale financial assets	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	582122	1.44%	3041737	3.46%
Time deposits with original maturities over three months	0	0.00%	0	0.00%	0	0.00%	0	0.00%	28857	0.15%	1340	0.01%	116622	0.51%	185611	0.46%	682174	0.78%
Cash and cash equivalents	3299877	22.82%	3635186	25.66%	1600062	11.64%	985114	7.02%	1355390	6.84%	1035045	4.83%	1359133	5.93%	2223910	5.50%	4744711	5.40%
Non-current assets held for sale	293541	2.03%	255166	1.80%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	64092	0.07%
<b>TOTAL CURRENT ASSETS</b>	<b>12293258</b>	<b>85.01%</b>	<b>11948243</b>	<b>84.33%</b>	<b>11926320</b>	<b>86.77%</b>	<b>12146734</b>	<b>86.54%</b>	<b>17118541</b>	<b>86.42%</b>	<b>19020155</b>	<b>88.70%</b>	<b>21055614</b>	<b>91.82%</b>	<b>37738451</b>	<b>93.26%</b>	<b>85322943</b>	<b>97.02%</b>
<b>TOTAL ASSETS</b>	<b>14460898</b>	<b>100.00%</b>	<b>14169000</b>	<b>100.00%</b>	<b>13745010</b>	<b>100.00%</b>	<b>14035471</b>	<b>100.00%</b>	<b>19807976</b>	<b>100.00%</b>	<b>21443404</b>	<b>100.00%</b>	<b>22930916</b>	<b>100.00%</b>	<b>40464406</b>	<b>100.00%</b>	<b>87944189</b>	<b>100.00%</b>
<b>CURRENT LIABILITIES</b>																		
Bank Loans	204433	1.41%	0	0.00%	46453	0.34%	49456	0.35%	50286	0.25%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Margin deposits from Clearing Participants on derivatives contracts	5655631	39.11%	5381719	37.98%	4803107	34.94%	4551601	32.43%	7874510	39.75%	10529692	49.10%	13648581	59.52%	21666474	53.54%	55428888	63.03%
Accounts payable, accruals and other liabilities	3456295	23.90%	2965974	20.93%	2733306	19.89%	3007392	21.43%	4779904	24.13%	4902350	22.86%	3641071	15.88%	11118308	27.48%	21375909	24.31%
Financial liabilities at fair value through profit or loss	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	10749	0.05%	1443	0.01%	7505	0.02%	6149	0.01%
Participants' admission fees received	0	0.00%	0	0.00%	14550	0.11%	3350	0.02%	4100	0.02%	4850	0.02%	2550	0.01%	1700	0.00%	3050	0.00%
Deferred revenue	191748	1.33%	233036	1.64%	246827	1.80%	269774	1.92%	257068	1.30%	284148	1.33%	284851	1.24%	318468	0.79%	375174	0.43%
Taxation payable	28343	0.20%	58333	0.41%	19556	0.14%	29051	0.21%	57370	0.29%	199678	0.93%	92628	0.40%	287368	0.71%	687726	0.78%
Payable to the Unified Exchange Compensation Fund	200000	1.38%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Provisions	0	0.00%	33097	0.23%	25927	0.19%	28863	0.21%	25011	0.13%	23212	0.11%	27145	0.12%	26712	0.07%	29630	0.03%
<b>TOTAL CURRENT LIABILITIES</b>	<b>9736450</b>	<b>67.33%</b>	<b>8672159</b>	<b>61.21%</b>	<b>7889726</b>	<b>57.40%</b>	<b>7939487</b>	<b>56.57%</b>	<b>13048249</b>	<b>65.87%</b>	<b>15954679</b>	<b>74.40%</b>	<b>17698269</b>	<b>77.18%</b>	<b>33426535</b>	<b>82.61%</b>	<b>77906526</b>	<b>88.59%</b>
<b>NON-CURRENT LIABILITIES</b>																		
Participants' admission fees received	108300	0.75%	110250	0.78%	91500	0.67%	86800	0.62%	84950	0.43%	82850	0.39%	80150	0.35%	79750	0.20%	82550	0.09%
Participants' contributions to Clearing House Funds	413780	2.86%	415740	2.93%	423960	3.08%	425440	3.03%	984045	4.97%	1298752	6.06%	751751	3.28%	1642495	4.06%	1496855	1.70%
Deferred tax liabilities	52860	0.37%	65738	0.46%	75275	0.55%	73281	0.52%	53515	0.27%	30876	0.14%	20770	0.09%	14003	0.03%	36873	0.04%
Financial guarantee contract	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	19909	0.09%	19909	0.09%	19909	0.05%	19909	0.02%
Provisions	32952	0.23%	26157	0.18%	29142	0.21%	20099	0.14%	23092	0.12%	24104	0.11%	22596	0.10%	24128	0.06%	24128	0.03%
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>607892</b>	<b>4.20%</b>	<b>617885</b>	<b>4.36%</b>	<b>619877</b>	<b>4.51%</b>	<b>605620</b>	<b>4.31%</b>	<b>1145602</b>	<b>5.78%</b>	<b>1456491</b>	<b>6.79%</b>	<b>895176</b>	<b>3.90%</b>	<b>1780285</b>	<b>4.40%</b>	<b>1660315</b>	<b>1.89%</b>
<b>TOTAL LIABILITIES</b>	<b>10344342</b>	<b>71.53%</b>	<b>9290044</b>	<b>65.57%</b>	<b>8509603</b>	<b>61.91%</b>	<b>8545107</b>	<b>60.88%</b>	<b>14193851</b>	<b>71.66%</b>	<b>17411170</b>	<b>81.20%</b>	<b>18593445</b>	<b>81.08%</b>	<b>35206820</b>	<b>87.01%</b>	<b>79566841</b>	<b>90.47%</b>
<b>CAPITAL AND RESERVES</b>																		
Share capital	1040665	7.20%	1040665	7.34%	1040665	7.57%	1043581	7.44%	1048999	5.30%	1056639	4.93%	1062755	4.63%	1065448	2.63%	1070285	1.22%
Share premium	0	0.00%	0	0.00%	0	0.00%	19012	0.14%	54338	0.27%	104034	0.49%	150405	0.66%	185942	0.46%	266170	0.30%
Shares held for Share Award Scheme	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	-30028	-0.13%	-51297	-0.13%	-47803	-0.05%
Employee share-based compensation reserve	0	0.00%	0	0.00%	0	0.00%	0	0.00%	2771	0.01%	17061	0.08%	34980	0.15%	52119	0.13%	49669	0.06%
Revaluation reserves	99866	0.69%	84353	0.60%	43797	0.32%	29899	0.21%	36499	0.18%	18829	0.09%	-37086	-0.16%	10569	0.03%	56036	0.06%
Designated reserves	670392	4.64%	641938	4.53%	692016	5.03%	727811	5.19%	689657	3.48%	680996	3.18%	700641	3.06%	627816	1.55%	694853	0.79%
Retained earnings	2305633	15.94%	2851834	20.13%	3198763	23.27%	3221321	22.95%	1578963	7.97%	1658055	7.73%	1776254	7.75%	3366989	8.32%	6288138	7.15%
Proposed/declared dividends	0	0.00%	260166	1.89%	260166	1.89%	448740	3.20%	2202898	11.12%	496620	2.32%	679550	2.96%	0	0.00%	0	0.00%
<b>SHAREHOLDERS' FUNDS</b>	<b>4116556</b>	<b>28.47%</b>	<b>4878956</b>	<b>34.43%</b>	<b>5235407</b>	<b>38.09%</b>	<b>5490364</b>	<b>39.12%</b>	<b>5614125</b>	<b>28.34%</b>	<b>4032234</b>	<b>18.80%</b>	<b>4337471</b>	<b>18.92%</b>	<b>5257586</b>	<b>12.99%</b>	<b>8377348</b>	<b>9.53%</b>

### Consolidated Profit and Loss account of London Stock Exchange (mil pounds)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Turnover</b>									
Continuing operations	164	193,4	215,6	237,3	250,4	259,7	297,5	349,6	546,4
Discounted operations	11,7	1,2	0	0	0	0	0	0	0
<b>Gross Turnover</b>	<b>175,7</b>	<b>194,6</b>	<b>215,6</b>	<b>237,3</b>	<b>250,4</b>	<b>259,7</b>	<b>297,5</b>	<b>349,6</b>	<b>546,4</b>
Less: Shares of joint venture's turnover - continuing operations	4,5	6,2	9	11,4	13,3	15,3	0	0	0
<b>Net turnover</b>	<b>171,2</b>	<b>188,4</b>	<b>206,6</b>	<b>225,9</b>	<b>237,1</b>	<b>244,4</b>	<b>297,5</b>	<b>349,6</b>	<b>546,4</b>
<b>Administrative expenses</b>	<b>129,3</b>	<b>148,6</b>	<b>139,7</b>	<b>155,9</b>	<b>155,8</b>	<b>171,2</b>	<b>212,1</b>	<b>175,4</b>	<b>281,2</b>
<b>Operating profit</b>	<b>41,9</b>	<b>39,8</b>	<b>66,9</b>	<b>70</b>	<b>81,3</b>	<b>73,2</b>	<b>85,4</b>	<b>174,2</b>	<b>265,2</b>
Continuing operations	36,7	39	66,9	70	81,6	73,2	85,4	174,2	265,2
Discounted operations	5,2	0,8	0	0	0	0	0	0	0
<b>Finance Income</b>							20,2	16,6	18,8
<b>Finance Costs</b>							13,6	31,5	51,5
<b>Net finance income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,6</b>	<b>-14,9</b>	<b>-32,7</b>
Provisions for restructuring and SETS	0	0	0	0	0	0	0	0	0
Share of operating profit of joint venture and Income from other asset investments	0,3	0,3	1	1,1	1,4	1,7	1,5	2,2	2,2
Net interest receivable	6,3	-9,7	7,3	8,4	6,1	7	0	0	0
Profit on disposal of Stock Exchange Tower	0	0	0	0	0	7,2	0	0	0
<b>Profit on ordinary activities before taxation</b>	<b>48,5</b>	<b>30,4</b>	<b>75,2</b>	<b>79,5</b>	<b>88,8</b>	<b>89,1</b>	<b>93,5</b>	<b>161,5</b>	<b>234,7</b>
<b>Taxation on profit on ordinary activities</b>	<b>14,6</b>	<b>15,2</b>	<b>25,3</b>	<b>26,8</b>	<b>25,7</b>	<b>27,6</b>	<b>26,7</b>	<b>50,9</b>	<b>56,2</b>
Minority interests	0	0	0	0	0,3	0,7	0	0	0
<b>Profit for the financial year</b>	<b>33,9</b>	<b>15,2</b>	<b>49,9</b>	<b>52,7</b>	<b>63,4</b>	<b>62,2</b>	<b>66,8</b>	<b>110,6</b>	<b>178,5</b>
<b>Dividends</b>	<b>0</b>	<b>9,5</b>	<b>10,6</b>	<b>12,5</b>	<b>14,1</b>	<b>180,2</b>			
<b>Retained profit for the financial year</b>	<b>0</b>	<b>5,7</b>	<b>39,3</b>	<b>40,2</b>	<b>49,3</b>	<b>-118</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Earnings per equity share*</b>	<b>11,4</b>	<b>5,14</b>	<b>17,1</b>	<b>18,1</b>	<b>21,7</b>	<b>23,1</b>	<b>27,8</b>	<b>50,5</b>	<b>73,1</b>
<b>Diluted earnings per equity share*</b>	<b>0</b>	<b>5,14</b>	<b>17</b>	<b>17,9</b>	<b>21,5</b>	<b>22,9</b>	<b>27,4</b>	<b>49,4</b>	<b>71,9</b>
<b>Adjusted earnings per equity share*</b>	<b>11,4</b>	<b>15,2</b>	<b>18,3</b>	<b>20,9</b>	<b>21,3</b>	<b>23,5</b>	<b>37,4</b>	<b>56,2</b>	
<b>Dividend per equity share*</b>	<b>0</b>	<b>3,2</b>	<b>3,6</b>	<b>4,3</b>	<b>4,8</b>	<b>7</b>	<b>12</b>	<b>18</b>	<b>24</b>

Consolidated Profit and Loss Account of HKE									\$'000
	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>INCOME</b>									
Trading fees and trading tariff	427535	548472	351408	331729	485211	682293	793247	1340355	3086250
Stock Exchange listing fees	205594	269567	275266	320033	333786	378427	413000	465445	688538
Clearing and settlement fees	196260	305465	214015	181424	254907	356274	384019	674373	1577433
Depository, custody and nominee services fees	143702	257490	227970	211413	211726	251722	259952	376118	627103
Income from sale of information	229074	351736	337189	293735	264239	307633	322713	391213	678909
Net investment income	473567	414327	381950	284984	296952	228587	300120	601080	1238228
Other income	139245	165146	211015	184772	173004	189001	221017	298332	494009
<b>OPERATING INCOME</b>	<b>1814977</b>	<b>2312203</b>	<b>1998813</b>	<b>1808090</b>	<b>2019825</b>	<b>2393937</b>	<b>2694068</b>	<b>4146916</b>	<b>8390470</b>
<b>OPERATING EXPENSES</b>									
Staff costs and related expenses	570818	598675	527994	492549	528344	545654	586034	654806	827116
Information technology and computer maintenance expenses	197708	216665	231064	262700	246648	221624	201725	218608	207422
Premises expenses	115145	109112	100452	101234	84581	78833	80679	119167	132244
Product marketing and promotion expenses	37526	31076	15516	14728	7891	11263	10065	11270	14054
Legal and professional fees	35954	32134	61800	39613	28873	11083	13641	7996	27185
Depreciation	150197	177450	152669	163139	181739	183400	150995	99888	79144
Other operating expenses	90268	74258	86872	90694	145651	104439	102344	98838	124400
Merger, listing and integration expenses	60202	93385	0	0	0	0	0	0	0
<b>OPERATING EXPENSES</b>	<b>1257818</b>	<b>1332755</b>	<b>1176367</b>	<b>1164657</b>	<b>1223727</b>	<b>1156296</b>	<b>1145483</b>	<b>1210573</b>	<b>1411565</b>
<b>OPERATING PROFIT</b>	<b>557159</b>	<b>979448</b>	<b>822446</b>	<b>643433</b>	<b>796098</b>	<b>1237641</b>	<b>1548585</b>	<b>2936343</b>	<b>6978905</b>
<b>GAIN ON DISPOSAL OF AN ASSOCIATE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>206317</b>
<b>SHARE OF PROFITS OF ASSOCIATES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6141</b>	<b>8642</b>	<b>12884</b>	<b>18433</b>	<b>27124</b>	<b>5587</b>
<b>PROFIT BEFORE TAXATION</b>	<b>557159</b>	<b>979448</b>	<b>822446</b>	<b>649574</b>	<b>804740</b>	<b>1250525</b>	<b>1567018</b>	<b>2963467</b>	<b>7190809</b>
<b>TAXATION</b>	<b>-36493</b>	<b>-105801</b>	<b>-82020</b>	<b>-61069</b>	<b>-112054</b>	<b>-193641</b>	<b>-227460</b>	<b>-444898</b>	<b>-1021531</b>
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>520666</b>	<b>873647</b>	<b>740426</b>	<b>588505</b>	<b>692686</b>	<b>1056884</b>	<b>1339558</b>	<b>2518569</b>	<b>6169278</b>
<b>DIVIDENDS</b>	<b>0</b>	<b>343419</b>	<b>343419</b>	<b>532220</b>	<b>629623</b>	<b>950911</b>			
<b>SPECIAL DIVIDEND</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1762318</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>RETAINED PROFIT FOR THE YEAR</b>	<b>520666</b>	<b>530228</b>	<b>397007</b>	<b>56285</b>	<b>-1699255</b>	<b>105973</b>	<b>1339558</b>	<b>2518569</b>	<b>6169278</b>
<b>Earnings per share</b>									
Basic	0,5	0,84	0,71	0,56	0,66	1	1,26	2,37	5,78
Diluted	0,5	0,84	0,71	0,56	0,66	1	1,26	2,34	5,72
<b>Dividends per share</b>									
Interim dividend paid	0	0,08	0,08	0,08	0,18	0,43	0,49	0,94	0
Final dividend proposed/declared	0	0,25	0,25	0,43	0,42	0,47	0,64	1,19	5,2
<b>Dividends per share</b>	<b>0</b>	<b>0,33</b>	<b>0,33</b>	<b>0,51</b>	<b>0,6</b>	<b>0,9</b>	<b>1,13</b>	<b>2,13</b>	<b>5,2</b>
<b>Dividend payout ratio</b>	<b>0%</b>	<b>39%</b>	<b>46%</b>	<b>91%</b>	<b>91%</b>	<b>90%</b>	<b>90%</b>	<b>90%</b>	<b>90%</b>
<b>Special dividend declared per share</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,68</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

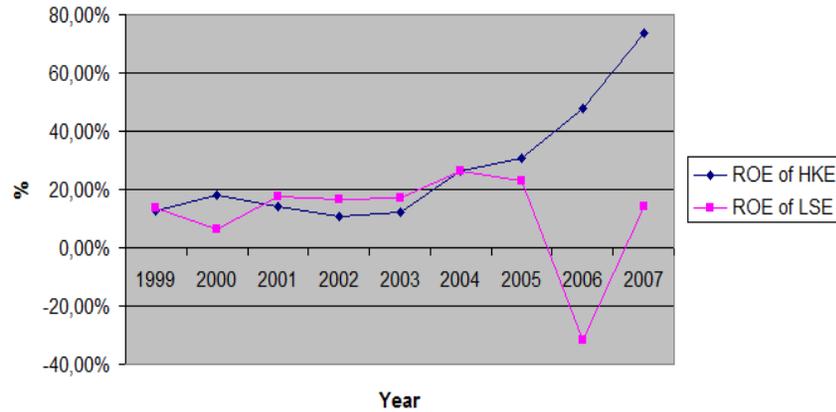
<b>Cash flow statement of London Stock Exchange</b>									
									€ mil
	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Cash flow from operating activities</b>									
Cash generated from operations	45	52,1	78,6	85,2	105,4	95,4	140,6	180,4	280,2
Interest received	10,6	12,1	8,8	9,5	7,5	8,1	7,4	6,1	5,8
Interest paid	-3	-21,7	0	0	-0,2	-0,2	-1,5	-14,8	-39,4
Corporation tax paid	-12,1	-20,6	-15,8	-25,2	-22,2	-24,3	-29	-33,5	-68,7
<b>Net cash inflow/(outflow) from operating activities</b>	<b>40,5</b>	<b>21,9</b>	<b>71,6</b>	<b>69,5</b>	<b>90,5</b>	<b>79</b>	<b>117,5</b>	<b>138,2</b>	<b>177,9</b>
<b>Cash flow from investing activities</b>									
Net cash inflow/(outflow) from merger	0	0	0	0	0	0	0	0	82,3
Purchase of property, plant, equipment and fixed asset investments	-13,4	-22,7	-15,1	-27,4	-54,2	-22,3	-5,3	-6	-10,3
Purchase of intangible assets	0	0	0	0	0	-18,5	-20,5	-13,9	-21,9
Receipts from disposal of Stock Exchange Tower	0	0	0	0	0	32,3	33,2	0	
Additional investment in subsidiary undertaking	0	0	0	0	0	0	0	0	
Payments to acquire shares in joint venture	-1,5	0	0	0	0	0	0	0	
Further consideration for acquisition of subsidiary undertaking	0	0	0	-11,3	-15,5	0	-6,2	0	
Acquisition of minority interests in Borsa Italiana	0	0	0	0	0	0	0	0	-0,5
Dividends received	0,1	0,1	0,2	1,2	0,8	1,4	2	2	2,4
<b>Net cash (outflow)/inflow from investing activities</b>	<b>-14,8</b>	<b>-22,6</b>	<b>-14,9</b>	<b>-37,5</b>	<b>-68,9</b>	<b>-7,1</b>	<b>3,2</b>	<b>-17,9</b>	<b>52</b>
<b>Cash flow from financing activities</b>									
Dividends paid to shareholders	0	-3	-9,7	-11,1	-12,9	-177,6	-22,8	-33,2	-46
Cash impact of capital return	0	0	0	0	0	0	0	-497,9	-8,1
Share buyback	0	-10	-5	0	0	0	0	-105,3	-143,8
Issue of ordinary share capital	0	0	0	0,2	1,1	0,2	5,9	0	
Purchase of own shares by ESOP trust	0	0	0	0	0	-2,5	-4,7	-47,8	-36,7
Loan to ESOP trust	0	0	0	0	0	0	0	0	
Proceeds from own shares on exercise of employee share options	0	0	0	0	2,2	5,7	2,7	5,4	5,9
Proceeds from bond issue – July 2006	0	0	0	0	0	0	0	249,2	
Net proceeds from unsecured borrowings	0	0	0	0	4,9	-1,2	0,6	155,4	115,5
Redemption of mortgage debenture	0	-30	0	0	0	0	0	0	0
Redemption of 'A' shares	-25,8	-8,8	0	0	0	0	0	0	0
Loans from subsidiary company	0	0	0	0	0	0	0	0	0
Share issue costs	0	0	0	0	0	0	0	0	-2,9
Increase in term deposits	-2	53	-43	-21	-16	0	0	0	0
<b>Net cash outflow from financing activities</b>	<b>-27,8</b>	<b>1,2</b>	<b>-57,7</b>	<b>-31,9</b>	<b>-20,7</b>	<b>-175,4</b>	<b>-18,3</b>	<b>-274,2</b>	<b>-116,1</b>
(Decrease)/increase in cash and cash equivalents	-2,1	0,5	-1	0,1	0,9	-103,5	102,4	-153,9	113,8
Cash and cash equivalents at beginning of year	229,5	227,4	227,9	226,9	227	227,9	124,4	226,8	72,9
Exchange gains on cash and cash equivalents	0	0	0	0	0	0	0	0	13,9
<b>Cash and cash equivalents at end of year</b>	<b>227,4</b>	<b>227,9</b>	<b>226,9</b>	<b>227</b>	<b>227,9</b>	<b>124,4</b>	<b>226,8</b>	<b>72,9</b>	<b>200,6</b>

CONSOLIDATED STATEMENT OF CASH FLOWS OF HONG KONG STOCK EXCHANGE									
									\$'000
	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>									
Net cash inflow from operating activities	648041,00	391082,00	-2485688,00	-100386,00	1408746,00	1816353,00	1429946,00	2868284,00	7644184,00
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>									
Payments for purchases of fixed assets	-227060,00	-309265,00	-263139,00	-130733,00	-51635,00	-23377,00	-62080,00	-60269,00	-68727,00
Proceeds from sales of fixed assets	3866,00	401,00	227,00	34,00	190,00	158,00	56,00	385,00	262,00
Proceeds from sales of other assets	0,00	0,00	0,00	0,00	0,00	1175,00	0,00	0,00	0,00
Payment for purchases of non-trading securities	-1498612,00	-6316,00	785217,00	-32305,00	0,00	0,00	0,00	0,00	0,00
Proceeds from sales of available-for-sale financial assets	0,00	0,00	0,00	0,00	0,00	75773,00	0,00	0,00	0,00
Payments for acquisition of interest in an associate	0,00	0,00	0,00	0,00	0,00	0,00	-24876,00	0,00	0,00
Net proceeds from disposal/liquidation of associates	0,00	0,00	0,00	-31546,00	0,00	0,00	0,00	1312,00	270050,00
Dividends received from an associate	0,00	0,00	0,00	0,00	4800,00	10801,00	12668,00	27784,00	9660,00
Dividends received from non-trading securities	0,00	0,00	2516,00	2482,00	14097,00	0,00	0,00	0,00	0,00
Dividends received from available-for-sale financial assets	0,00	0,00	0,00	0,00	0,00	1070,00	0,00	0,00	0,00
Interest received from non-trading securities	963773,00	642982,00	226909,00	16623,00	13644,00	0,00	0,00	0,00	0,00
Increase in time deposits with original maturities more than three months	-341799,00	1392158,00	336441,00	-57060,00	-117155,00	383100,00	-115109,00	-69107,00	-457677,00
Cash paid as part of the consideration in exchange for the equity interests in subsidiaries	0,00	-107418,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Net increase in available-for-sale financial assets of the Corporate Funds	0,00	0,00	0,00	0,00	0,00	0,00	0,00	-560279,00	-2432136,00
Interest received from available-for-sale financial assets	0,00	0,00	0,00	0,00	0,00	56693,00	89916,00	289202,00	653307,00
Interest paid	-337454,00	-194844,00							
Interest paid on bank loan	0,00	0,00	0,00	-1051,00	-827,00	-827,00	0,00	0,00	0,00
Repayment of loan receivable from an associate	0,00	0,00	0,00	0,00	2000,00	0,00	0,00	0,00	0,00
<b>Net cash outflow from investing activities</b>	<b>-1437286,00</b>	<b>1417698,00</b>	<b>1088171,00</b>	<b>-233556,00</b>	<b>-134886,00</b>	<b>504566,00</b>	<b>-99425,00</b>	<b>-370972,00</b>	<b>-2025261,00</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>									
New bank loans	0,00	0,00	46453,00	0,00	0,00	0,00	0,00	0,00	0,00
Proceeds from issue of shares under employee share option schemes	0,00	0,00	0,00	21928,00	40744,00	57336,00	47379,00	30895,00	66052,00
Purchases of shares for Share Award Scheme	0,00	0,00	0,00	0,00	0,00	0,00	-30028,00	-21269,00	-4879,00
Net admission fees received from/(refunded to) Participants	-1650,00	1950,00	-4200,00	-15900,00	-1100,00	-1350,00	-5000,00	-1250,00	4150,00
Repayment of bank loan	0,00	0,00	0,00	0,00	0,00	-50286,00	0,00	0,00	0,00
Redemption of non-voting redeemable share by a subsidiary	0,00	-10,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Dividends paid	0,00	-83253,00	-343419,00	-344094,00	-638070,00	-2672850,00	-1018784,00	-1671151,00	-3163445,00
<b>Net cash outflow from financing activities</b>	<b>-1650,00</b>	<b>-81313,00</b>	<b>-301166,00</b>	<b>-338066,00</b>	<b>-598426,00</b>	<b>-2667150,00</b>	<b>-1006433,00</b>	<b>-1662775,00</b>	<b>-3098122,00</b>
<b>Net increase in cash and cash equivalents</b>	<b>-790895,00</b>	<b>1727467,00</b>	<b>-1698683,00</b>	<b>-672008,00</b>	<b>675434,00</b>	<b>-346231,00</b>	<b>324088,00</b>	<b>834537,00</b>	<b>2520801,00</b>
Cash and cash equivalents at 1 Jan, as previously reported	2114075,00	1323180,00	3050647,00	1351964,00	679956,00	1355390,00	1035045,00	1359133,00	2215257,00
Effect of initial adoption of HKAS 39	0,00	0,00	0,00	0,00	0,00	25886,00	0,00	0,00	0,00
Effect of reclassification of CFRA	0,00	0,00	0,00	0,00	0,00	0,00	0,00	30240,00	8653,00
<b>Cash and cash equivalents at 31 Dec</b>	<b>1323180,00</b>	<b>3050647,00</b>	<b>1351964,00</b>	<b>679956,00</b>	<b>1355390,00</b>	<b>1035045,00</b>	<b>1359133,00</b>	<b>2223910,00</b>	<b>4744711,00</b>

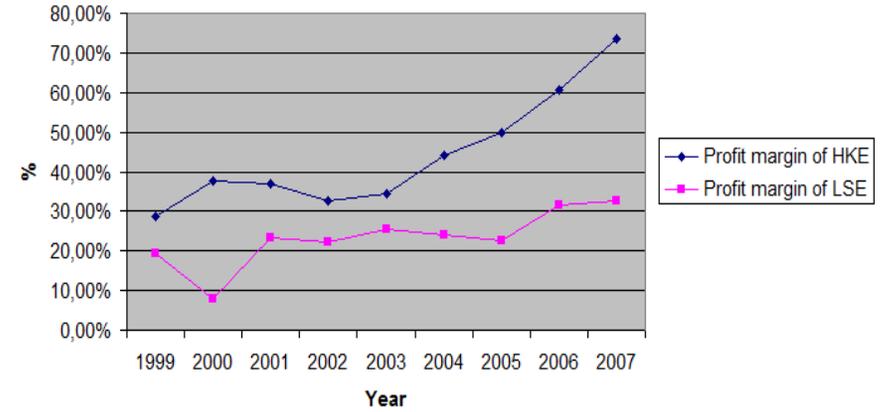
Comparative statistics

	1999	2000	2001	2002	2003	2004	2005	2006	2007
ROE of HKE	12,65%	17,91%	14,14%	10,72%	12,34%	26,21%	30,88%	47,90%	73,64%
ROE of LSE	13,83%	6,28%	17,74%	16,38%	17,04%	26,32%	23,13%	-31,61%	14,07%

ROE Comparison

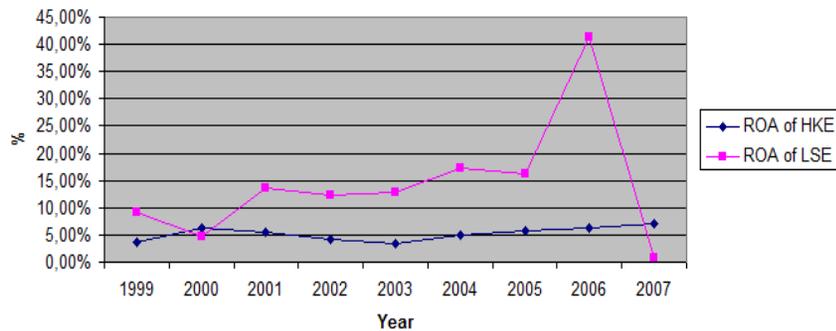


Profit margin comparison



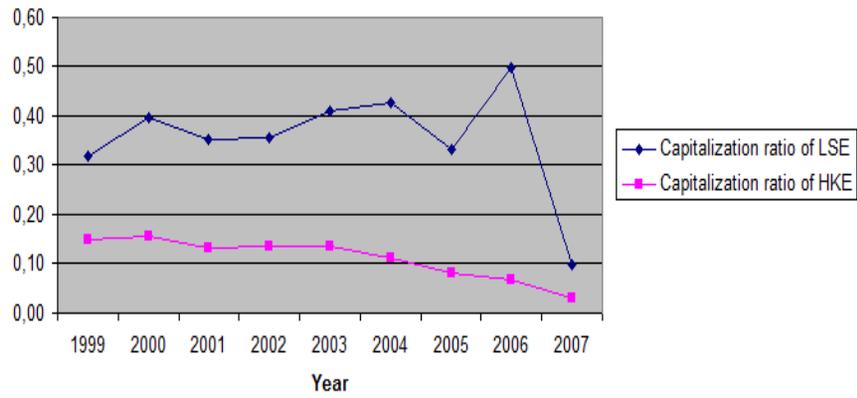
	1999	2000	2001	2002	2003	2004	2005	2006	2007
ROA of HKE	3,60%	6,17%	5,39%	4,19%	3,50%	4,93%	5,84%	6,22%	7,01%
ROA of LSE	9,28%	4,67%	13,65%	12,33%	12,94%	17,26%	16,15%	41,41%	0,91%

ROA Comparison

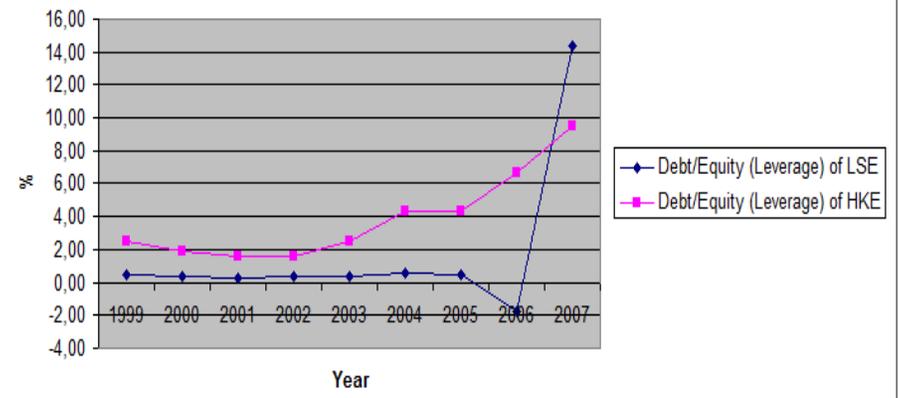


	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt/Equity (Leverage) of LSE	0,49	0,34	0,30	0,33	0,32	0,53	0,43	-1,76	14,42
Debt/Equity (Leverage) of HKE	2,51	1,90	1,63	1,56	2,53	4,32	4,29	6,70	9,50
EPS of LSE	4,95	11,40	15,20	18,30	20,90	21,30	23,50	27,40	49,40
EPS of HKE	0,5	0,84	0,71	0,56	0,66	1	1,26	2,34	5,72
Current Liquidity of LSE	4,20	3,33	3,78	4,30	3,66	2,69	3,51	0,41	0,98
Current Liquidity of HKE	1,26	1,38	1,51	1,53	1,31	1,19	1,19	1,13	1,10
Quick Liquidity of LSE	3,90	4,20	3,33	3,78	4,30	3,66	2,69	3,51	0,41
Quick Liquidity of HKE	1,26	1,38	1,51	1,53	1,31	1,19	1,19	1,13	1,10
Capitalization ratio of LSE	0,32	0,40	0,35	0,36	0,41	0,43	0,33	0,50	0,10
Capitalization ratio of HKE	0,15	0,16	0,13	0,13	0,14	0,11	0,08	0,07	0,03

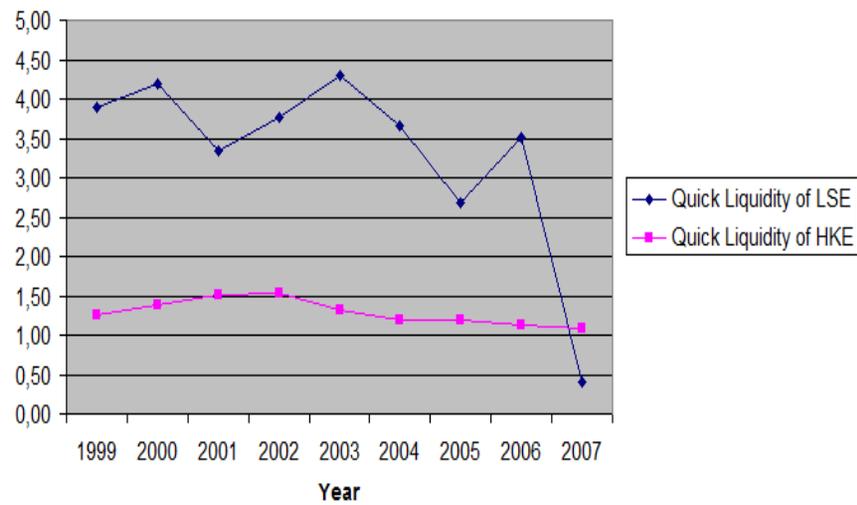
**Capitalization ratio Comparison**



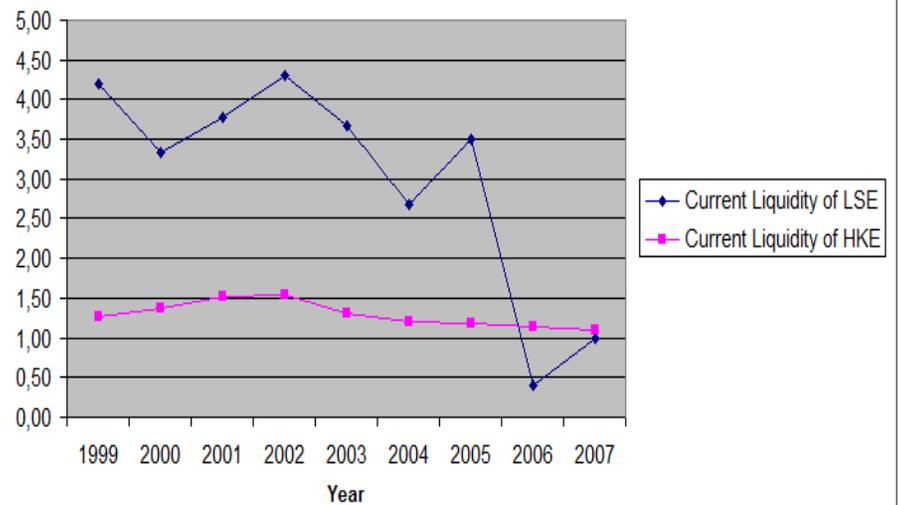
**Debt/Equity Comparison**



**Quick Liquidity Comparison**



**Current Liquidity Analysis**



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