HKEX

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

2008 Annual Report

Stock Code: 388

The Five Oxen painting by Tang dynasty artist Han Huang, depicted above, is exhibited in the Beijing Palace Museum.
The Ox in Chinese culture, as in many other cultures, is considered one of the strongest animals. Dependable, determined and diligent.
These are qualities we at HKEx embrace to advance Hong Kong's sustainable financial development.
The global financial crisis has highlighted the importance of having reliable, well-operated and regulated markets that facilitate transparent price discovery and a risk management framework that provides for the professional management of risk.
HKEx works each day to ensure it has these and earns the trust placed in us. Much as the Five Oxen painting has withstood the test of time, HKEx seeks to create a market of lasting value for its participants for many years to come.

Contents

(Financial figures in this Annual Report are expressed in HKD unless otherwise stated)

FINANCIAL HIGHLIGHTS

	2008	2007	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	**$72.1 billion**	$88.1 billion	(18%)
Average daily number of derivatives contracts traded on the Futures Exchange	**207,052**	171,440	21%
Average daily number of stock options contracts traded on the Stock Exchange	**225,074**	187,686	20%

	2008 $'000	2007 $'000	Change
RESULTS			
Revenue and other income	**7,549,090**	8,390,470	(10%)
Operating expenses	**1,620,617**	1,411,565	15%
	5,928,473	6,978,905	(15%)
Gain on disposal of an associate	**–**	206,317	(100%)
Share of profit of an associate	**–**	5,587	(100%)
Profit before taxation	**5,928,473**	7,190,809	(18%)
Taxation	**(799,549)**	(1,021,531)	(22%)
Profit attributable to shareholders	**5,128,924**	6,169,278	(17%)
Basic earnings per share	**$4.78**	$5.78	(17%)
Diluted earnings per share	**$4.75**	$5.72	(17%)
Interim dividend per share	**$2.49**	$1.79	39%
Final dividend per share	**$1.80**	$3.40	(47%)
	$4.29	$5.19	(17%)
Dividend payout ratio	**90%**	90%	N/A

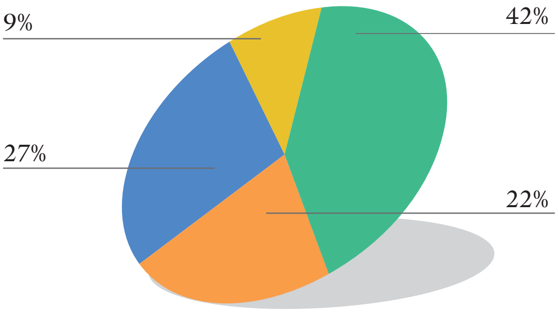
	2008	2007	Change
KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds ($'000)	**7,295,322**	8,377,348	(13%)
Total assets* ($'000)	**62,823,921**	87,955,270	(29%)
Net assets per share #	**$6.79**	$7.83	(13%)

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

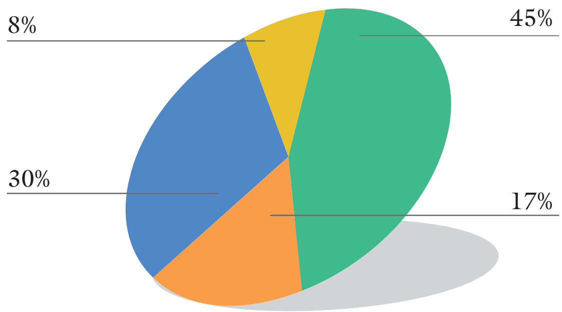
\# Based on 1,073,939,532 shares as at 31 December 2008, being 1,074,886,346 shares issued and fully paid less 946,814 shares held for the Share Award Scheme (2007: 1,069,228,714 shares, being 1,070,285,346 shares issued and fully paid less 1,056,632 shares held for the Share Award Scheme)

BY BUSINESS SEGMENT*

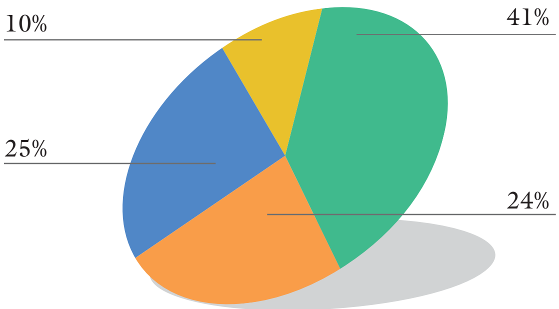
2008 Revenue and Other Income (Before Inter-segment Elimination)



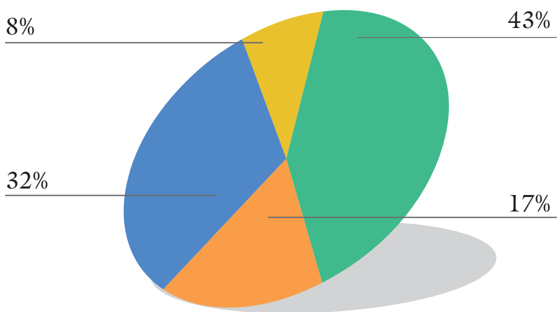
2007 Revenue and Other Income



2008 Reportable Segment Profit Before Taxation



2007 Reportable Segment Profit Before Taxation



- Cash Market
- Derivatives Market
- Clearing Business
- Information Services

* Details are set out in note 4 to the consolidated accounts on pages 146 to 150.

HIGHLIGHTS OF THE YEAR

Regulatory Framework

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

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

4 February
Launched the HKExnews website, a designated website for issuer news and regulatory filings

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

1 April
Published a joint consultation paper with the SFC on issue of paper application forms with electronic prospectuses

2 May
Published GEM Consultation Conclusions to reposition GEM as a second board and to implement related rule amendments on 1 July

25 June
Completed the final phase of the EDP

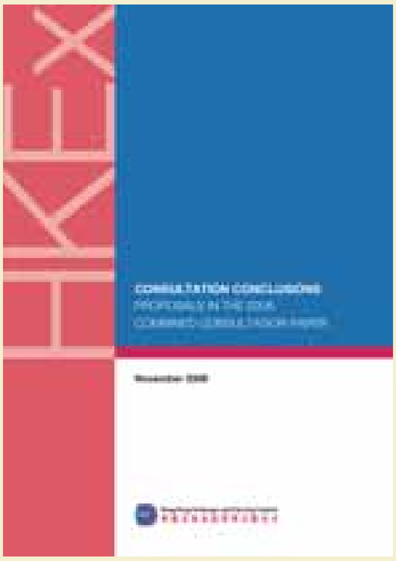
1 July
Introduced a depositary receipt framework

18 July
Published consultation conclusion on shortening the deadlines for half-year and annual reporting by Main Board issuers

1 September
Amended the Listing Rules to reduce the number of hard copies of documents that issuers are required to provide to the Exchange

17 November
Announced the launch of two initiatives to promote transparency of listing enforcement actions and facilitate the discharge of HKEx's statutory duty

28 November
Published consultation conclusions and rule amendments on 15 out of 18 substantive policy issues discussed in the 2008 Combined Consultation Paper



Promotional Efforts

15 May
Co-organised "Globalisation through Hong Kong's Capital Markets" with the Hong Kong Economic and Trade Office in San Francisco

22 May
Co-organised a listing seminar in the city of Dalian with the Finance Office of the Dalian Municipal People's Government

25 May - 1 June
Participated in a business delegation in Slovenia, Austria and the Czech Republic to promote the Hong Kong financial markets in Europe

4 June
Co-organised the "IPO in Hong Kong Conference" in Moscow, Russia

17 - 19 September
Exhibited with the theme "Access to China Equity Derivatives" at the "Asia Derivatives Conference 2008" organised by the Futures Industry Association in Tokyo

20 - 22 October
Sponsored the Asia-Pacific Financial Information Conference

Market Infrastructure

28 January
Upgraded AMS/3 and MDF capacity as well as technology

3 March
Upgraded HKATS and DCASS to OMX 19.1 software

25 March
Upgraded CCASS/3 capability as well as technology

31 March
Upgraded SMARTS

19 July
Upgraded DCASS and PRS

23 August
Upgraded CCASS/3 middle-tier subsystem

September
Completed independent review of IT governance and EDS

Service Enhancements

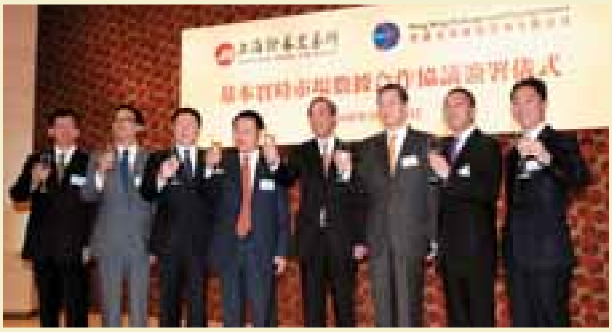
28 April
Launched the new Online CCASS Shareholding Disclosure Service

20 June
Streamlined the admission and registration procedures for EPs

18 September
Issued a request for expressions of interest regarding provision of free basic real-time HKEx market prices on websites

26 September
Extended Discount Programme for Mainland Users of HKEx's Real-time Trading Information

20 October
Signed an agreement with SSE Infonet Limited, the information business subsidiaries of Shanghai Stock Exchange, for a market data collaboration programme



27 October
Provided CCASS Participants with the option to receive settlement monies for CNS transactions in good funds on T+2 settlement day

Products and Markets

31 March
Introduced Mini H-shares Index Futures

7 April
Introduced five-digit stock codes

26 May
Implemented CAS for the securities market

10 June
Introduced three new stock option classes

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

May - July
Listed seven ETFs, including HKEx's first gold ETF on 31 July

20 October
Re-launched gold futures

28 November
Published a consultation paper on the introduction of a price control mechanism in the securities market's CAS

Corporate News

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

26 March
Hosted WFE's Town Hall Meeting

7 April
Reduced HKEx's board lot size from 500 shares to 100 shares

8 May
Commissioned a consultant to review HKEx's existing CSR policies and practices, and to conduct a green audit of its operations

15 May
Donated $5 million to support the Mainland's earthquake relief efforts with a further donation of $5 million for the same purpose made on 23 July

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

17 September
Established a CSR Committee to oversee the further development of CSR within the Company, and retained the consultant to help implement the recommendations

25 September
Ranked as one of the 11 leaders in the CSR Survey of all Hang Seng Listed Companies conducted by Oxfam Hong Kong

30 October
Named as the best company in Hong Kong, in terms of corporate governance, in *The Asset* magazine's Annual Corporate Governance Index 2008

3 November
Received "2008 HKMA Best Annual Reports Awards": 2007 Annual Report – Gold Award (General Category) from the HKMA

6 - 7 November
Hosted the Association of National Numbering Agencies extraordinary general assembly

21 November
Received "Best Corporate Governance Disclosure Awards 2008": 2007 Annual Report – Gold Award (HSI Category) from the HKICPA

19 December
Signed corporate social responsibility and carbon reduction charters

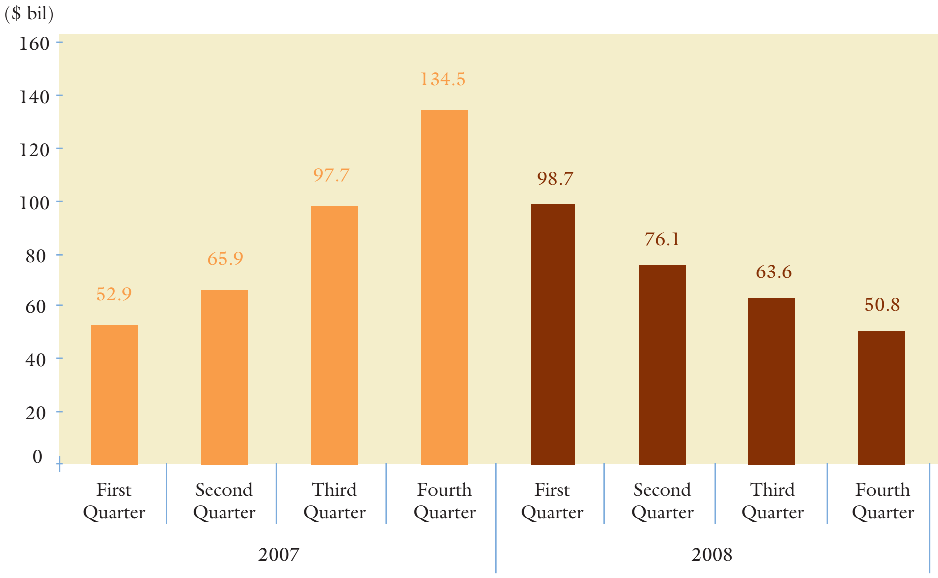
CHAIRMAN'S STATEMENT

I am pleased to report that despite the global financial crisis, HKEx fared well on all fronts although the Group's earnings experienced its first decline after consecutive years of growth. I can say without fear of contradiction that 2008 truly tested our financial and operational robustness as our market like those in other major centres experienced not only unprecedented volatility but also instant regulatory tightening. That said we must not rest in our pursuit to continue to provide investors and issuers worldwide a quality and reliable market.

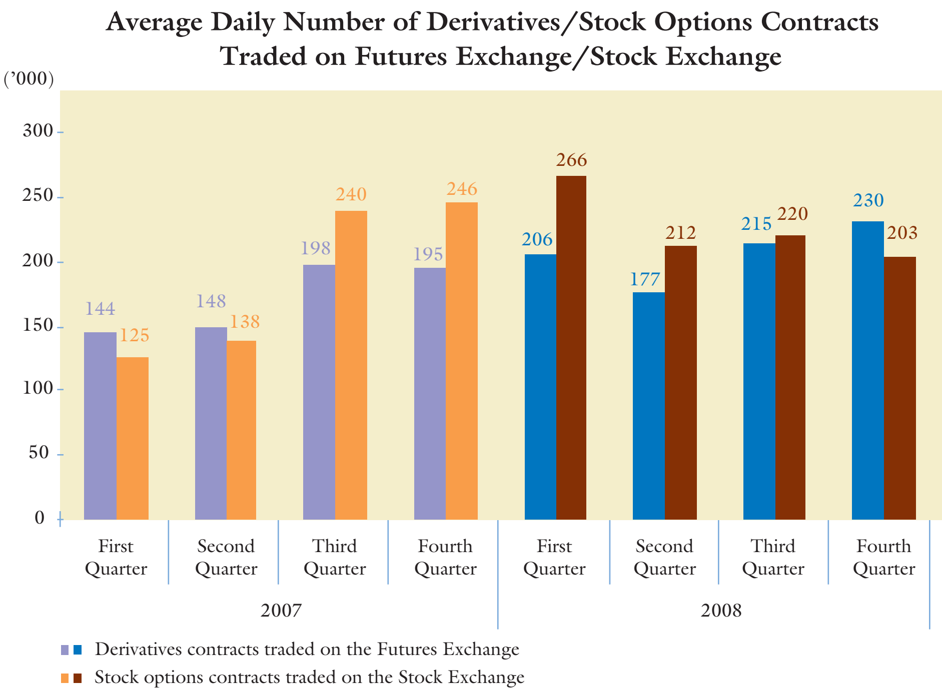
Market Activities

Given the volatility and weak market sentiment, trading activities in the Cash Market shrank significantly largely because share prices declined sharply. The average daily turnover fell from the highs reached in 2007 to $72.1 billion in 2008, a drop of 18 per cent. The total funds raised in 2008 declined by slightly less than 1 per cent from 2007 to $1,468 billion, mainly attributable to the over 70 per cent drop in funds raised from IPOs.

Average Daily Turnover Value on Stock Exchange



Note: Figures have been rounded



Note: Figures have been rounded

On the other hand, the Derivatives Market continued to perform well in 2008, probably attributable to rising hedging needs in a volatile market environment. The average daily number of derivatives contracts traded on the Futures Exchange and the average daily number of stock options contracts traded on the Stock Exchange in 2008 were 207,052 and 225,074, an increase of about 21 per cent and 20 per cent over those in the previous year respectively. Another milestone was recorded on 10 December 2008 when the year-to-date turnover exceeded 100 million futures and options contracts for the first time. For the whole year of 2008, the total number of futures and options traded on the Exchanges in 2008 was 105,006,736 contracts, up 19 per cent from 2007.

Aside from futures and options contracts, other investment and hedging tools are also becoming more popular. The trading turnover in the CBBC market, for instance, increased 14-fold to a record of $1,039.6 billion with over 4,200 newly listed CBBCs during the year, and the trading turnover of ETFs nearly tripled that of 2007.

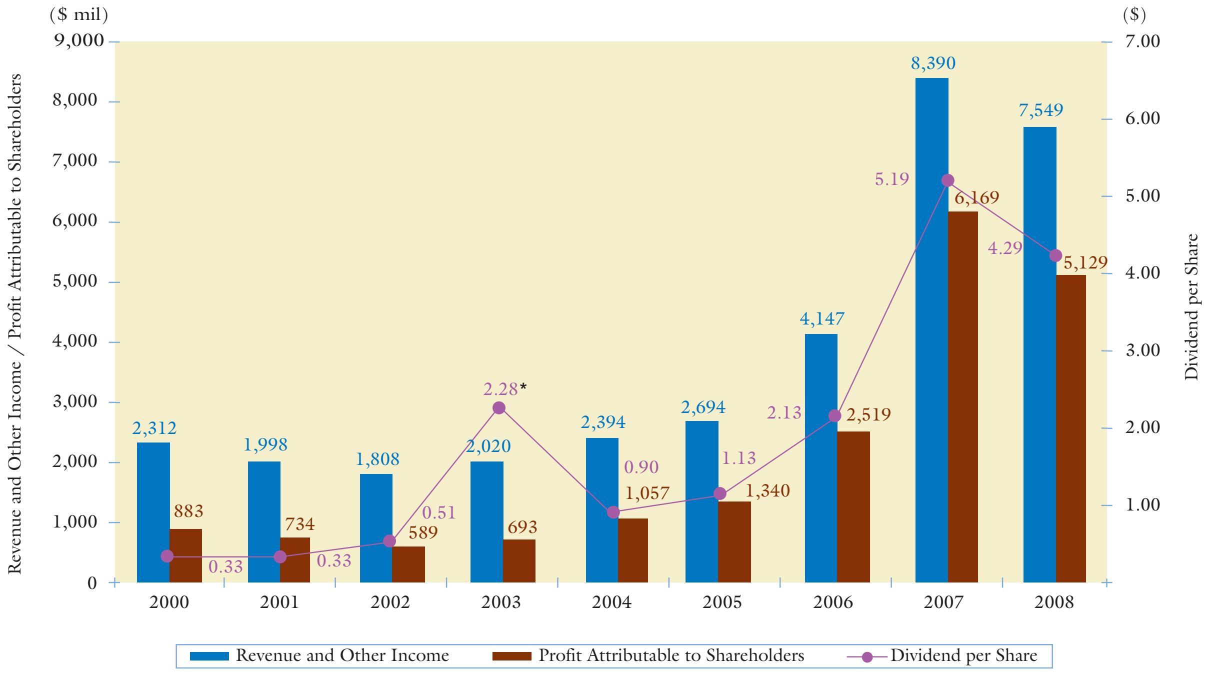
With uncertainty over the business environment, particularly in the financial sector, and the fear of global economic recession, Hong Kong market's total capitalisation fell by 50 per cent to $10.3 trillion by the end of 2008, as compared to that as at 31 December 2007, while the HSI and H-shares Index dropped by 48 per cent and 51 per cent to 14387 points and 7891 points respectively.

The uncertainties and volatility of the market were not helped when Lehman Brothers Holdings Inc collapsed in September 2008 leading to the SFC issuing a restriction notice on Lehman Brothers Securities Asia Limited ("LBSA") prohibiting LBSA from settling its outstanding positions in CCASS. Apart from serious concern expressed by the Board and executive management of HKEx to the SFC, the matter was brought to the attention of the Risk Management Committee ("RMC"), a statutory committee formed under Section 65 of the SFO. Suffice to say that the RMC appreciates the importance of a satisfactory and early resolution of this matter, in particular any systemic risk that may arise consequent on similar restriction notice in the future, and is thus closely monitoring on-going discussions between the SFC and HKEx.

Our Financial and Share Performance

Although our revenue and other income for the first three quarters in 2008 exceeded that for the corresponding period in 2007 by 6 per cent, the full-year revenue and other income dropped by 10 per cent to $7,549 million due mainly to the weak market turnover in the fourth quarter. The profit attributable to shareholders for 2008 declined by 17 per cent to $5,129 million as compared to that in 2007.

Revenue and Other Income, Profit Attributable to Shareholders and Dividend per Share



* Including a special dividend of $1.68 per share

Despite the economic uncertainty, your Board has, after due consideration, decided to recommend a final dividend of $1.80 per share which, together with the interim dividend of $2.49 per share, brings the total dividend for the year to $4.29 per share. The total dividend will be 17 per cent lower than that for 2007, but it will be in line with the drop in the profit attributable to shareholders.

Due to the adverse market sentiment and low market turnover, our closing share price fell from $221.20 per share on 31 December 2007 to $73.60 per share on 31 December 2008, and our market capitalisation correspondingly shrank to $79.1 billion against $236.7 billion at the end of 2007.

Our Global Position

HKEx, with a sound financial background, is well-positioned to weather the global financial crisis. HKEx remains one of the top three listed exchanges in terms of market capitalisation in the world. The cost to income ratio of HKEx was 21 per cent in 2008, one of the lowest among global exchanges, and our gearing ratio stayed at zero per cent.

According to a reader's survey by *Wall Street Journal Asia*, HKEx is one of Hong Kong's five most admired companies in terms of financial reputation.

HKEx's Markets Among World Exchanges

	Value/Volume	Ranking	
	2008	2008	2007
Securitised Derivatives Turnover	US$574,495 million	1st	1st
Stock Options Market	54,692,865 contracts	1st in Asia Pacific	1st in Asia
ETF Market Turnover	US$56,678 million	1st in Asia Pacific	2nd in Asia
Capital Funds Raised	US$54,993 million	4th	5th
Market Capitalisation	US$1,328,769 million	7th	7th
Share Trading Value	US$1,629,260 million	10th	10th

Source of Information: WFE

Note: Figures have been rounded

In February 2009, HKEx was named as the Stock Exchange of the Year in *The Asset* Triple A Transaction Banking Awards 2009.

Our Corporate Governance and CSR Development

As always, crisis highlights the importance of corporate accountability and transparency. According to a statement from the International Corporate Governance Network, "*[c]*orporate governance failings were not the only cause but they were significant, above all because boards failed to understand and manage risk and tolerated perverse incentives. Enhanced governance practices should therefore be integral to an overall solution aimed at restoring confidence to markets and protecting us from future crises". HKEx, as an exchange operator as well as a listed issuer, has been working closely with the Government, SFC and professional bodies over the years to foster a good corporate governance culture in Hong Kong and within the Company itself to enable the building of an open and reliable market that investors can trust and an accountable and transparent company that safeguards shareholders' interests. In October 2008, HKEx was named the best company in Hong Kong in terms of corporate governance by *The Asset* magazine.

In 2008, HKEx made significant strides as a responsible corporate citizen and it was ranked one of the top 11 leaders among the HSI constituents in a CSR survey conducted by Oxfam Hong Kong. In September 2008, an external consultant completed a review of HKEx's existing CSR policies and practices and the first green audit to identify areas for improvement and sustainable solutions for development. A CSR Committee led by the Chief Executive was subsequently established to manage and oversee CSR development within the Group.

We have also established our CSR Vision, spelling out succinctly our aspirations. HKEx continues to be committed to the tenets of corporate sustainability and seeks to further develop its CSR policies.

HKEx'S CSR VISION

"To be a responsible corporate citizen committed to the sustainable development of the marketplace, workplace, community and environment, and to promote the development of socially responsible practices in our marketplace and community."

Our Strategy Amid Market Turbulence

New waves of volatility are still hitting the global financial systems, and the end of the unprecedented financial crisis is not yet in sight. The economy of Mainland China, which is the strongest in the region and the third largest in the world, also recorded sharp GDP (gross domestic product) growth slowdown from 9 per cent in the third quarter to less than 7 per cent in the fourth quarter of 2008. A RMB 4 trillion economic stimulus package has been introduced by the Central Government to try to maintain the GDP growth at the target of 8 per cent for 2009. Indeed, since then the Central Government appears prepared to introduce additional measures if need be. Slower growth in the region will inevitably adversely affect the Hong Kong financial markets, as well as HKEx.

The speed and severity of the economic recession has nonetheless resulted in quick action of the part of governments of the world's major economies in taking bold stimulus measures. The main thrust seems clear: prevent further decline and deal with the consequences later. Our Government also acted promptly by introducing measures to create employment and to provide liquidity in the money market, guaranteeing most deposits in financial institutions in Hong Kong and making available to our small-and-medium enterprises financing in an otherwise tight liquidity environment. The economic scenario is far from clear but perhaps Hong Kong as part of China and sitting at the heart of Asia, is in an enviable position. This is not to say we will not have our share of the pain of adjustment but we have weathered severe crisis before and have emerged stronger.

Despite the headwinds, HKEx will continue to move forward by exploring new opportunities whilst exercising stringent cost containment measures, and reviewing its organisational structure with a view to rationalising internal processes to improve effectiveness and efficiency but always enhancing market confidence.

We will focus on our core business and will continue pursuing organic growth by implementing our Three-Year Strategic Plan of 2007-2009, which focuses on our Mainland positioning, expanding our businesses and ensuring market quality. As we are moving into the last year of the plan, preparation for the strategic plan of 2010-2012 is underway. We need to tackle the challenges ahead as well as to explore opportunities for HKEx in order to achieve sustainable growth. In this connection, the Board together with the management will remain vigilant to international market developments which may bring about a "new financial order". This could also mean new opportunities for HKEx both in exchange-traded product and other areas. We will also enhance communications with different stakeholders in order to ensure that emerging issues or market recommendations are addressed properly in the upcoming strategic plan.

Acknowledgments

I would like to express my deep appreciation to my fellow Board members for their guidance, constructive contribution and staunch support. I would also like to take this opportunity to thank Mr David Webb who resigned last year for his insights, contribution and active participation in Board discussions during his service on the Board, and to extend my gratitude to Mr John Williamson who was appointed by the Board to fill the casual vacancy. I also commend the excellent work of the chairmen and members of HKEx's Committees and Consultative Panels. As Dr Christine Loh has indicated that she will not stand for re-election at the forthcoming AGM, I, on behalf of the Board, wish to express our sincere thanks to Dr Loh for her invaluable contribution to the Board especially her excellent advice on emissions trading and CSR development in the past 3 years.

On behalf of the Board, I thank the management team and all HKEx's employees for their commitment and passion that they bring to their work. In particular, I wish to thank Mr Paul Chow, who agreed to stay with us for another year. I am confident that the collective efforts of the management team will well-position HKEx to face challenges ahead.

In conclusion, we thank our shareholders and all our stakeholders for their continued support and confidence in us.

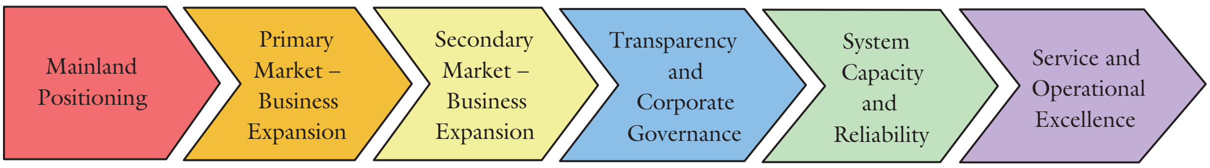
Ronald Joseph ARCULLI
Chairman

Hong Kong, 4 March 2009

CHIEF EXECUTIVE'S REVIEW

Since the implementation of the two Three-Year Strategic Plans in the past six years, HKEx has been prudently following the principles of safeguarding the investing public's interest, achieving organic growth through making incremental changes and rationalising internal processes.

To weather the financial crisis which erupted in 2008, HKEx has been focusing on its Strategic Plan on reinforcing its Mainland position, expanding its business, improving its service delivery and quality, and maintaining costs at a manageable level by allocating resources only to initiatives that added value. Accountability and transparency remained at the top of our priorities, which are crucial for ensuring market stability and system integrity during turbulent times.



As a frontline regulator, we together with the Government and the SFC constitute the three-tiered regulatory structure for the Hong Kong securities market. With reference to international best practices, we will continue to consult our stakeholders before implementing any significant market initiatives, and making changes in our rules and regulations with a view to protect the investing public's interest.

Mainland Positioning

To be the preferred capital-raising platform for Mainland companies, and to establish closer integration and co-operation between the Mainland and Hong Kong markets

Despite the weak market sentiment in 2008, HKEx ranked first among the other exchanges in the Asia-Pacific region in fund raising by listed issuers during the year. Among all, Mainland companies continued to play a significant role in the Hong Kong stock market, and accounted for 57 per cent of the total number of new listings in the year and raised a total of $294 billion. At the end of December 2008, there were 465 Mainland companies listed on the Exchange, accounting for 60 per cent of the total market capitalisation and 71 per cent of the average daily equity turnover in the market.

Our Beijing Representative Office is instrumental in offering support to potential Mainland issuers. Despite the Mainland economy being expected to slow down with net exports and investments forecast to drop, prospects in the longer run remain promising, driven in part by the strong domestic demand. Given the sustained fund-raising need of Mainland companies for achieving long-term growth, we will maintain our focus on promoting our proven platform to Mainland potential issuers as well as overseas companies with a Mainland nexus.

HKEx took part in the 39th Memorandum of Regulatory Co-operation meeting in July 2008, which focused on the latest developments in the Mainland and Hong Kong markets and on matters of mutual interest, with a view towards enhancing co-operation in the regulatory regimes. In January 2009, we entered into a Closer Cooperation Agreement with the Shanghai Stock Exchange, which will be beneficial to the two exchanges' continued cooperation, particularly in information sharing, product development and personnel training.

MAINLAND INITIATIVES

- Introduced three stock option classes on Mainland-related stocks
- Launched the Market Data Collaboration Programme with the Shanghai Stock Exchange
- Extended our discount programme for Mainland users of our real-time trading information to the end of 2010

Business Expansion

Primary Market – To ensure a high quality regulatory framework and to broaden the range of issuers on the Exchange

Maintaining high regulatory standards continues to be our principal objective for being the exchange controller in Hong Kong. In an annual review of our listing operations, the SFC confirmed that the Exchange's operational procedures and decision-making processes enabled it to discharge its statutory obligation to maintain an orderly, informed and fair market, and that the Exchange's performance had improved in the past three years.

Our value proposition as a leading international marketplace in Asia remains strong and we are extending our marketing reach to new regions such as Australia and the Ukraine. This is complemented by the repositioning of GEM as a second board and as a stepping stone to the Main Board, as well as the introduction of a depositary receipt framework in Hong Kong. Given the interest expressed by mining and natural resources companies to list in Hong Kong, the Exchange is reviewing the Listing Rules regarding the requirements applicable to mining and resources companies.

Reviews of the Listing Rules are carried out from time to time to ensure that they address developments in the market and international best practices as well as to maintain a level playing field and better investor protection. During 2008, a consultant was retained to conduct a strategic review of the listing regime, including possible amendments to the Listing Rules in order to ensure that the Exchange and the Listing Rules and procedures are internationally competitive, as efficient and streamlined as possible whilst still remaining at a high standard of regulation. The work of the Listing Committee in 2008 in contributing to the success of the Hong Kong listing regime is set out in detail in the Listing Committee Report 2008.

MARKET QUALITY ENHANCEMENTS

- Shortened financial reporting deadlines
- Implemented revised suspension policy
- Repositioned GEM as a second board
- Finalised the 15 issues in Combined Consultation Paper
- Publishing listing enforcement guidance letters and request for assistance announcements
- To codify the WPIP requirement

The global financial crisis has brought corporate governance to the forefront internationally. In September 2008, the Organisation for Economic Co-operation and Development (OECD) called for a new drive to raise corporate governance standards to rebuild investor confidence and help the world's economy get back on track. It noted that the strengthening of the rules, regulations and codes of corporate governance would be central to efforts to achieve this objective. The Exchange is conducting a review of the CG Code in the Listing Rules, and is studying developments in CSR.

Secondary Market – To be a leading international marketplace for securities and derivatives products focused on Hong Kong, the Mainland and the rest of Asia

In view of the increasing participation of international and local investors as well as sophisticated market players in our markets, product innovation and development are essential to extending our reach.

In 2008, new products included a gold ETF and Mini H-shares Index futures were introduced, and a gold futures contract was relaunched. Promotional and educational activities were arranged to raise the public's awareness and knowledge of the new products.

According to the WFE, HKEx's Securitised Derivatives Market with a total turnover of US$574 billion in 2008 continued to be the largest in the world. To facilitate its further growth, HKEx has worked with issuers to list in Hong Kong a wider range of products with non-Hong Kong listed underlying assets, the MAPs. Meanwhile, HKEx is working with product issuers and fund managers to continue facilitating the listing of gold-related structured products and ETFs, and explore the introduction of derivatives on A-share-related ETFs.

In December 2008, HKEx entered into agreement with the Tianjin Climate Exchange to discuss possible avenues for co-operation in environmental emissions markets. It is our plan to develop an emissions-related market in Hong Kong and to promote "green IPOs". Emissions-related products are being considered to be introduced into our existing business lines taking the form of structured products, such as futures contracts on CERs (certified emission reduction units) which would be launched subject to market consultation and acceptance.

In respect of trading in stock options, HKEx is the leading exchange in the Asia-Pacific region with a total of over 54 million contracts traded in 2008. Nonetheless, we are continuing our review of the development of the futures and options markets. More flexible position limits have been provided to EPs and their affiliates, block trade execution has been enhanced and market maker services have been improved in terms of liquidity and efficiency. Futures on precious metals and options with flexible features will also be considered.

A sound regulatory framework and financial infrastructure, together with low barriers to entry, has enabled Hong Kong to be one of the financial centres that international financial intermediaries will choose to set up their branch offices. In 2008, more market practitioners joined us from Australia, France, Switzerland, the Netherlands and the US, and the majority of the newly admitted ones were of non-Hong Kong interests. These new participants are expected to contribute to our market activities.

SECONDARY MARKET DEVELOPMENT

- Introduced the five-digit stock codes
- Modified the CBBCs' Chinese short names
- Reviewing CAS after its introduction in May 2008
- Implemented flexible position limits for EPs
- Enhanced block trade execution arrangement
- Revised stock options market maker obligations
- Streamlined admission and registration procedures for EPs
- Exploring the clearing of OTC products
- Facilitating direct access to Hong Kong market data
- Exploring a scripless market

While working with the SFC on remote participantship, HKEx is committed to providing user-friendly support to its EPs, and making improvements to its services to attract more EPs to help distribute the services offered and the products traded at HKEx.

We have endeavoured to keep our stakeholders abreast of our activities and developments in Hong Kong's financial markets through newsletters, surveys and researches. In July 2008, we published a Retail Investor Survey 2007 which revealed that one in every three adults in Hong Kong was a stock investor and the rising number of retail investors accounted for 36 per cent of the adult population, up from 29 per cent in 2005. In November 2008, we also published the HKEx Derivatives Market Transaction Survey 2007/08 which showed that the contribution of EPs' principal trading to HKEx's Derivatives Market had increased to 61 per cent, up from 55 per cent in 2006/07, while retail investors' online trading accounted for nearly 40 per cent of all retail investor trading. Given the significant role of our EPs and the increase in retail investor participation, we will continue with our Participant education initiatives to ensure a healthy investment behaviour.

Service Delivery and Quality Improvements

High transparency and good corporate governance are fundamental to HKEx's growth and Hong Kong's prosperity

As a listed issuer, HKEx recognises that long-term success and corporate governance are linked inextricably. At HKEx, pursuing a high level of transparency and the best corporate governance standards have always been top priorities, not only for its growth but also for Hong Kong's sustainable development as an international financial centre. We have strictly complied with and adopted the recommendations of the Listing Rules. We have also provided our latest corporate governance developments on the Corporate Governance section of the HKEx website.

With sustainability becoming the top of the world's agenda, companies which are socially responsible gain the public's confidence and support. In 2008, we engaged an external consultant to conduct an independent review of our existing CSR policies and measures, to carry out a green audit of HKEx's operations, and to assist us in the implementation of the various improvement measures, including those to preserve our environment. To provide our stakeholders with an all-round perspective of HKEx's CSR, we have launched a CSR section on the HKEx website and published the first stand-alone CSR Report for 2008, which set out the details of our CSR achievements and future work plan.

System capacity and reliability are vital to the efficiency and stability of the Hong Kong financial markets

A reliable and efficient market system is vital to securing investors' confidence as well as stability of the financial markets in Hong Kong. Amid the global financial crisis, HKEx signed a WFE open statement on 12 October 2008 signalling its commitment to remaining open throughout the period of financial crisis and to providing a continuous, transparent and open market for establishing and disseminating prices for exchange-traded instruments.

HKEx provides services along the core part of the securities and derivatives transaction chains under its own IT infrastructure. Despite the turbulent times in 2008, all our major trading, clearing and settlement, and market data dissemination systems have maintained 100 per cent operational system uptime for the third consecutive year.

During 2008, we had also successfully upgraded all our key IT systems in order to deliver a more advanced and cost effective IT infrastructure to meet the needs of the fast-changing market. The external consultant commissioned in 2008 confirmed that our IT governance and EDS were in proper order.

HKEx will continue investing in technology, with new systems or upgrades in the areas of market infrastructures, surveillance, compliance monitoring and data analysis, which will help us keep pace with market growth and volatility, and well-position ourselves in the evolving global exchange sector. A technical revamp of our AMS/3 and the migration to the next generation of HKEx's equities platform are currently in the planning stage, with a view to implementing them in the end of 2009 and early 2012 respectively. For the Derivatives Market, we are also further upgrading the trading and information dissemination systems capacity, and we will conduct an independent review to ensure their reliability.

Service and operational excellence are essential to meeting the needs of our customers, including issuers, information vendors and EPs, and the investing public

The Listing Rules were amended to facilitate the daily operations of listed issuers and to help reduce the costs of compliance. For instance, the implementation of the EDP which eliminates press announcements: 100 per cent system uptime has been maintained since the first launch of the EDP on 25 June 2007.

The designated issuer website, HKExnews, provides a one-stop electronic platform for both real-time and archived issuer information. It has attracted a daily average of about 454,000 page views since its launch in February 2008. HKExnews is the foundation for the future development of the issuer information dissemination regime. HKEx will continue to monitor market participants' and users' feedback and suggestions on the website.

SERVICE ENHANCEMENT

- Implemented the electronic disclosure requirements
- Reduced hard copies of issuer documents
- Pursuing e-filing for DI
- Consulted market on issuance of paper application forms with electronic prospectuses
- Supporting the SFC in XBRL standard implementation
- Formalised the real-time information vendor admission procedures
- Launched CCASS shareholding disclosure service
- Offered the option to CCASS Participants to receive settlement monies for CNS transactions in good funds on T+2 settlement day
- Enabled CCASS Participants to use eIPO refund monies on IPO refund day
- Explored the feasibility of and the possible business arrangements for the provision of free basic real-time prices from our markets on one or more web portals in Hong Kong and the Mainland
- Revamping the HKEx website

We have tightened and formalised the real-time information vendor admission procedures to improve their efficiency, and revised the technology requirements for real-time information vendors to ensure their quality. In this connection, we published a list of approved real-time services offered by the information vendors and the key features of their services on the Investor/Real-time Data section of the HKEx website for public reference.

To enhance market transparency, we have introduced the CCASS Shareholding Disclosure Service to give the public online access to shareholding information of Hong Kong-listed issuers. In addition, we have provided the option to CCASS Participants for them to receive money for transactions settled under the CNS system in good funds one day earlier. The initiative will reduce the overnight credit risk currently borne by the Participants and improve the funding liquidity of the market at large. We have also launched a special CCASS payment enhancement to enable CCASS Participants to use the eIPO refund monies on the IPO refund day, which could attract more investors to consider the CCASS eIPO service when applying for IPO shares.

For the purposes of benchmarking our website against local and international best practices, a comprehensive revamp of our corporate website is in progress and would be completed before the end of 2009.

Our Operations

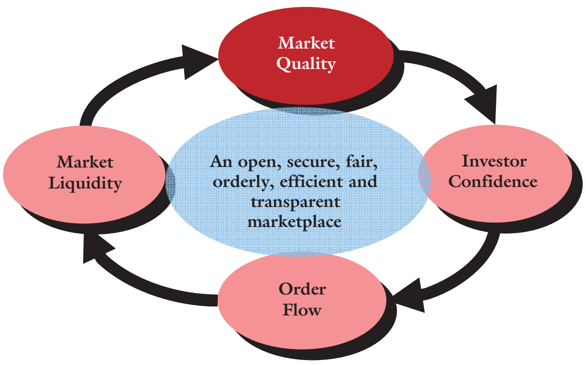
HKEx recognises that maintaining and improving performance is a continuous process. It remains committed to implementing suitable operational and policy initiatives that will help further develop the market quality in Hong Kong.

We have renewed the lease of the Trading and Exhibition Halls with the Government until the end of October 2011. The dealing desks and media booths continue to be available for use by EPs and media for a fee. While renewing the leases of various office premises, we are relocating our HKATS/DCASS primary data centre and IT office from Central to Quarry Bay as the first phase to further consolidate our IT infrastructure and various IT offices.

CORPORATE IMPROVEMENTS

- Implementing the recommendations of the treasury operations review
- Due diligence / self assessment review of framework of the Risk Management Division
- Enhanced the Senior Management Committee structure
- Changed the board lot size of HKEx shares
- Appointed senior executives to key positions
- Conducted CSR review and green audit
- Developing further CSR initiatives
- Renewed the lease of the Trading Hall
- Consolidating IT offices and data centres

As part of our succession plan and to help improve our competitive advantage, we appointed a number of senior executives in 2008 including, Mr Kevin King as the Head of Risk Management, Mr Pont Chiu as the Head of Internal Audit, Mr Peter Curley as the Head of Corporate Strategy and Mr Mark Dickens as the Head of Listing. To achieve greater effectiveness and efficiency, a new group structure will be put in place in April 2009. We will continue investing in our most important asset, our people.



Our 2007-2009 Strategic Plan remains in place to achieve sustainable organic growth and to ensure a quality market built on a solid market infrastructure and quality products and services. We have also been working on our third Three-Year Strategic Plan for 2010-2012, which will reaffirm our focus on market quality, our core businesses and system excellence. We believe that we are well-placed to meet potential challenges and at the same time pursue opportunities ahead.

My Appreciation

I thank all our employees for their hard work and dedication especially amid the difficult financial climate. Mr Richard Williams, our Head of Listing, left HKEx at the end of February 2009 for family reasons. On behalf of the Company, I thank him again for his many noteworthy contributions to HKEx and his relentless effort in developing the primary market in Hong Kong during his service.

I am grateful for the immense support and participation of our stakeholders, in particular our Shareholders and EPs, and the invaluable guidance and advice of the Board, especially our Chairman, which have enabled HKEx to address the challenges in a difficult year with an unprecedented global financial crisis. I look forward to their continued support and advice to help HKEx remain vigilant in the years ahead.

CHOW Man Yiu, Paul
Director and Chief Executive

Hong Kong, 4 March 2009

BOARD AND COMMITTEES

Board of Directors

Independent Non-executive Chairman

ARCULLI, Ronald Joseph * [1] GBS, JP

Executive Director, Chief Executive

CHOW Man Yiu, Paul SBS, JP

INEDs

CHA May-Lung, Laura * [2] SBS, JP
CHENG Mo Chi, Moses * [2] GBS, JP
CHEUNG Kin Tung, Marvin * GBS, JP
FAN Hung Ling, Henry * [Note] SBS, JP
FONG Hup * MH
KWOK Chi Piu, Bill [3]
LEE Kwan Ho, Vincent Marshall [3]
LOH Kung Wai, Christine
STRICKLAND, John Estmond GBS, JP
WEBB, David Michael [4]
WILLIAMSON, John Mackay McCulloch [5]
WONG Sai Hung, Oscar

Committees

Audit Committee

CHEUNG Kin Tung, Marvin (Chairman)
FONG Hup (Deputy Chairman)
CHENG Mo Chi, Moses [6]
LEE Kwan Ho, Vincent Marshall [6]
WEBB, David Michael [4]
WILLIAMSON, John Mackay McCulloch [5]

Executive Committee

ARCULLI, Ronald Joseph (Chairman) [7]
CHOW Man Yiu, Paul
FONG Hup
KWOK Chi Piu, Bill [6]
LEE Kwan Ho, Vincent Marshall [6]

Investment Advisory Committee

STRICKLAND, John Estmond (Chairman)
WONG Sai Hung, Oscar (Deputy Chairman)
CHA May-Lung, Laura [6]
SUN Tak Kei, David
WEBB, David Michael [4]
WILLIAMSON, John Mackay McCulloch [5]

* Government Appointed Directors
** Appointed by the Financial Secretary
1 Re-appointed as Director and Chairman on 24 and 29 April 2008 respectively
2 Re-appointment effective 24 April 2008
3 Re-elected on 24 April 2008
4 Resigned on 15 May 2008
5 Appointment effective 18 June 2008
6 Re-appointment effective 25 April 2008
7 Re-appointment effective 29 April 2008
8 Established under Section 65 of the SFO
9 Appointment effective 20 January 2008
10 Established on 17 September 2008
11 Appointment effective 17 September 2008

Nomination Committee

ARCULLI, Ronald Joseph (Chairman) [6]
FAN Hung Ling, Henry [Note]
LEE Kwan Ho, Vincent Marshall [6]
STRICKLAND, John Estmond
WEBB, David Michael [4]
WONG Sai Hung, Oscar [5]

Panel Member Nomination Committee

CHA May-Lung, Laura (Chairman) [6]
FONG Hup
KWOK Chi Piu, Bill [6]
LEE Kwan Ho, Vincent Marshall [6]
WONG Sai Hung, Oscar

Remuneration Committee

ARCULLI, Ronald Joseph (Chairman) [6]
CHA May-Lung, Laura [6]
CHENG Mo Chi, Moses [6]
LEE Kwan Ho, Vincent Marshall [6]
LOH Kung Wai, Christine

Risk Management Committee [8]

ARCULLI, Ronald Joseph (Chairman) [7]
CHAN Ka-lok **
CHEUNG Kin Tung, Marvin
FONG Hup **
HUNG Pi Cheng, Benjamin ** [9]
KWOK Chi Piu, Bill [6]
LAU Ying Pan, Edmond **
LUI Kei Kwong, Keith **

Corporate Social Responsibility Committee [10]

CHOW Man Yiu, Paul (Chairman) [11]
CHOW Lok Sum, Eddie [11]
CURLEY, Peter Joseph [11]
MAU Kam Shing, Joseph [11]
WONG Kwok Kuen, Alfred [11]
YEN Tai Mui, Brenda [11]

Company Secretary

MAU Kam Shing, Joseph

Note: Mr Henry H L Fan has taken a leave of absence from meetings of the Board and the Nomination Committee of HKEx from 22 October 2008 and will resume attending Board and committee meetings upon completion of the investigation into the affairs of the CITIC Pacific Limited (stock code: 00267) by the regulators. Mr Fan, also the managing director of CITIC Pacific Limited, is of the view that taking leave is to avoid any perception of conflict or potential conflict of interests during the said investigation.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

ARCULLI, Ronald Joseph
GBS, JP

Independent Non-executive Chairman
Aged 70

Director since 26 April 2006
Chairman since 28 April 2006
Term of office: 24 April 2008 (re-appointed) to 2010 AGM

Other positions held within the Group	**HKEx** – chairman of Executive Committee, Nomination Committee, Remuneration Committee and Risk Management Committee **SEHK** – chairman of Listing Appeals Committee, and member of Disciplinary Appeals Committee and Listing Nominating Committee
Other major offices	**Arculli Fong & Ng** – partner/senior partner (2005~) **Hang Lung Properties Limited** – non-executive director (1980~) **HKR International Limited** – non-executive director (1989~) **Hongkong Electric Holdings Limited** – non-executive director (1997~) **Hutchison Harbour Ring Limited** – non-executive director (2001~) **SCMP Group Limited** – non-executive director (1996~) **Sino Hotels (Holdings) Limited** – non-executive director (1994~) **Sino Land Company Limited** – non-executive director (1981~) **Tsim Sha Tsui Properties Limited** – non-executive director (1994~)
Past offices	**Arculli and Associates** – senior partner (2000-2005) **Shanghai Century Acquisition Corporation** (listed on the American Stock Exchange) – non-executive director (2005-2008) **Sun Hung Kai Securities Limited** – executive director (1974-1975) **Woo Kwan Lee & Lo** – partner (retired in 2000)
Public service	**Committee on Review of Post-service Outside Work for Directorate Civil Servants** – chairman (2008~) **Executive Council of the Hong Kong Government** – non-official member (2005~) **Health and Medical Development Advisory Committee** – vice-chairman (2005~) **Non-official Justices of the Peace Selection Committee** – member (2007~) **The Hong Kong Mortgage Corporation Limited** – non-executive director (1997~) **West Kowloon Cultural District Authority** – board member (2008~)
Qualifications	**Barrister** (Hong Kong and England & Wales) **Barrister** and **Solicitor** (Victoria, Australia) **Solicitor** (Hong Kong) **Honorary Doctor of Social Science** (City University of Hong Kong)

CHOW Man Yiu, Paul
SBS, JP

Executive Director, Chief Executive
Aged 62

Director since 1 May 2003
Ex-officio member of the Board
Term of office: to expire at the end of April 2010

Other positions held within the Group	**HKEx** – member of Executive Committee and chairman of Corporate Social Responsibility Committee **SEHK** – member of Listing Committee and GEM Listing Committee **HKCC, HKFE, HKSCC, SEHK** and **SEOCH** – chairman **HKEx's subsidiaries** – director
Other major offices	**WFE** * – director (2003~) and vice-chairman # (2009~)
Past offices	**HKSCC** – director (1990-1997) and chief executive (1990-1991) **HSBC Asset Management (Hong Kong) Limited** – chief executive, Asia Pacific ex-Japan Region (1997-2003) **SEHK** – chief executive (1991-1997)
Public service	**Standing Committee on Company Law Reform** – member (2003~)
Qualifications	**Distinguished fellow** (Hong Kong Computer Society) **Bachelor of Science in Mechanical Engineering, Diploma in Management Studies** and **Master of Business Administration** (The University of Hong Kong) **Diploma in Finance (Distinction)** (The Chinese University of Hong Kong) **Honorary university fellowship** (The University of Hong Kong) **University fellowship** (The Hong Kong Polytechnic University) **Fellow** (HKMA, HKICS, and The Institute of Chartered Secretaries and Administrators) **Ordinary member** (HKSI)

* Appointment as the chairman of the Working Committee ended on 31 December 2008
# Appointment effective 1 January 2009

CHA May-Lung, Laura
SBS, JP

INED
Aged 59

Director since 26 April 2006
Term of office: 24 April 2008 (re-appointed) to 2010 AGM

Other positions held within the Group	**HKEx** – chairman of Panel Member Nomination Committee, and member of Investment Advisory Committee and Remuneration Committee **SEHK** – member of Listing Nominating Committee
Other major offices	**Bank of Communications Co Ltd** – non-executive director (2006~) **Baoshan Iron & Steel Co Ltd** (listed on the Shanghai Stock Exchange) – non-executive director (2006~) **China Telecom Corporation Limited** – non-executive director (2008~) **Johnson Electric Holdings Limited** – non-executive director (2004~) **Marsh & McLennan Companies, Inc** (listed on the New York, Chicago and London stock exchanges) – member of International Advisory Board (2007~) **Tata Consultancy Services Limited** (listed on the National Stock Exchange of India and the Bombay Stock Exchange) – non-executive director (2006~) **The Hongkong and Shanghai Banking Corporation Limited** – non-executive director (2004~) and non-executive deputy chairman (2007~)
Past offices	**SFC** – deputy chairman (1998-2001), executive director (1994-2001), senior director (1993-1994) and assistant director (1991-1993)
Public service	**CSRC** – vice-chairman of International Advisory Council (2004~) **Executive Council of the Hong Kong Government** – non-official member (2004~) **ICAC** – chairman of Advisory Committee on Corruption (2007~) **The 11th National People's Congress of the People's Republic of China** – HKSAR deputy (2008~) **The Chinese People's Political Consultative Conference Shanghai Committee** – member of Standing Committee (2008~) **University Grants Committee** – chairman (2007~)
Qualifications	**Bachelor of Arts** (University of Wisconsin, USA) **Juris Doctor** (Santa Clara University, USA) **State Bar of California** (USA)

CHENG Mo Chi, Moses

GBS, JP

INED

Aged 58

Director since 26 April 2006

Term of office: 24 April 2008 (re-appointed) to 2010 AGM

Other positions held within the Group	**HKEx** – member of Audit Committee and Remuneration Committee
Other major offices	**China COSCO Holdings Company Limited** – non-executive director (2005~) **China Mobile Limited** – non-executive director (2003~) **China Resources Enterprise, Limited** – non-executive director (2005~) **City Telecom (H.K.) Limited** – non-executive director (1997~) **Galaxy Entertainment Group Limited** – non-executive director (1996~) **Guangdong Investment Limited** – non-executive director (1999~) **Kader Holdings Company Limited** – non-executive director (1999~) **Liu Chong Hing Investment Limited** – non-executive director (1999~) **P. C. Woo & Co** – senior partner (1994~) **Tian An China Investments Company Limited** – non-executive director (1997~) **Towngas China Company Limited** – non-executive director (2007~)
Past offices	**Beijing Capital International Airport Company Limited** – non-executive director (1999-2008) **SEHK** – chairman (2005-2006) and deputy chairman (2003-2005) of Listing Committee and GEM Listing Committee, member of Council (1997-2000) and convenor of Disciplinary Committee (1997-2000) **Shui On Construction and Materials Limited** – non-executive director (2004-2008)
Public service	**Aviation Development Advisory Committee** – member (2005~) **Betting and Lotteries Commission** – chairman (2003~) **Commission on Strategic Development** – member (2007~) **FRC** – member (2006~) **ICAC** – chairman of Citizens Advisory Committee on Community Relations and member of Advisory Committee on Corruption (2004~)
Qualifications	**Solicitor** (Hong Kong, England, Victoria of Australia, Singapore) **Notary Public** **China-Appointed Attesting Officer** **Fellow** (CPA Australia, and The Hong Kong Institute of Directors)

CHEUNG Kin Tung, Marvin

GBS, JP

INED
Aged 61

Director since 12 April 2005
Term of office: 26 April 2007 (re-appointed) to 2009 AGM

Other positions held within the Group	**HKEx** – chairman of Audit Committee, member of Risk Management Committee, and deputy chairman of Cash Market Consultative Panel
Other major offices	**Hang Seng Bank Limited** – non-executive director (2004~) **HKR International Limited** – non-executive director (2004~) **HSBC Holdings plc** – non-executive director (2009~) * **Sun Hung Kai Properties Limited** – non-executive director (2007~) **Tracker Fund of Hong Kong** – chairman of Supervisory Committee (2000~)
Past offices	**KPMG Hong Kong** (1969-2003: chairman and chief executive officer (1996-2003), partner (1974-2003)) **SEHK** – chairman of Listing Committee and GEM Listing Committee (2003-2005)
Public service	**Airport Authority Hong Kong** – board member (2003~) and chairman (2008~) **Barristers Disciplinary Tribunal Panel** – member (1998~) **Executive Council of the Hong Kong Government** – non-official member (2005~) **ICAC** – member of Operations Review Committee (2004~) **Panel of the Witness Protection Review Board** – member (2004~)
Qualifications	**Fellow** (HKICPA, and Institute of Chartered Accountants in England & Wales) **Honorary Doctorate in Business Administration** (Hong Kong Baptist University)

* Appointment effective 1 February 2009

FAN Hung Ling, Henry

SBS, JP

INED
Aged 60

Director since 15 November 2003
Term of office: 26 April 2007 (re-appointed) to 2009 AGM

Other position held within the Group	**HKEx** – member of Nomination Committee
Other major offices	**Cathay Pacific Airways Limited** – deputy chairman (1997~) **CITIC Pacific Limited** – managing director (1992~)
Public service *	**Advisory Committee on Admission of Quality Migrants and Professionals** – chairman (2006~) **Advisory Committee on Post-office Employment for Former Chief Executives and Politically Appointed Officials** – member (2005~) **Exchange Fund Advisory Committee** – member (2004~) **Mandatory Provident Fund Schemes Authority** – chairman (2007~) **SFC** – chairman of Takeovers and Mergers Panel (2008~), ex-officio member of Nominations Committee (2008~) and member of Takeovers Appeal Committee (2003~) **Standing Committee on Judicial Salaries and Conditions of Service** – member (2004~) **Zhejiang Province Committee of the Chinese People's Political Consultative Conference** – member (2003~)
Qualifications	**Barrister-at-Law** (Hong Kong and England & Wales) **Attorney and Counsellor at Law** (California, USA) **Honours degree in Economics and Business Management** (The University of Hong Kong) **Bachelor of Laws** (University of Beijing, China)

* Appointment as the chairman of the Standing Committee on Disciplined Services Salaries and Conditions of Service ended on 31 December 2008

Appointment as a non-official member of the Executive Council of the Hong Kong Government ended on 20 January 2009

FONG Hup

MH

INED
Aged 64

Director since 16 April 2003
Term of office: 26 April 2007 (re-appointed) to 2009 AGM

Other positions held within the Group	**HKEx** – deputy chairman of Audit Committee, member of Executive Committee, Panel Member Nomination Committee and Risk Management Committee, and chairman of Clearing Consultative Panel **HKSCC** – chairman of Disciplinary Appeals Panel **SEHK** – member of Disciplinary Committee
Other major office	**Tracker Fund of Hong Kong** – member of Supervisory Committee (1999~)
Past offices	**Deloitte Touche Tohmatsu** – senior adviser (2002-2009) *, senior assurance and advisory partner (1997-2002) **HKSCC** – director (1997-2000) **Kwan Wong Tan & Fong** – senior partner (1976-1997) **SEHK** – member of Listing Committee (2000-2003 and 1993-1996) and Council (1997-2000) **SEOCH** – director (1997-2000)
Public service	**Insurance Advisory Committee** – member (2008~)
Qualifications	**Fellow** (HKICPA, and Institute of Chartered Accountants in England & Wales) **Bachelor of Business Administration** (Boston University, USA)

* Appointment as a senior adviser ended on 30 January 2009

KWOK Chi Piu, Bill

INED
Aged 56

Director since 3 April 2000
Term of office: 24 April 2008 (re-elected) to 2011 AGM

Other positions held within the Group	**HKEx** – member of Executive Committee, Panel Member Nomination Committee and Risk Management Committee, and chairman of Derivatives Market Consultative Panel **HKFE** – member of Disciplinary Appeals Committee
Other major offices	**Bloomberg L.P.** – member of Asia Pacific Advisory Board (2006~) **HSBC Guyerzeller Bank AG** – non-executive director (2006~) **HSBC Private Bank (Suisse) SA** – non-executive director (2006~) **Wing On Company International Limited** – non-executive director (1992~) **Wing On International Holdings Limited** – executive director (1991~) **Wocom Holdings Limited** – managing director (1992~)
Past offices	**HKFE** – director (1991-2000) and vice-chairman (1997-2000)
Public service	**Securities and Futures Appeals Tribunal** – member (2003~) **SFC** – member of Takeovers and Mergers Panel and Takeovers Appeal Committee (2005~)
Qualifications	**Bachelor of Science (Chemistry)** and **Bachelor of Arts (Economics)** (Stanford University, USA) **Doctor of Philosophy (Biochemistry)** (University of Chicago, USA)

LEE Kwan Ho, Vincent Marshall

Officer of the Order of the Crown (Belgium)

INED
Aged 53

Director since 3 April 2000
Term of office: 24 April 2008 (re-elected) to 2011 AGM

Other positions held within the Group	**HKEx** – member of Audit Committee, Executive Committee, Nomination Committee, Panel Member Nomination Committee and Remuneration Committee, and chairman of Cash Market Consultative Panel **SEHK** – member of Disciplinary Committee
Other major office	**Tung Tai Group of Companies** – managing director (1990~)
Past offices	**Coopers and Lybrand, Los Angeles & Boston** – certified public accountant (1978-1981) **HSBC group, Hong Kong & Vancouver** – senior banker (1981-1990) **Ocean Grand Holdings Limited** (Provisional Liquidators Appointed) – non-executive director (2003-2006)
Public service *	**Brewin Trust Fund Committee** – member (2006~) **Correctional Services Children's Education Trust** – member of Investment Advisory Board (2006~) **Securities and Futures Appeals Tribunal** – member (2003~)
Qualifications	**Fellow** (HKICPA, and The Hong Kong Institute of Directors) **Graduated Magna Cum Laude in Accounting and International Finance** (University of Southern California, USA) **Master of Economics** (London School of Economics and Political Science, UK) **Certified Public Accountant** (State of California, USA)

* Appointment as a part-time member of the Central Policy Unit of the Hong Kong Government ended on 31 December 2008

LOH Kung Wai, Christine

INED
Aged 53

Director since 26 April 2006
Term of office: 26 April 2006 to 2009 AGM

Other positions held within the Group	**HKEx** – member of Remuneration Committee and deputy chairman of Derivatives Market Consultative Panel
Other major offices	**Civic Exchange** – chief executive officer and co-founder (2000~)
Past offices	**CIM Co Limited** – director (strategic development) (1992-1994) **Phibro Energy Hong Kong Limited** – managing director (1990-1991) **Philipp Brothers Hongkong Limited** – managing director (1980-1990)
Qualifications	**Bachelor of Law** (University of Hull, UK) **Master of Law, Chinese and Comparative Law** (City University of Hong Kong) **Doctor of Law, honoris causa** (University of Hull, UK)

STRICKLAND, John Estmond

GBS, JP

INED
Aged 69

Director since 3 April 2000 *
Term of office: 26 April 2007 (re-elected) to 2010 AGM

Other positions held within the Group	**HKEx** – chairman of Investment Advisory Committee and member of Nomination Committee **SEHK** – deputy chairman of Listing Appeals Committee and member of Listing Nominating Committee
Other major offices	**Esquel Holdings Inc** – non-executive director (2001~) **Hong Kong Domain Name Registration Company Limited** – non-executive chairman and non-executive director (2009~) # **Hong Kong Internet Registration Corporation Limited** – non-executive director (2008~) and non-executive chairman (2009~) Ω **Integrated Distribution Services Group Limited** – non-executive director (2004~) **Yoma Strategic Holdings Ltd** (listed on the Singapore Exchange) – non-executive director (2006~)
Past offices	**HSBC Hong Kong & London** (1971-1998 and 1966-1969) **The Hongkong and Shanghai Banking Corporation Limited** – chairman (1996-1998)
Public service ^	**Hong Kong Cyberport Management Company Limited** – chairman (2003~)
Qualifications	**Degree in Physics** (Jesus College, University of Cambridge, UK) **Honorary Doctorate in Business Administration** (City University of Hong Kong) **Honorary Doctorate in Technology** (The Hong Kong Polytechnic University) **Distinguished fellow** (Hong Kong Computer Society) **Honorary fellow** (The Hong Kong Institute of Bankers) **Honorary university fellowship** (The University of Hong Kong) **Fellow** (HKMA)

* Prior to his appointment as Director on 3 April 2000 by the Financial Secretary under the Exchanges and Clearing Houses (Merger) Ordinance (repealed), Mr Strickland was also a member of the Preparatory Board since 8 July 1999. Mr Strickland is currently an Elected Director.
\# Appointments effective 6 January 2009
Ω Appointed as a non-executive director and the non-executive chairman on 15 December 2008 and 6 January 2009 respectively
^ Appointment as a member of ICAC's Operations Review Committee ended on 31 December 2008

WILLIAMSON, John Mackay McCulloch

INED
Aged 50

Director since 18 June 2008
Term of office: 18 June 2008 to the next following general meeting

Other positions held within the Group	**HKEx** – member of Audit Committee and Investment Advisory Committee
Other major offices	**Search Investment Group Limited** – managing director and chief financial officer (2007~)
Past offices	**HKEx** – member of Clearing Consultative Panel (2000-2007) **Morgan Stanley Dean Witter Asia Limited** – managing director, and head of infrastructure and operational risk (1998-2007) **NatWest Investment Services, London** – managing director (1992-1994) **NatWest Securities Asia Holdings Limited** – chief operating officer (1994-1998)
Qualifications	**Chartered Accountant** (The Institute of Chartered Accountants of Scotland) **Bachelor of Arts (Accountancy & Computer Science)** (Heriot-Watt University, UK) **Fellow** (HKSI, and Securities & Investment Institute, UK)

WONG Sai Hung, Oscar

INED
Aged 53

Director since 15 April 2003
Term of office: 26 April 2007 (re-elected) to 2010 AGM

Other positions held within the Group	**HKEx** – deputy chairman of Investment Advisory Committee and Clearing Consultative Panel, and member of Nomination Committee and Panel Member Nomination Committee **HKSCC** – member of Disciplinary Appeals Panel
Other major offices	**ARN Asian Enterprise Fund Limited** (listed on the Irish Stock Exchange) – non-executive director (2006~) **China Bio-Med Regeneration Technology Limited *** – chairman and non-executive director (2008~) **ICBC (Asia) Investment Management Company Limited** – chief executive and executive director (2008~)
Past offices	**BOCI-Prudential Asset Management Limited** – chief executive officer (2001-2005) **INVESCO Asia Limited** – deputy chief executive (1998) **Prudential Portfolio Managers Asia** – regional managing director (1999-2000)
Public service	**Hong Kong Housing Authority** – member of Finance Committee (2008~)
Qualifications	**Higher Diploma in Business Studies (Marketing)** (The Hong Kong Polytechnic University)

* Change of company name (formerly known as B M Intelligence International Limited) effective 18 December 2008

Senior Management

GREINER, Gerald Dale

Chief Operating Officer
Aged 52

Joined in May 2004

Other positions held within the Group

SEHK – chief executive, and member of Compensation Committee
HKFE – chief executive
HKSCC – member of Risk Management Committee

Past offices

HKEx – Deputy Chief Operating Officer and Head of Exchange Division (2004-2007)
SFC – senior director of supervision of markets division (1989-2004)
US Securities and Exchange Commission – various senior executive positions (1984-1989)

Qualifications

Bachelor of Science in Economics (Allegheny College, USA)
Juris Doctor (University of Toledo College of Law, USA)

DICKENS, Mark Francis
JP

Head of Listing
(Effective 1 March 2009)
Aged 56

Joined in January 2009

Past offices

Value Partners Limited – chief risk officer (2007-2008)
HT Capital Management Limited – adviser (2007)
HKEx – member of Risk Management Committee (2003-2005)
SFC – executive director of supervision of markets division (1999-2005), executive director of enforcement division (1997-1999), and senior director, assistant director and member of panel on takeovers and mergers of corporate finance division (1991-1996)
Australian Securities Commission and its predecessor, National Companies and Securities Commission – several senior positions including national managing director, and senior director of market supervision division (1987-1991)

Qualifications

Bachelor of Economics and **Bachelor of Laws** (The Australian National University)
Solicitor Attorney and **Proctor** (Supreme Court of New South Wales, Australia)
Barrister and **Solicitor** (Supreme Court of the Australian Capital Territory, the High Court of Australia and the Supreme Court of Victoria, Australia)

FOK Kwong Man, Lawrence

Head of Issuer Marketing
Aged 59

Joined in February 1992

Past offices

SEHK – senior executive director of regulatory affairs group (1998); executive director of the listing division (1997); director of the listing division (1994-1997); assistant director of the listing division (1992-1994)
SFC – assistant director of corporate finance (1989-1992)

Qualifications

Bachelor of Science in Engineering (The University of Hong Kong)
Master of Business Administration (Columbia University, USA)
Master of Arts (Economics) and **Master of Science (Statistics)** (Stanford University, USA)

KAO May Loy, Mary

Chief Counsel and
Head of Legal Services
Aged 59

Joined in July 1990

Past offices

International Bank of Asia Limited – general counsel, head of the legal affairs group (1985-1990)

Sun Hung Kai Group – general counsel, head of the legal and secretarial department (1981-1985)

American International Assurance Company, Limited – assistant general counsel, assistant vice president and secretary (1978-1981)

Qualifications

Bachelor of Laws (The University of Hong Kong)

Bachelor of Civil Law (University of Oxford, UK)

Diploma in Chinese Law (University of East Asia, Macau)

Barrister-at-Law (Hong Kong and England & Wales)

Barrister and **Solicitor** (the Australian Capital Territory)

LAW Man Wai, Henry

Head of Corporate Communications
Aged 54

Joined in January 1988

Past offices

Ogilvy and Mather Public Relations (Hong Kong) Limited – senior consultant and group head of the public relations section for financial institutions and listed companies (1982-1988)

Michael Stevenson Limited – advertising and public relations executive (1974-1982)

SHING Shin Cheung, Stewart

Head of Clearing
Aged 61

Joined in December 2003

Other positions held within the Group

HKSCC – chief executive, and member of Disciplinary Committee

Past offices

HKEx – Acting Head of Risk Management Division (2007-2008) and the first head of clearing business unit (2000)

South China Brokerage Company Limited – executive director and chief executive (2001-2003)

HKSCC – chief executive (1996-2000); director of planning and development and deputy chief executive (1991-1996)

Qualifications

Fellow (HKICPA)

Master of Business Administration (University of New South Wales, Australia)

TSIM Tak Chee, Archie

Chief Financial Officer and
Head of Finance and Administration

Aged 50

Joined in October 2004

Other position held within the Group	**HKSCC** – member of Disciplinary Committee
Past offices	**The Hong Kong and Shanghai Banking Corporation Limited** – managing director for corporate finance and advisory, Asia-Pacific (1997-2004) **SEHK** – deputy head of corporate finance in the listing division (1992-1997)
Qualifications	**Fellow** (HKICPA, and Association of Chartered Certified Accountants) **Bachelor of Science in Management Sciences** (University of Manchester, UK)

WILLIAMS, Richard George

Head of Listing

Aged 46

Joined in October 2002
(Office held until 28 February 2009)

Past offices	**Financial Services Authority, UK** – head of listing policy and compliance (2000-2002) **London Stock Exchange** – head of listing policy (1999-2000)
Qualifications	**Fellow** (Institute of Chartered Accountants in England & Wales) **Bachelor of Arts in Economics and Economic History** (University of Warwick, UK)

WONG Kwok Kuen, Alfred

Chief Technology Officer and
Head of Information Technology

Aged 52

Joined in November 1992

Other position held within the Group	**HKEx** – member of Corporate Social Responsibility Committee
Past offices	**Australia's Westpac Banking Corp** – consultant application engineer (1988-1992) **Australian Stock Exchange** – project leader (1987-1988) **SEHK** – computer development manager (1985-1987)
Qualifications	**Full member** (Hong Kong Computer Society) **Ordinary member** (HKSI) **Bachelor of Science in Computer Science and Chemistry** (The University of Hong Kong) **Graduate Management Qualification** (University of New South Wales, Australia) **Executive Master of Business Administration** (The Chinese University of Hong Kong)

Company Secretary

MAU Kam Shing, Joseph

Company Secretary and
Head of Secretarial Services

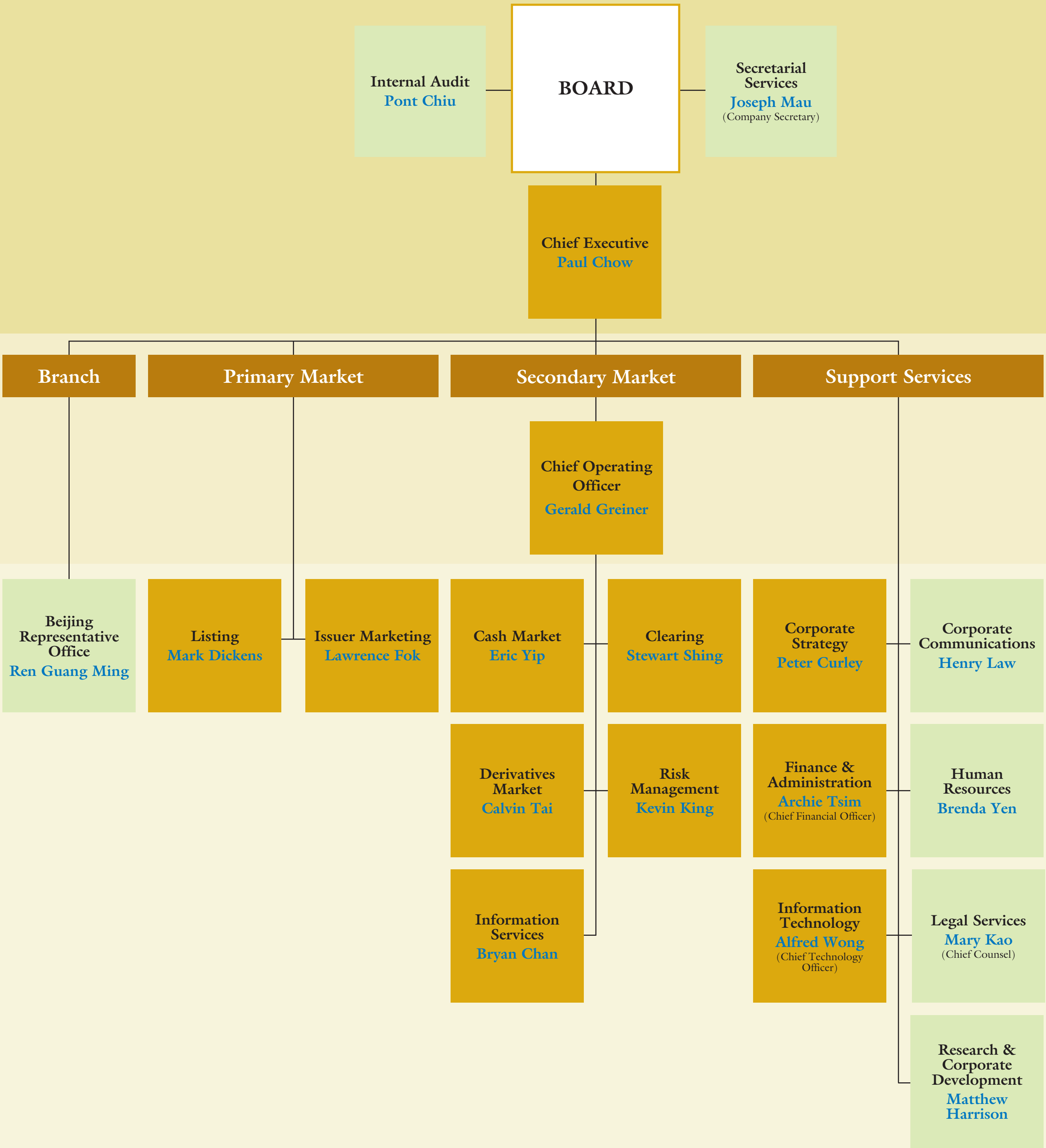
Aged 50

Joined in June 2000

Other position held within the Group	**HKEx** – member of Corporate Social Responsibility Committee
Past offices	**Hysan Development Company Limited** – company secretary (1988-2000) **Impala Pacific Corporation Limited** – financial controller and company secretary (1986-1988) **Deloitte Haskins & Sells** – audit senior (1981-1984)
Qualifications	**Fellow** (HKICS, The Institute of Chartered Secretaries and Administrators, and Association of Chartered Certified Accountants) **Associate** (HKICPA, and Institute of Chartered Accountants in England & Wales) **Master of Science (Business Administration)** (University of Bath, UK) **Master of Laws in Corporate and Financial Laws** (The University of Hong Kong)

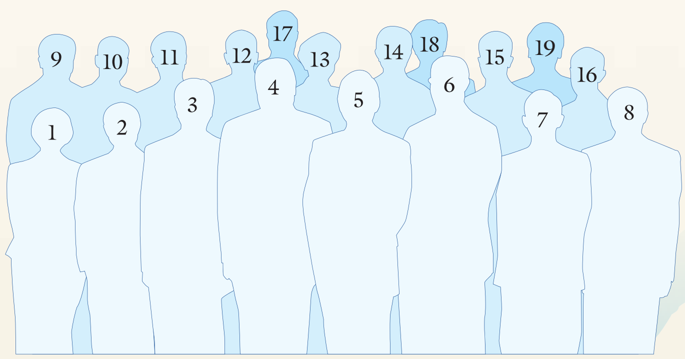
Messrs Gerald D Greiner, Lawrence K M Fok, Stewart S C Shing, Archie T C Tsim and Ms Mary M L Kao also hold position as a director in one or more of the Group's subsidiaries.

ORGANISATION CHART
(Effective 1 March 2009)



■ Members of HKEx Senior Management Committee

1. Mary Kao
2. Eric Yip
3. Alfred Wong
4. Gerald Greiner
5. Paul Chow
6. Richard Williams
7. Stewart Shing
8. Lawrence Fok
9. Henry Law
10. Pont Chiu
11. Bryan Chan
12. Archie Tsim
13. Brenda Yen
14. Mark Dickens
15. Peter Curley
16. Matthew Harrison
17. Kevin King
18. Calvin Tai
19. Joseph Mau



BUSINESS REVIEW

Listing

WPIP Implementation

The Exchange and the SFC are in 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 IPO prospectus with a view to publishing a consultation paper in relation to a proposal to codify the requirement to post a WPIP in the Listing Rules.

2008 Combined Consultation Paper ("2008 CCP")

SEHK published the 2008 CCP on 11 January 2008 to seek market comments on 18 substantive policy and corporate governance related issues. The consultation ended on 7 April 2008 with 105 submissions. The consultation results of 15 substantive policy issues were published in the Consultation Conclusions to the 2008 CCP on 28 November 2008. The related amendments to the Main Board Listing Rules and the GEM Listing Rules took effect on 1 January 2009, save for one revised proposal for extending the "black out" period in relation to directors' dealings which should take effect from 1 April 2009.

On 12 February 2009, the Listing Committee announced that, following careful consideration of new material prepared by the Listing Division including the findings of the Division's analysis on dealings by directors during the year ended 31 December 2008, a memorandum dealing with the recent criticism and other comments concerning the extension of the black out period, observations concerning the impact of the formulation of the new rule, and the considered and authoritative advice from the SFC, the Listing Committee put forward a proposed modification of the rule extending the "black out" period. At the same time, the Listing Committee suggested several measures to enhance Hong Kong's disclosure regime. The revised rule amendment will come into effect on 1 April 2009 and replace the rule amendment announced by the Exchange on 28 November 2008.

The remaining 3 issues, namely public float, general mandates and self-constructed fixed assets remain under assessment and separate conclusions will be published at a later stage.

EDP Implementation

To strengthen Hong Kong's market infrastructure for issuers' disclosure, SEHK launched, on 4 February 2008, the HKExnews website (http://www.hkexnews.hk), a bilingual website designated for issuers' regulatory filings. The website is a one-stop platform for electronic disclosure of issuers' information and is also a central issuer document archive that allows the investing public to access issuers' information in a more convenient and timely manner. The website was well received by the investing public with an average of 13.7 million page views recorded per month since its launch.

The final phase of the EDP took effect on 25 June 2008. From that date onwards, every issuer is required to have its own website where the public is able to access its Listing Rules-related documents. The issuer's website serves as an alternative database to the HKExnews website where all its regulatory documents can be found.

Report on CG Code Implementation

On 29 February 2008, SEHK published a report on the findings from its second annual review of listed issuers' corporate governance practices. The findings revealed that listed issuers have been continuing to improve their corporate governance practices by not only choosing to comply with the CG Code's code provisions, but also adopting many of the recommended best practices. In February 2009, SEHK published the third review report on listed issuers' corporate governance practices, and the Exchange is conducting a review of the CG Code to identify areas for enhancement in 2009.

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

On 1 April 2008, SEHK and the SFC published a joint consultation paper on a 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.

GEM Consultation Conclusions

Pursuant to the consultation conclusions of the GEM Review published on 2 May 2008, the Listing Rules were revised to reposition GEM as a second board and as a stepping stone to the Main Board. The process for transferring listing from GEM to the Main Board has been streamlined, where, for example, a sponsor is no longer necessary and that the prospectus has been replaced by regulatory announcements published electronically. The revised rules took effect on 1 July 2008.

HDR Framework

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

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

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

Listing Enforcement Initiatives

On 17 November 2008, the Exchange launched two initiatives to promote transparency of its listing enforcement actions and investigation process, and to facilitate the discharge of its statutory duty. The initiatives include the publication of the first instalment of a series of listing enforcement guidance letters as well as the posting of RFA Announcements (Request for Assistance Announcements) on the HKEx website.

Listing Rules and Related Processes Review

The Board has engaged a consultant to conduct a strategic review of the Listing Rules and their application. The overall objective of the project is to review the existing listing regime (including the Rules and related procedures) with a view to identifying possible means of enhancing the competitiveness of the Stock Exchange as an international listing venue without sacrificing the quality of Hong Kong's securities market. The consultant's report is being reviewed.

IPO Processing

In 2008, the Listing Division vetted a total of 179 (2007: 154) listing applications, of which 137 were new applications and 42 applications were brought forward from 2007. A total of 122 (2007: 106) first comment letters were issued to new listing applicants. The number of first comment letters issued during the year was less than the total number of new applications accepted because there were a number of cases (eg, investment vehicles seeking listing under Chapter 20 of the Main Board Listing Rules and transfer of listing from GEM to the Main Board) that proceeded to the approval process without any comment from the Listing Division. The average time between receipt of an application and the issue of the first comment letter was 20 calendar days and the median was 21 calendar days (2007: both average and median were 21 calendar days).

In 2008, a total of 113 applications (2007: 105 applications) were brought to the Listing Committees (or their delegates) for decisions, of which 83 cases (73 per cent) (2007: 76 per cent) were reviewed by the respective Listing Committees (or their delegates) within 120 calendar days, while 4 cases (4 per cent) (2007: 8 per cent) were reviewed in more than 180 calendar days. The Listing Committees (or their delegates) granted approval in principle to 105 applications (2007: 103 applications). However, as at the end of the year, 53 of these 105 approved applications have not yet been listed. While some of the approved applications lapsed during the year, 24 of the 53 approved-but-not-yet-listed cases remained valid as at the year-end date.

A total of 74 (2007: 79) requests for guidance from listing applicants or their advisers seeking clarifications of the Listing Rules relevant to new listing applications were responded to in 2008. All (2007: 97 per cent) initial written responses were made within 25 calendar days.

With effect from 1 July 2008, the Listing Rules have been amended to streamline the process for transferring listing from GEM to the Main Board. There were 15 listing applications accepted for transfer of listing from GEM to the Main Board in 2008 (2007: 5), of which 12 cases (80 per cent) were reviewed by the Listing Committee within 60 calendar days, while the remaining 3 cases (20 per cent) were reviewed within 120 calendar days.

Number of IPO Transactions

	2004	2005	2006	2007	**2008**
New Listing Applications Accepted	130	111	88	125	**137**
Applications Listed	74	76	65	96	**57**
Companies listed on Main Board pursuant to Chapter 8	47	55	54	78	**29**
Investment vehicles listed on Main Board	2	6	3	11	**7**
Transfer of listing from GEM to Main Board	2	2	2	4	**18**
Companies listed on GEM	21	10	6	2	**2**
Deemed new listings	2	3	0	1	**1**
New Listing Applications Rejected	15	5	7	0	**1**
New Listing Applications Withdrawn	12	5	4	3	**8**
Applications in Process as at Year-end	44	32	29	42	**27**
Active Applications with Approval Granted but Not Yet Listed at Year-end	7	6	6	9	**24**

Number of Listed Companies (as at year-end)

	2004	2005	2006	2007	**2008**
Main	892	934	975	1,048	**1,087**
GEM	204	201	198	193	**174**
Total	1,096	1,135	1,173	1,241	**1,261**

Main Board and GEM – Number of Listed Companies by Industry Classification* (as at year-end)

	2006	2007	**2008**
Energy	21	28	**34**
Materials	69	81	**93**
Industrial Goods	103	114	**113**
Consumer Goods	327	336	**327**
Services	168	188	**198**
Telecommunications	16	18	**17**
Utilities	22	20	**24**
Financials	103	103	**100**
Properties & Construction	158	166	**174**
Information Technology	161	161	**158**
Conglomerates	25	26	**23**
Total	1,173	1,241	**1,261**

* According to the Hang Seng Indexes Company Limited

Compliance and Monitoring

SEHK has continued to monitor listed issuers' compliance by targeting its resources in areas which pose the greatest risks to the maintenance of a fair, orderly and informed market, for instance, continuous disclosure obligations of listed issuers.

Number of Compliance and Monitoring Actions (as at year-end)

	2004	2005	2006	2007	**2008**
Announcements of Listed Issuers Vetted	9,092	11,092	11,579	19,025	**20,784**
Circulars of Listed Issuers Vetted	1,919	2,409	2,488	3,048	**2,849**
Share Price and Trading Volume Monitoring Actions Undertaken	6,116	6,200	7,716	10,083	**8,439**
Clarification Announcements Published by Listed Issuers in Response to Share Price and/or Trading Volume Movements in their Securities	3,383	3,172	3,556	5,597	**2,627**
Complaints Handled	213	262	252	512	**516**
Cases (including Complaint Cases) referred to The Listing Enforcement Department for Investigation	57	88	141	90	**86**

Out of the 20,784 announcements vetted in 2008, 13,891 announcements or 67 per cent were post-vetted (2007: 8,213 announcements or 43 per cent), including 2,893 results announcements. In addition, announcements issued pursuant to enquiries on unusual share price and volume movements in the trading of securities (2008: 2,627, 2007: 5,597) are also subject to post-vetting. Among the pre-vetted announcements, 90 per cent were initially commented on by the Exchange within the same business day, and 96 per cent of the pre-vetted circulars were initially commented on by the Exchange within 5 business days. Only 8 per cent of the post-vetted announcements (excluding announcements pursuant to share price and volume movements) resulted in follow-up enquiries from the Exchange, of which 94 per cent and 93 per cent of the initial enquiries relating to post-vetting of results announcements and other announcements were made within 5 business days and 1 business day respectively.

To further shift the Exchange's regulatory focus from pre-vetting towards post-vetting, monitoring and enforcement, the Listing Rules were amended, effective 1 January 2009, to cease pre-vetting of all announcements issued by listed issuers through a phased approach. The first phase of the implementation took effect in January 2009 under which only certain types of announcement continue to be pre-vetted (ie, announcements for transactions or arrangements that require shareholders' approval under the notifiable transaction requirements in the Listing Rules and almost all connected transactions). The Exchange will monitor the new arrangements and, subject to the SFC's approval, proceed to the second phase of implementing the new approach on a wider scope of announcements.

To promote transparency and to assist listed issuers in meeting their continuing obligations under the new vetting regime, guidance materials have been issued to listed issuers, including guidance notes regarding consultation with the Compliance and Monitoring Department, as well as compliance checklists and interpretative guidance on particular Listing Rules. In 2008, the Exchange handled 350 listed issuers' written enquiries on interpretation of Listing Rules and related matters. Among the written enquiries, 84 per cent were responded to, and 51 per cent were dealt with and concluded, within 5 business days.

In 2008, a total of 8,439 share price and trading volume monitoring actions were taken (2007: 10,083) leading to 2,627 clarification announcements published by listed issuers (2007: 5,597). A total of 88,440 press articles on listed issuers were reviewed in 2008 (2007: 58,747), resulting in 536 enquiries raised by the Exchange. The monitoring of market activities in securities and media disclosures are two aspects of the Exchange's monitoring of listed issuers' compliance with their obligations to disclose price sensitive information to the market in a timely manner. Other aspects of monitoring compliance in this area include the handling of complaints against listed issuers and the Exchange's post-vetting of periodic disclosures published by listed issuers in the form of results announcements and other documents.

In addition, the Exchange conducted reviews of listed issuers' disclosure for their compliance with the Listing Rules on a thematic basis, focusing on compliance with particular Listing Rules. Some of the follow-up enquiries are ongoing. Of the completed cases, the majority required no further action. The remaining cases resulted in the Exchange providing verbal or written guidance to listed issuers, and one case which involved a potential non-compliance with the Listing Rules was referred to the Listing Enforcement Department for investigation.

In 2008, 86 cases (2007: 90) were referred to the Listing Enforcement Department for investigation. Referrals are made where the facts of a case of possible breach involve conduct, which gives rise to potentially serious implications for shareholders and the market. The Listing Enforcement Department may then initiate formal disciplinary proceedings before the Listing Committees and take other regulatory actions as may be considered appropriate. The Compliance and Monitoring Department has continued to resolve cases of non-compliance where the facts do not have significant regulatory impact through the provision of specific written or verbal guidance, and in particular circumstances, general guidance to all listed issuers. In 2008, 284 written guidance letters (2007: 245) were issued to listed issuers.

In addition, in view of the recent economic developments which may potentially have an adverse impact on the operations or financial position of listed issuers, the Exchange wrote a letter to all listed issuers on 31 October 2008 to remind them about the continuous disclosure standards and to provide further interpretative guidance and observations on the Exchange's expectations.

Status of Long Suspended Companies (as at year-end)

	Main Board		**GEM**	
	2008	2007	**2008**	2007
Resumption of Trading of Securities	**12**	16	**6**	7
Cancellation of Listing	**4**	2	**3**	2
Companies under Third Stage of Delisting	**6**	7	**N/A**	N/A
Companies being Notified of Exchange's Intention to Cancel their Listing	**1**	1	**2**	2
Companies being Suspended for Three Months or More	**32**	30	**8**	15

Listing Enforcement

In 2008, a number of investigations arising from serious breaches of the Listing Rules were completed leading to the imposition of public and private sanctions by the Listing Committees. The relevant public criticisms, statements and censures can be found on the HKEx website.

Number of Disciplinary Actions (as at year-end)

	2004	2005	2006	2007	**2008**
Investigations	201	332	216	167	**171***
Public Censures	5	10	9	9	**10#**
Public Statements/Criticisms	14	8	11	7	**5#**
Private Reprimands	3	3	2	0	**0#**
Warning/Caution Letters	161	109	96	63	**68**

* As in earlier years, this figure includes investigations in existence and carried forward from the preceding year but concluded during this year; investigations begun and concluded during this year; and those remaining active as at year-end.

These figures record only the primary regulatory action from a disciplinary matter. They do not describe any other actions taken at a lower level, for example, private reprimand in the same case.

In 2008, 9 cases were referred to the Listing Enforcement Department originating from a complaint, which might give rise, after investigation, to disciplinary proceedings. Of the 9 cases investigated, 2 were closed with the issue of warning/caution letters.

Responsibility for compliance with the Listing Rules is a collective and individual responsibility of the directors regardless of them being executive or non-executive directors of listed issuers. That responsibility may rise from the obligation to procure compliance upon having specific knowledge of certain events or developments affecting the business affairs of a company. It may also arise from the obligation to create the conditions by which compliance can be achieved through the creation of adequate compliance systems and controls sufficient to ensure that the directors collectively can discharge that responsibility.

These obligations have been the consistent theme of enforcement actions in recent years during which there has been steady growth in the number of directors who have been the subject of disciplinary action and sanction. In particular, it is noted that the non-executive members of a board have increasingly been the subject of disciplinary sanctions imposed by the Listing Committees, as illustrated in the following table.

Number of Directors who were the Subject of Action as a result of Disciplinary or Settlement Cases

	2006	2007	**2008**
Executive Directors	63	48	**67**
Non-Executive Directors	2	20	**17**
INEDs	2	18	**26**
Total	67	86	**110**

In addition, continuing with the theme established in earlier years, recommendations have also been made to the Listing Committees in appropriate cases to direct remedial action for the correction of breaches and to improve corporate governance in the future. Such directions covered, for example, an obligation to retain external assistance in the creation or revision of adequate and effective compliance structures. In some cases, the Listing Committees also required directors to undergo training at recognised professional bodies for specific periods of time to improve their knowledge of and performance in compliance matters. The following table illustrates the development of that theme.

Number of Disciplinary or Settlement Cases

	2006	2007	**2008**
Involving "Internal Control Review" Direction	1	3	**4**
Involving "Retention of Compliance Adviser" Direction	1	4	**5**
Involving "Training of Directors" Direction	1	7	**4**

Listing Operations

Continuous growth was witnessed in the Hong Kong structured products market in 2008. During 2008, a total of 5,031 DW listing applications were processed (2007: 7,025), of these 4,822 were new issues (2007: 6,312) and 209 were further issues (2007: 713). The Listing Operations Department also processed 4,281 listing applications for CBBCs (4,231 new issues and 50 further issues) during the year, compared to 401 (391 new issues and 10 further issues) for 2007. A total of 20 new debt securities, including issues of Exchange Fund Notes, were listed in 2008.

Number of DWs (as at year-end)

	2004	2005	2006	2007	**2008**
Newly Listed DWs	1,259	1,682	2,823	6,312	**4,822**
Delisted DWs	926	1,241	2,168	3,788	**6,294**
DWs Listed as at Year-End	863	1,304	1,959	4,483	**3,011**
Percentage Change in Number of Listed DWs	63%	51%	50%	129%	**–33%**

Number of CBBCs* (as at year-end)

	2006	2007	**2008**
Newly Listed CBBCs	83	391	**4,231**
CBBC knockouts	48	250	**2,837**
Delisted CBBCs	11	34	**211**
CBBCs Listed as at Year-End	24	131	**1,314**
Percentage Change in Number of Listed CBBCs	N/A	446%	**903%**

* The first CBBC was listed on 12 June 2006.

During the year, the Latest Listed Company Information section remained one of the most popular sections on the HKExnews and GEM websites with over 120 million page views recorded. A total of 143,410 issuers' news items were submitted and published on this section. The majority of issuers' submissions were uploaded within 2 seconds (excluding the Internet transmission time which is beyond HKEx's control).

Up to the end of 2008, the HKEx website housed a total of 703,900 archived issuer documents for public access free of charge. During the year, it recorded over 22 million searches for these issuer documents and 80 per cent of searches were responded to within 0.2 second (excluding the Internet transmission time which is beyond HKEx's control).

HKEx also administers the filing and publication of DI notices through the HKEx website in accordance with the SFC's requirements and specifications set out in Part XV of the SFO. During the year, a total of 54,965 DI filings were submitted and published on the HKEx website and over 27 million page views for these notices were recorded.

Primary Market Information* (as at year-end)

	2004	2005	2006	2007	**2008**
Number of Issuer News Filings Processed	75,620	81,692	94,666	120,622	**143,410**
Percentage Increase in Issuer News Filings	21%	8%	16%	27%	**19%**
Hit Rates for the Issuer News Website (in million)	35.7	58.7	94.1	151.4	**120.5**
Number of DI Filings Processed by the Exchange	32,396	32,315	38,809	62,211	**54,965**
Percentage Change in Number of DI Filings Processed	9%	0%	20%	60%	**–12%**
Hit Rates for DI Filings (in million)	9.2	9.2	13.3	31.1	**27.8**

* Primary Market Information statistics cover Main Board and GEM issuers. Due to technical setup and recording, hit rates for issuers' news between 2003 and 2005 included those of Main Board only. For reference, hit rates for GEM issuers' news between 2006 and 2008 were 8.62, 8.57 and 4.99 million respectively.

Cash Market

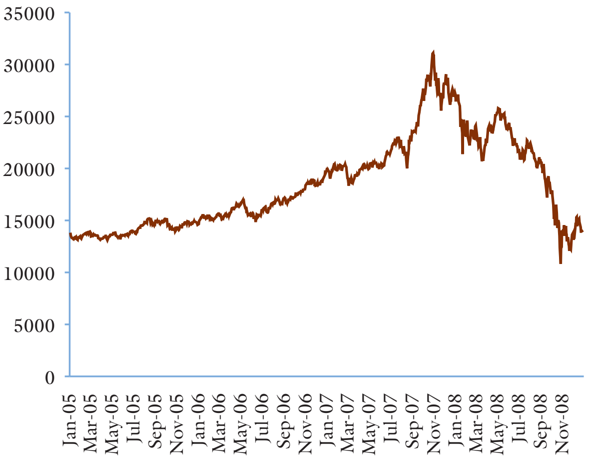
Market Performance

In 2008, 47 companies were newly listed on the Main Board (including 18 that transferred from GEM) and 2 on GEM. Meanwhile, 8 Main Board companies and 3 GEM companies (excluding the 18 transfers) were delisted. Total capital raised, including post-listing funds, reached $427.2 billion. As at 31 December 2008, 1,087 and 174 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about $10,298.8 billion. In addition, there were 3,011 DWs, 1,314 CBBCs, 7 REITs, 24 ETFs and 172 debt securities listed as at 31 December 2008. The average daily turnover in 2008 was about $72 billion on the Main Board and about $213 million on GEM.

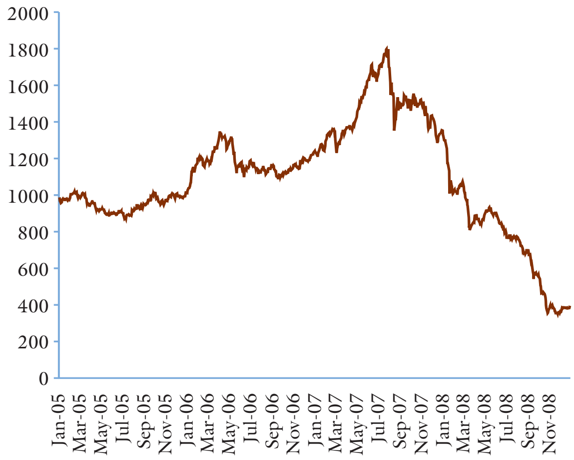
Closing Indices (as at year-end)

	2008	2007	Change
HSI	**14387.48**	27812.65	–48%
Hang Seng Composite Index	**1982.56**	3935.37	–50%
H-shares Index	**7891.80**	16124.72	–51%
Hang Seng China-affiliated Corporations Index	**3292.40**	6111.20	–46%
S&P/HKEx LargeCap Index	**17891.16**	33708.99	–47%
S&P/HKEx GEM Index	**385.47**	1349.64	–71%

HSI (01/2005 – 12/2008)



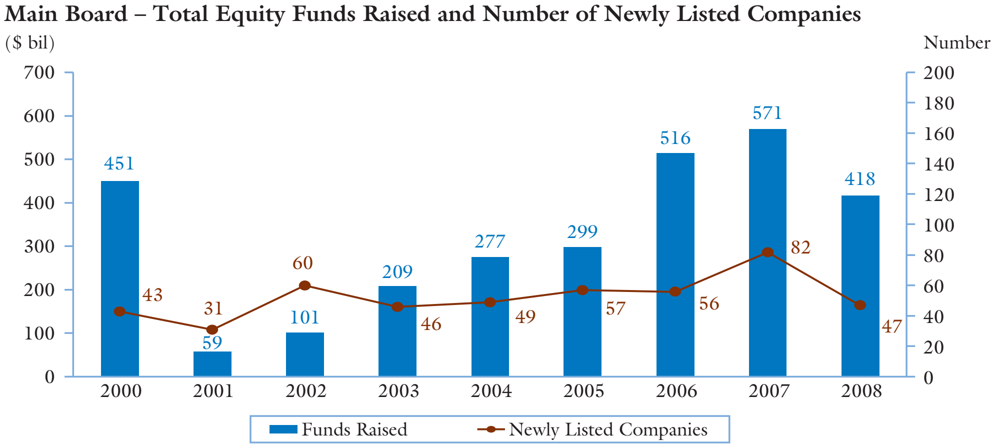
S&P/HKEx GEM Index (01/2005 – 12/2008)



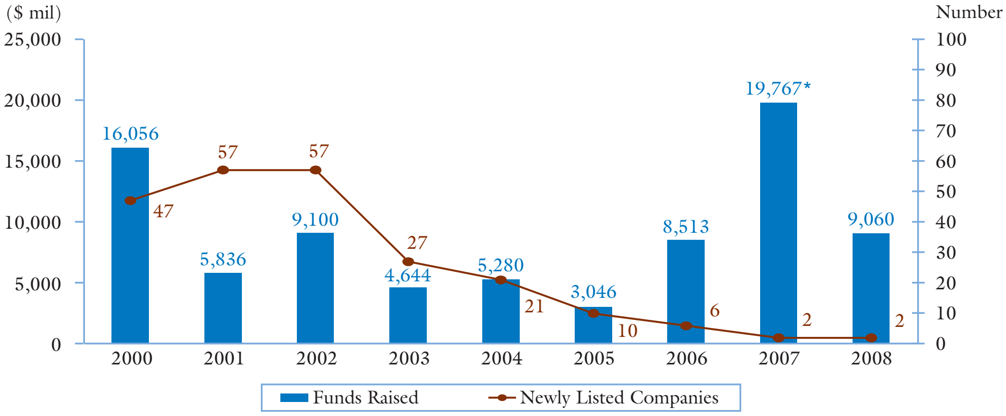
Market Performance of the Main Board and the GEM (as at year-end)

	Main Board			GEM		
	2008	2007	Change	**2008**	2007	Change
IPO Funds Raised for the Year ($bil)	**66**	290	–77%	**0.2**	2	–90%
Market Capitalisation ($bil)	**10,254**	20,536	–50%	**45**	161	–72%
Number of Listed Companies	**1,087**	1,048	4%	**174**	193	–10%
Number of Listed Securities	**5,654**	5,896	–4%	**177**	196	–10%
Total Turnover for Year ($bil)	**17,601**	21,506	–18%	**52**	159	–67%
Average Daily Turnover ($mil)	**71,840**	87,424	–18%	**213**	647	–67%

Main Board – Total Equity Funds Raised and Number of Newly Listed Companies

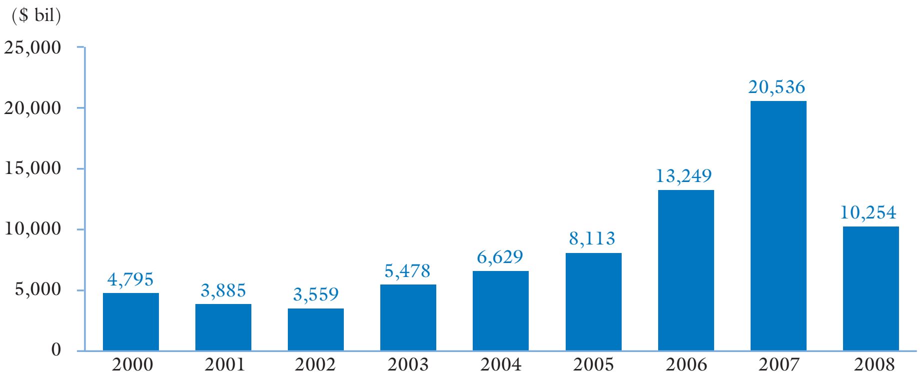


GEM – Total Equity Funds Raised and Number of Newly Listed Companies

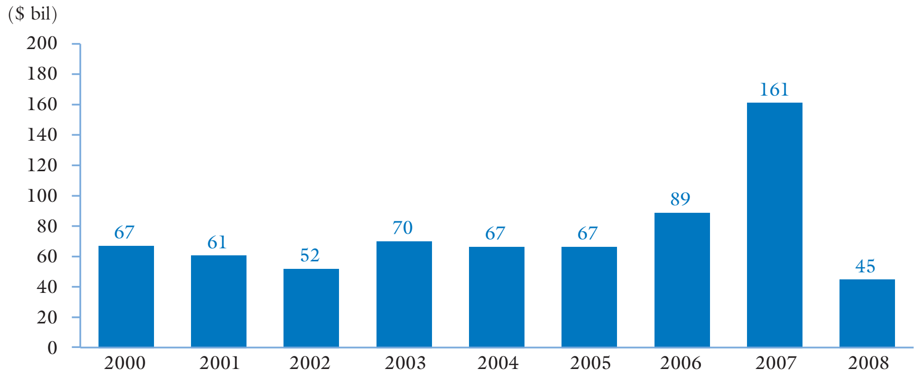


* Figure revised

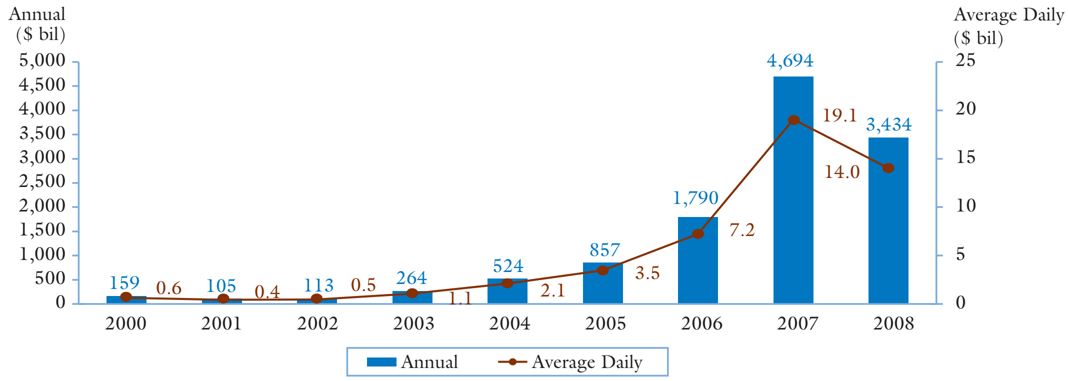
Main Board – Market Capitalisation (as at year-end)



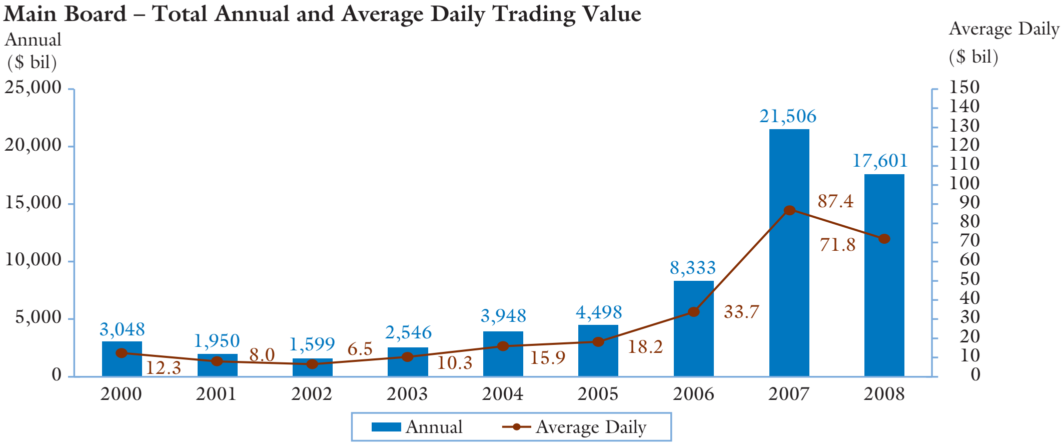
GEM – Market Capitalisation (as at year-end)



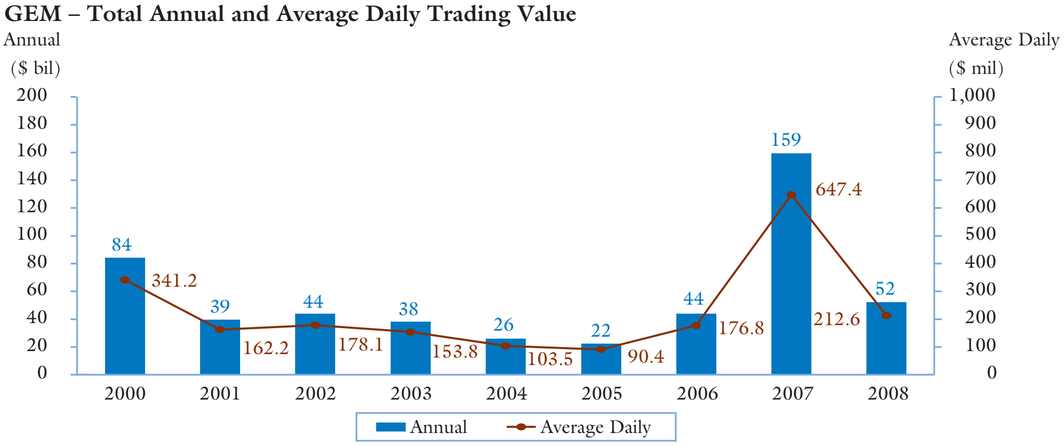
Main Board – Total Annual and Average Daily Trading Value of DWs



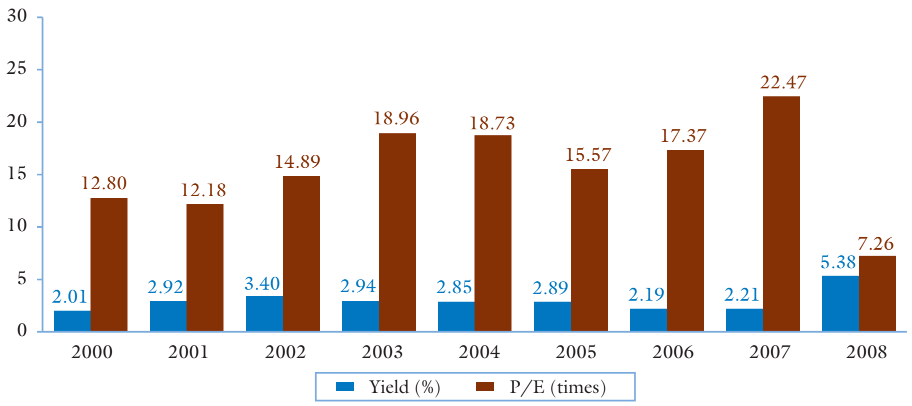
Main Board – Total Annual and Average Daily Trading Value



GEM – Total Annual and Average Daily Trading Value



Main Board – Average Yield and P/E Ratio (year-end figures)



Note: The above figures are rounded up/down to the nearest $billion/$million.

Main Board-New Listings

	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
Listed Companies*	43	31	60	46	49	57	56	82	**47**
Preference shares	0	0	0	0	0	0	1	0	**0**
Warrants	325	212	671	688	1,273	1,694	2,835	6,329	**4,840**
Equity Warrants	46	31	27	10	14	12	12	17	**18**
Derivative Warrants	279	181	644	678	1,259	1,682	2,823	6,312	**4,822**
CBBCs#	–	–	–	–	–	–	83	391	**4,231**
ELI^	–	–	25	16	46	0	0	0	**0**
Debt Securities	20	21	18	20	49	32	46	26	**20**
Unit Trusts and Mutual Funds	0	1	1	1	2	6	3	11	**7**

* Including the number of companies transferred from GEM
\# Commenced trading on 12 June 2006
^ Commenced trading on 5 August 2002

Introduction of Five-Digit Stock Codes

To support growth in the number of listed securities, and to provide greater flexibility to differentiate the various types of products traded in the Cash Market with stock codes, HKEx rolled out the five-digit stock codes on 7 April 2008. Those within the range of 10000 to 29999 have been assigned to new DWs listed on or after 7 April 2008; while those within the range of 30000 to 32499 and 60000 to 69999 have been assigned to new CBBCs listed on or after 13 May 2008 and 3 November 2008 respectively.

Consultation on Introduction of a Price Control Mechanism in CAS

On 26 May 2008, a CAS was introduced to the securities market in Hong Kong for determining closing prices of securities and facilitating trading at market close by auction. On 28 November 2008, HKEx published a consultation paper on the introduction of a price control mechanism in the CAS. The consultation conclusions report was published on 13 February 2009. HKEx received 102 submissions from a wide spectrum of respondents. Many respondents who supported maintaining the CAS and those who favoured suspending it shared similar concerns about extreme securities price movements during the session. In this circumstance, HKEx decided to introduce a 2 per cent price limit of nominal prices at 4:00pm to restrict extreme price movements during the CAS.

Subject to the approval of the necessary rule amendments by the SFC and market readiness, implementation of the price limit during the CAS is tentatively scheduled for the second quarter of this year. HKEx will review the price limit 6 months after its implementation and seek market views on any possible adjustments.

Substantial Growth in CBBC Market

HKEx's CBBC market has grown substantially. The number of newly listed CBBCs surged to 4,231 in 2008 from 391 in 2007. Among them, 3,033 were issued on 2 Hong Kong indices, 37 were issued on 3 overseas indices and 1,161 were issued on 32 single Hong Kong stocks. During 2008, there were 10 active CBBC issuers, and 1,314 CBBCs were listed as at the end of 2008. The average daily turnover increased from under $100 million in the first 12 months after launch in June 2006 to $4.24 billion in 2008, accounting for about 6 per cent of the total market turnover in the Cash Market.

To provide a better distinction between CBBCs and DWs and between a callable bull contract and a bear contract, the Chinese short names of CBBCs were modified effective 13 May 2008.

Introduction of New Products

The first gold ETF on the Exchange, SPDR Gold Trust, was listed on 31 July 2008 to provide an additional channel to access the international gold market. Up to the end of 2008, the average daily turnover of the SPDR Gold Trust was about $19.3 million.

HKEx has been facilitating the listing of MAPs which are structured products issued on non-Hong Kong-listed underlying assets, ranging from regional and international equity indices to foreign currencies, commodities and single overseas-listed stocks, under the Main Board Listing Rules. There were 151 newly listed MAPs on the Exchange during 2008, and 99 remained listed as at 31 December 2008. The average daily turnover of MAPs was about $7 million.

Derivatives Market

Market Performance

In 2008, the total turnover of futures and options recorded a 19 per cent increase from the previous year. The annual turnover exceeded 100 million contracts for the first time on 10 December 2008. Among the main products, HSI futures and H-shares Index futures recorded the largest increases of 27 per cent and 33 per cent respectively. The total futures and options turnover volume surpassed the one-million mark for 3 trading days on 26 and 27 March and 24 September in 2008 at 1,180,005, 1,160,428 and 1,006,345 contracts respectively.

Record High Daily Volume and Open Interest Achieved in 2008

Products	**Daily Volume**		**Open Interest**	
	Date	**Number of Contracts**	**Date**	**Number of Contracts**
HSI Futures	28 Oct	224,461		N/A
Mini-HSI Futures	24 Jan	63,991	29 Oct	10,673
H-shares Index Futures	28 Oct	219,689	26 Mar	156,841
Mini H-shares Index Futures*	12 Nov	4,792	23 Jul	1,961
Mini-HSI Options		N/A	28 Oct	6,021
H-shares Index Options	18 Sep	39,016		N/A
Stock Options	27 Mar	805,947		N/A
Gold Futures#	20 Oct	480	27 Oct	248

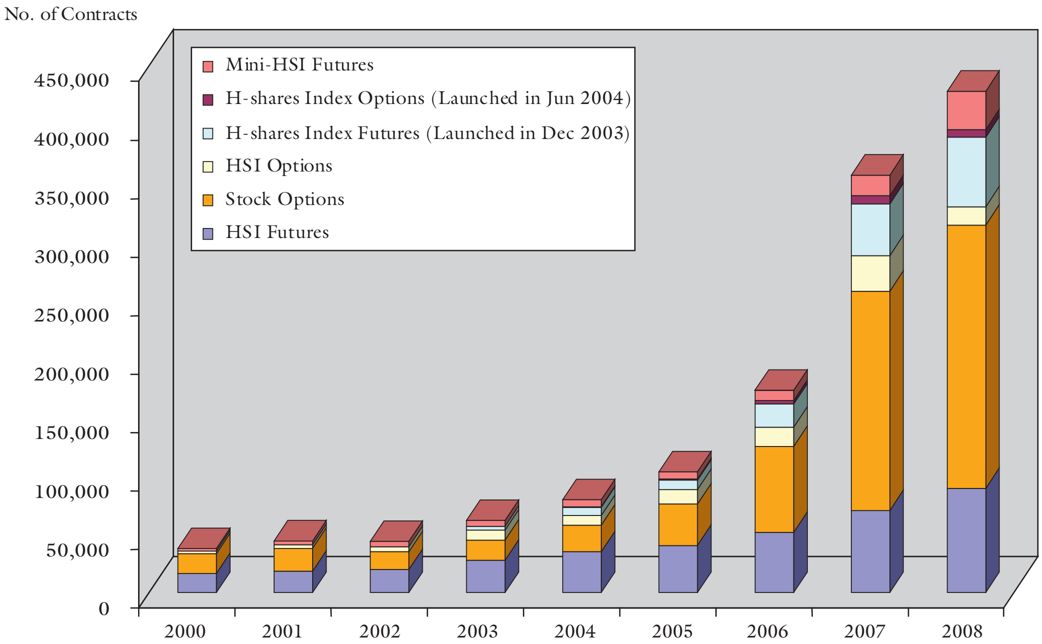
* Launched on 31 March 2008
# Launched on 20 October 2008

Derivatives Market Statistics (as at year-end)

	2008		2007	
	Volume (Contracts)	**Period-end Open Interest (Contracts)**	Volume (Contracts)	Period-end Open Interest (Contracts)
Futures				
HSI Futures	**21,716,508**	**73,034**	17,160,964	111,513
Mini-HSI Futures	**7,961,028**	**2,945**	4,325,977	3,457
H-shares Index Futures	**14,440,965**	**96,120**	10,846,277	91,786
Mini H-shares Index Futures*	**318,395**	**345**	N/A	N/A
FTSE/Xinhua China 25 Index Futures#	**39**	**0**	3,244	0
HFI Futures^	**9**	**0**	3,220	0
Stock Futures	**257,015**	**9,449**	351,514	5,954
1-Month HIBOR Futures	**891**	**91**	574	140
3-Month HIBOR Futures	**23,818**	**2,435**	31,678	1,992
3-Year Exchange Fund Note Futures	**0**	**0**	150	0
Gold Futures△	**3,075**	**132**	N/A	N/A
Total	**44,721,743**	**184,551**	32,723,598	214,842
Options				
HSI Options	**3,820,797**	**75,829**	7,480,183	174,368
Mini-HSI Options	**156,957**	**1,796**	69,512	443
H-shares Index Options	**1,613,988**	**59,592**	1,727,847	76,326
FTSE/Xinhua China 25 Index Options^	**386**	**0**	1,578	1
Stock Options	**54,692,865**	**3,984,346**	45,982,968	5,314,918
Total	**60,284,993**	**4,121,563**	55,262,088	5,566,056
Total Futures and Options	**105,006,736**	**4,306,114**	87,985,686	5,780,898

* Launched on 31 March 2008
# Last trading on 30 December 2008
^ Last trading on 23 December 2008
△ Launched on 20 October 2008

Average Daily Turnover of Major Derivatives Products (2000 – 2008)



Flexible Position Limits

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

Enhancement of Block Trade Execution Arrangement

Effective 28 April 2008, aggregation of orders on block trades by EPs for one side or both sides will be allowed upon fulfilment of certain criteria, which could facilitate booking of the OTC trades to HKEx and execution of large client orders in an efficient manner. The execution of block trades has been enhanced by allowing single entry for spread or combination trades and its transparency has also been improved by showing the number for block trades executed in each series and contract month under a separate column in HKATS.

Market Maker Obligation Revisions and Facility Improvement

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

Introduction of New Products

To meet retail investors' trading and hedging needs, Mini H-shares Index futures were introduced on 31 March 2008. They are one-fifth the contract size of the H-shares Index futures. The Commission Levy and Investor Compensation Levy for trading Mini H-shares Index futures contracts were correspondingly lowered from $0.80 and $0.50 to $0.16 and $0.10 respectively on 11 July 2008.

Corresponding to the CAS implementation in HKEx's securities market on 26 May 2008, the closing times for trading stock index futures and options were extended to 4:30pm on normal trading days and 1:00pm on half-day trading days, except the last trading day for which the closing time remains 4:00pm.

Three new stock option classes on China Railway Group Limited, China Shenhua Energy Company Limited and China Railway Construction Corporation Limited commenced trading on 10 June 2008.

To broaden the product offering in the commodities area, gold futures commenced trading on 20 October 2008. The SFC and the Constitutional and Mainland Affairs Bureau also approved the proposed amendments to the Rules, Regulations and Procedures of the Futures Exchange, enabling the Futures Exchange Trading Rights to be offered at a discounted price to members of The Chinese Gold & Silver Exchange Society ("CGSES") or its designated affiliates to trade HKFE products, including the gold futures contracts. The offer is open for application by CGSES members or its designated affiliates until 19 April 2010.

Additional Product Tradable by Taiwan Investors

In addition to HSI futures, HKEx has obtained approval from the Taiwan regulatory authority to allow Taiwan investors to trade Mini-HSI futures, with effect from 1 October 2008.

Clearing

CCASS Statistics (up to year-end)

	2008	2007
Average Daily Exchange Trades Handled by CCASS		
– Number of Trades	**577,110**	616,195
– Value of Trades ($bil)	**72.1**	88.1
– Share Quantity Involved (bil)	**110.6**	94.2
Average Daily SIs Settled by CCASS		
– Number of SIs	**63,433**	66,818
– Value of SIs ($bil)	**193.1**	205.4
– Share Quantity Involved (bil)	**50.0**	48.5
Average Daily ISIs Settled by CCASS		
– Number of ISIs	**566**	945
– Value of ISIs ($mil)	**220.2**	351.5
– Share Quantity Involved (mil)	**181.6**	252.7
Average Daily Settlement Efficiency of CNS Stock Positions on Due Day (T+2)	**99.81%**	99.70%
Average Daily Settlement Efficiency of CNS Stock Positions on the Day following the Due Day (T+3)	**99.98%**	99.97%
Average Daily Buy-ins Executed on T+3		
– Number of Brokers Involved	**8**	20
– Number of Buy-ins	**11**	24
– Value of Buy-ins ($mil)	**8.4**	15.0
Shares Deposited in the CCASS Depository		
– Number of Shares (bil)	**3,408.3**	3,570.4
– Percentage of Total Issued Share Capital of the Admitted Securities	**72.57%**	74.95%
– Value of Shares ($bil)	**5,040.5**	10,438.9
– Percentage of the Total Market Capitalisation of the Admitted Securities	**44.62%**	47.02%

Stock Withdrawal Fee Concession

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

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

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

CCASS Service Enhancements

On 28 April 2008, the number of SSAs used by CCASS Clearing and Custodian Participants for internal control and reconciliation purposes was increased from 9 to 15, and the digital certificates used by listed issuers to download Participant Shareholding Reports were replaced by user IDs and passwords.

Effective 15 December 2008, the CCASS eIPO refund mechanism was enhanced with the help from the Hong Kong Interbank Clearing Limited ("HKICL") and the support of the banks whereby Participants using the CCASS eIPO service are able to use the refund of their eIPO application monies on the IPO refund day, ie, 1 day earlier than before.

Introduction of CCASS Shareholding Disclosure Service

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

CCASS Participants to Receive Settlement Monies for CNS Transactions in Good Funds on T+2 Settlement Day

Effective 27 October 2008, CCASS Participants are provided with the option of receiving from 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 Participants' overnight credit risk and helps 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 outstanding positions settled 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 HKICL whereby CCASS Participants can only receive settlement monies for CNS transactions in good funds in the morning of T+3.

New DCASS Backup Centre

Effective 21 November 2008, DCASS Participants may use the DCASS terminals available at the new backup centre free of charge on a first-come-first-serve basis. The new backup centre offers DCASS Participants additional means to manage emergency situations when they cannot access DCASS from their offices due to technical reasons such as power failure. The DCASS backup centre is located at HKEx's newly renovated training facility at Vicwood Plaza and is open from 10:00am to 6:45pm, Monday to Friday except public holidays.

CCASS Depository Counter Expansion

On 15 December 2008, HKSCC expanded the CCASS Depository counter area by adding 15 counters to ensure efficient customer service for the deposit and withdrawal of physical certificates by CCASS Participants. With a total of 32 counters operating at the CCASS Depository, we aim to shorten our customers' waiting time to no more than 15 minutes even during times of high market turnover and concurrent IPOs.

Participant Services

Streamlining Admission and Registration Procedures for EPs

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

Participant Training and Market Education

In 2008, HKEx organised 59 Continuous Professional Training ("CPT") courses jointly with HKSI on the services and products in HKEx's markets for about 1,800 market participants. A number of the training courses on AMS/3 and HKATS were also held to familiarise EPs with the operation of the trading devices and the relevant rules and procedures.

In addition, 34 briefing sessions and seminars were held specifically on our derivatives products for over 3,600 representatives from EPs in 2008. Since September 2008, we have sponsored a number of EPs in organising a series of gold futures marketing activities such as online trading simulation games and online question-and-answer games on EPs' websites, and educational seminars.

EP Recruitment

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

In 2008, 17 SEHK Participants and 12 HKFE Participants were newly admitted, including those from Australia, France, Switzerland, Taiwan, the Mainland and the Netherlands. Up till now, there have been a total of 9 EPs admitted from the Mainland through CEPA.

Number of Trading Right Holders (as at the end of December 2008)

	SEHK		HKFE	
	Trading Right Holders	Trading Rights Held	Trading Right Holders	Trading Rights Held
EPs	487	896	148	172
Trading	449	854	148	172
Non-trading	38	42	0	0
Non-EPs	35	35	52	54
Total	522	931	200	226

Number of CCASS Participants (as at the end of December 2008)

	HKSCC
Clearing Agency Participant	1
Custodian Participants	35
Direct Clearing Participants	452
General Clearing Participants	5
IPs	21,475
Stock Lender Participant	0
Stock Pledgee Participants	5
Total	21,973

Promotional Activities

Listing Promotional Activities in the Mainland

Our Beijing Representative Office works closely with local government authorities to promote the listing of companies in Hong Kong. In 2008, our Chairman and/or Chief Executive made courtesy visits to Beijing, Hangzhou, Shanghai and Shenzhen to further strengthen relationships with the Mainland regulators and government authorities.

During 2008, HKEx organised/co-organised 13 major seminars and roundtable meetings in various provinces in the Mainland. In February 2008, our Chairman visited Hebei and in July 2008, he led Hong Kong financial services delegations which included senior executives from investment banks, accountants, lawyers and venture capitalists to Fujian to promote the Hong Kong fund-raising platform to Mainland enterprises. In November 2008, our Chief Executive led another delegation to Nanjing to participate in the “Listing in Hong Kong Conference” organised by HKEx.

In order to attract quality companies to list in Hong Kong, over 80 marketing trips involving presentations and one-on-one meetings with potential issuers were arranged in more than 50 cities throughout China in 2008.

Major Events Organised by HKEx in the Mainland in 2008

Date	Place	Event/Joint Organiser(s)	Number of Attendees
21 Feb	Shijiazhuang, Hebei	Hong Kong Listing Roundtable Meeting/ Hebei Provincial People’s Government Financial Office	40
22 May	Dalian, Liaoning	Fund-raising and Listing Conference/Dalian Financial Office	150
25 Jun	Jiangyin, Jiangsu	Hong Kong Listing Promotional Roundtable Meeting for Jiangyin Enterprises/Listing Office of Jiangyin city, Jiangsu Province	30
9-10 Jul	Fuzhou and Xiamen, Fujian	Hong Kong Listing Roundtable Meeting/Development and Reform Commission of Fujian Province and Development and Reform Commission of Xiamen	240
22 Jul	Guangzhou, Guangdong	Hong Kong Listing and Fund-raising Workshop for Guangzhou Software and High-tech Companies/Guangzhou Municipal Government departments and Invest Hong Kong	100
23 Jul	Wenzhou, Zhejiang	Hong Kong Listing Roundtable Meeting/Wenzhou Economic Institute	50
31 Jul	Shanghai	Hong Kong Listing Promotional Roundtable Meeting for the Private Enterprises of Changning District, Shanghai/Changning Commercial and Industrial Association of Shanghai	30
5 Aug	Shenzhen, Guangdong	GEM Listing and Fund Raising Workshop/Administrative Office of Shenzhen High-tech Industry Park	120
11 Sep	Shenyang, Liaoning	Conference on Fund-raising and Listing in Hong Kong/ Liaoning Provincial People’s Government Financial Office	200
20 Oct	Guangzhou, Guangdong	Hong Kong-Guangdong Financial Services Forum/ FSTB and Guangdong Financial Services Office	300
28 Oct	Chengdu, Sichuan	Hong Kong Listing Roundtable Meeting/Hong Kong Economic and Trade Office at Chengdu, Invest Hong Kong and Economic Committee of Sichuan Province	100
26 Nov	Nanjing, Jiangsu	Listing in Hong Kong Conference/Jiangsu Economic and Trade Commission	190

Listing Promotional Activities in Hong Kong and Overseas

In 2008, we co-organised 3 conferences to promote listing in Hong Kong. The one held in October focused on the latest development of the revamped GEM. As part of our initiatives to attract enterprises in Hong Kong, we joined business associations, chambers and incubation centres to promote to their member firms the advantages of listing in Hong Kong.

In 2008, 4 conferences to promote listing in Hong Kong were organised in India, Mongolia, Russia and the US. At the conferences held in Moscow and Silicon Valley, the Secretary for Financial Services and the Treasury, Professor K C Chan, was invited to be the keynote speaker.

Throughout 2008, more than 30 trips were made to various markets worldwide, including Australia, Canada, India, Japan, Kazakhstan, Korea, Malaysia, Mongolia, Russia, Taiwan, the UK, the US, Ukraine and Vietnam. With increasing interests in Hong Kong as an international market for the listing of resources companies, we participated in a number of important mining industry events in Hong Kong and overseas.

Major Events Organised by HKEx in Hong Kong and Overseas in 2008

Date	Place	Event/Joint Organiser(s)	Number of Attendees
7 Apr	Mumbai, India	Workshop on India-Hong Kong Financial Sector Co-operation/ National Stock Exchange of India and Infrastructure Leasing & Financial Services Limited	70
17 Apr	Ulaanbaatar, Mongolia	IPO in Hong Kong Conference/ Foreign Investment and Foreign Trade Agency of Mongolia	250
15 May	Santa Clara, California, US	Globalisation through Hong Kong's Capital Markets/ Hong Kong Government Hong Kong Economic and Trade Office, San Francisco, Invest Hong Kong and Santa Clara Chamber of Commerce	270
4 Jun	Moscow, Russia	IPO in Hong Kong Conference/ Russian-Chinese Business Council and All-Russia Organisation	180
10 Jun	Hong Kong	Listing on HKEx – an International Market in Asia for Mining Companies/ Beacon Events and Mining Journal	160
23 Oct	Hong Kong	Listing in Hong Kong Seminar for Japanese Companies/ Deloitte Touche Tohmatsu	60
31 Oct	Hong Kong	HKEx Conference on GEM/ Chinese General Chamber of Commerce, Chinese Manufacturers' Association of Hong Kong, Federation of Hong Kong Industries, Hong Kong General Chamber of Commerce, Hong Kong Productivity Council and Hong Kong Science & Technology Parks	200

Training Programmes regarding Listing in Hong Kong

During 2008, HKEx co-organised 2 training programmes in Hong Kong with the Hong Kong Polytechnic University and the State Council's Office of Hong Kong and Macau Affairs Research Institute. The training programmes were targeted at accounting and finance senior management of H-share companies, and covered corporate governance areas and the latest rules and regulations relating to listing in Hong Kong.

Promoting HKEx's Markets

HKEx participated in different activities in relation to the financial industry organised by various Hong Kong and overseas financial organisations. These included our participation as an exhibitor in the International Derivatives Expo and the Asia Derivatives Conference 2008 to promote HKEx's Derivatives Market, and as an exhibitor and panel speakers at the Asia Pacific Financial Information Conference to promote HKEx's information services. Through meetings with different market participants and discussions on market development matters at these promotional events, we had successfully obtained useful feedback for service and product developments in our markets.

Major Events Participated by HKEx to Promote HKEx's Markets in 2008

Date	Place	Event/Organiser(s) or Sponsors
10-11 Jun	London	International Derivatives Expo/ Futures Industry Association and Futures and Options Association
6-15 Jul	US	Retail and Institutional seminar/ Daiwa Securities
11-15 Jul	Japan	Retail and Institutional seminar/ Daiwa Securities
4 Sep	Hong Kong	13th Asia Securities Forum 2008/ Hong Kong Stockbrokers Association
17-19 Sep	Tokyo	Asia Derivatives Conference 2008/ Futures Industry Association
29 Sep	Hong Kong	Hong Kong Investment Funds Association 2nd Annual Conference
20-22 Oct	Hong Kong	Asia Pacific Financial Information Conference/ Financial Information Services Division ("FISD") of Software & Information Industry Association ("SIIA") and HKEx
17-19 Nov	Nanjing	1st International Futures Forum, Jiangsu, China/ Financial Office of Jiangsu Provincial Government and Jiangsu Futures Association
15-22 Nov	Europe	Retail and Institutional seminar/ Daiwa Securities
3 Dec	Shenzhen	4th China International Derivatives Forum/ China Futures Association, Shenzhen Stock Exchange and Shenzhen Government
9 Dec	Hong Kong	4th Asia Economic Summit/ Asia Society

Information Services

Market Performance

As at the end of 2008, there were 112 and 41 real-time information vendor licences for Cash Market data and Derivatives Market data respectively (2007: 92 and 41 respectively). The licensed information vendors altogether offered a total of 699 types of real-time market data services to the market (2007: 555).

The number of delayed market data vendors increased to 75 as at the end of 2008 (2007: 42), representing a growth of more than 70 per cent.

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

HKEx extended its discount programme for Mainland users of its real-time securities market data to the end of 2010. Against the maximum regular monthly fee of $200, discounted monthly fees of $80 and $120 remain in place for retail end-users and corporate end-users respectively until the end of 2009 but they will be adjusted to $100 and $160 respectively effective 1 January 2010. A futures data package without market depth will continue to be offered together with the securities market data free of charge despite the regular rate at $25.

As at the end of 2008, there were 28 authorised information vendors registered under the programme (2007: 22).

Review of Vendor Licensing Procedures and Requirements

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

The technical requirements for direct connection MDF vendors were tightened to ensure that their systems are capable of properly receiving our market data.

Information vendors are also required to provide their customers with detailed technical requirements for their information services. A list of real-time services offered by individual licensed information vendors as well as their key features has been published on the HKEx website since the end of September 2008.

HKEx's application procedures for real-time information vendors have been tightened and formalised to improve efficiency and to increase the predictability of the process. HKEx endeavours to inform a potential licensee of its application result within 4 weeks after the applicant has submitted a properly completed licence application form and paid the applicable deposit. During 2008, the minimum paid-up capital requirement was increased from $5 million to $7.5 million for vendor applicants who are not EPs.

The new requirements and vendor application procedures were published and took effect at the end of March 2008, with a grace period given to existing real-time data vendors until September 2008.

Membership of FISD of SIIA

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

Development of MDF Simulator

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

IIS Indirect Connections

To facilitate the wider distribution of listed issuers' announcements, effective June 2008, IIS vendors are allowed to source IIS data indirectly from another IIS vendor which is connected to the HKEx's IIS host system directly. The vendor licence fee for IIS remains unchanged at $45,000 per quarter for both IIS direct and indirect connection vendors.

Proposal to Provide Free Basic Real-time Market Prices on Websites

On 18 September 2008, HKEx issued a request for the expression of interest ("RFI") in developing a business model for free dissemination of its basic real-time market prices on selected websites. HKEx has short-listed 12 candidates from the 34 responses to the RFI for submission of full proposals. All 12 shortlisted candidates submitted full proposals to HKEx before the deadline on 6 January 2009. Evaluation of the full proposals is expected to be completed in the first quarter of 2009 and the launch of service is expected in the second half of 2009.

We believe that the new service will increase market transparency, raise the profile of the Hong Kong securities market, particularly in the Mainland, and generate a new revenue source for HKEx.

Mainland Market Data Collaboration Programme

On 20 October 2008, HKEx Information Services Limited and the SSE Infonet Limited, the information business subsidiaries of HKEx and the Shanghai Stock Exchange respectively, signed an agreement for a market data collaboration programme with an aim to enhance the transparency of the issuers whose shares are dually listed in the two markets and help Mainland investors to have better understanding of the operations of the Hong Kong securities market. By the end of 2008, there were 49 issuers with listings in both Hong Kong and Shanghai, and therefore covered under the programme.

The Mainland Market Data Collaboration Programme between HKEx and the Shanghai Stock Exchange came into effect on 1 January 2009. It will last for 2 years until the end of 2010. A total of 12 information vendors have signed up for the programme as of its effective date and more are expected to join. A total of 28 new services have since been introduced including real-time streaming and snapshot data services delivered via leased-lines, the Internet, mobile phones, PDAs (personal digital assistants) and pagers.

Compliance and Unauthorised Dissemination

With the objective of maintaining a level playing field and a market environment that encourages fair competition, HKEx delivers presentations on vendor management and selects vendors for annual inspection to ensure compliance with the contractual requirements. In 2008, a total of 24 (2007: 22) information vendors were included in the Vendor Inspection Programme, representing 68 per cent (2007: 74 per cent) of our total information income. A total of 20 unauthorised dissemination cases were resolved in 2008 (2007: 24) to better protect investors.

Information Technology

Production Systems Stability and Reliability

All major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets operated by HKEx continued to maintain 100 per cent operational system uptime during the year despite the market volatility during the year. HKEx remains committed to upholding system stability and reliability.

System Capacity Planning and Upgrade

HKEx has proactively initiated and completed capacity and technology upgrades for all its key IT systems and infrastructure.

For the Cash Market, the capacity and technology upgrades for AMS/3, CCASS/3, and MDF were successfully completed during the first quarter of 2008. The entire Cash Market infrastructure is now capable to support 5 million trades per day, an increase of 3.5 million trades per day.

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

The SDNet, the next generation network for HKEx's securities and derivatives markets, bandwidth upgrade, involving more than 2,100 circuits for various AMS/3 trading devices, was completed in August 2008, which increases the market data dissemination rate for stock price updates from 300 stocks per second to 500 in order to cope with the rapid rise in the number of stock counters and the corresponding growth in data traffic for stock price updates.

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

In addition, the bandwidth of all Derivatives Market circuits for EPs was upgraded from 256 kbps (kilobits per second) to 1 mbps (megabits per second) in September 2008 to enable HKATS to accommodate large 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 5 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

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

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

System Consolidation and Operational Efficiency

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

In June 2008, HKEx completed the development of PFRSS to automate the processing of EPs' financial return data, which will further enhance HKEx's analysis and market surveillance capabilities.

In December 2008, HKEx completed the enhancement to PIS to support data import from the participant database maintained by the SFC. The enhancement streamlines HKEx's operational efficiency and helps avoid dual filing by EPs of information update.

Independent Review of Information Technology Governance ("ITG") and 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 the EDS.

HKEx Website Revamp

A consultant has been selected for the HKEx website revamp project which includes reviewing the existing features, making recommendations for improvements and implementing recommendations approved by HKEx. We aim to benchmark our website with local and international best practices. The revamped website is anticipated to be launched in the third quarter of 2009.

HKEx Data Centre and IT Office Consolidation

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

Risk Management

Measures for Failed Settlement of CNS Short Stock Positions

After giving consideration to CCASS Participants' comments, HKSCC expanded the scope of buy-in exemption grounds and introduced a cap of the default fee for failed settlement of CNS short stock positions. The cap was set at $100,000 per position for any failed settlement of CNS short stock position(s) effective 23 January 2008. Unless the prescribed buy-in exemption grounds are met, CNS short stock positions which are not settled on T+2 are subject to buy-in and default fees. In direct cooperation with the SFC, the default fee was also increased from 0.25 per cent of the market value of each CNS short position to 0.50 per cent effective 2 October 2008. The maximum default fee per position remains unchanged.

Enhancements to Holiday Margin Arrangements

Holiday margin is designed to help mitigate the potential cumulative market risks caused by overseas market movements during periods when Hong Kong markets are closed. The holiday margin arrangements of HKCC and SEOCH were revised effective 1 December 2008 to simplify the triggering condition for margin changes and to refine the calculation by adopting a more precise methodology to determine margin levels during Hong Kong holiday periods.

Strengthening of Intra-day Risk Management Arrangements

HKCC's intra-day risk management arrangements were strengthened with the introduction of a routine 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; (ii) Participants' latest positions and the prevailing market price levels; and (iii) Participants who have breached certain thresholds. The new measures were additions to the ad hoc intraday call measures that were already in place and implemented on 8 December 2008 after providing a 3-month notification period to the HKCC Participants.

Default by 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 the Board and executive management of HKEx to the SFC regarding the material repercussions of restriction notices in such circumstances not permitting the settlement of outstanding positions in CCASS.

Consequential to the issue of the restriction notice, LBSA was declared a defaulter and its outstanding positions were promptly closed out by HKSCC in accordance with the CCASS Rules. HKSCC incurred a loss of approximately $155 million (including costs and expenses net of recoveries up to 31 December 2008) as a result of such closing-out. The accounting treatment of the loss and details concerning potential means of loss recovery are set out in note 11(a) to the consolidated accounts of this Annual Report. HKSCC will seek recovery of the closing out loss via the LBSA liquidation process.

Since the LBSA default HKEx has had a series of discussions with the SFC on how to gain SFC's support for permitting the orderly settlement of outstanding CCASS positions under similar circumstances in the future and as specifically provided for in the SFO. HKEx also introduced additional risk management measures permitted under the CCASS Rules which provide for the requirement of additional collateral from Participants based on a range of risk based criteria in order to enhance the level of protection of HKSCC and the HKSCC Guarantee Fund against the risk of material loss in the event of another sizeable default. These added measures were made effective 22 September 2008.

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

On 16 September 2008, the SFC also 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 clients' instructions being confirmed.

LBFA was initially granted 1 day by the SFC to manage the close-out and transfer process and that deadline was subsequently extended by the SFC for an additional day. LBFA closed part of its options and futures positions during this two-day period. 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 of all remaining positions which was initiated and concluded successfully before market close on 18 September 2008 under 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. In accordance with its Rules, HKCC has refunded all surplus margin collateral to LBFA's provisional liquidator.

Treasury

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling $62.3 billion on average in 2008 (2007: $49.7 billion).

As compared with 31 December 2007, the overall size of funds available for investment as at 31 December 2008 decreased by 22 per cent or $15.3 billion to $53.8 billion (2007: $69.1 billion). Details of the asset allocation of the investments as at 31 December 2008 against those as at 31 December 2007 are set out below.

	Investment Fund Size $ billion		Bonds		Cash or Bank Deposits		Global Equities	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Corporate Funds	**10.8**	11.5	**50%**	50%	**48%**	47%	**2%**	3%
Margin Funds	**41.8**	55.4	**39%**	30%	**61%**	70%	**0%**	0%
Clearing House Funds	**1.2**	2.2	**30%**	16%	**70%**	84%	**0%**	0%
Total	**53.8**	69.1	**41%**	33%	**59%**	66%	**0%**	1%

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the Clearing House Funds and Margin Funds. Excluding equities and mutual funds held under the Corporate Funds ($0.2 billion as at 31 December 2008 and $0.3 billion as at 31 December 2007), which have no maturity date, the maturity profiles of the remaining investments as at 31 December 2008 ($53.6 billion) and 31 December 2007 ($68.8 billion) were as follows:

	Investment Fund Size $ billion		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		> 3 years	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Corporate Funds	**10.6**	11.2	**42%**	33%	**4%**	13%	**37%**	36%	**11%**	12%	**6%**	6%
Margin Funds	**41.8**	55.4	**32%**	41%	**35%**	26%	**33%**	32%	**0%**	1%	**0%**	0%
Clearing House Funds	**1.2**	2.2	**66%**	84%	**13%**	0%	**21%**	16%	**0%**	0%	**0%**	0%
Total	**53.6**	68.8	**35%**	41%	**28%**	23%	**34%**	32%	**2%**	3%	**1%**	1%

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 31 December 2008, had a weighted average credit rating of Aa2 (2007: Aa1) and a weighted average maturity of 0.6 year (2007: 0.6 year). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk ("VaR") and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (1 year is used by the Group). The overall risk, as measured by the VaR methodology, during 2008 and 2007 was as follows:

	Average VaR $ million		Highest VaR $ million		Lowest VaR $ million	
	2008	2007	**2008**	2007	**2008**	2007
Corporate Funds	**17.9**	15.0	**22.0**	19.1	**15.0**	11.2
Margin Funds	**23.8**	13.8	**31.3**	25.7	**17.1**	10.1
Clearing House Funds	**0.6**	0.4	**0.9**	0.6	**0.2**	0.1

Details of the Group's net investment income are set out in the Revenue and Other Income section under the Financial Review and note 8 to the consolidated accounts of this Annual Report.

2008 Initiatives	2008 Achievements	2009 Initiatives
Listing		
• Publish a combined consultation paper on proposed changes to the Listing Rules • Establish a depository receipt framework • Implement a revised suspension policy • Review the CG Code • Commence the "convergence" review of the Generally Accepted Accounting Principles (GAAP), and the Generally Accepted Auditing Standards (GAAS) of the People's Republic of China, and Auditor Oversight, together with other disclosure requirements • Complete GEM review and implement proposals • Codify the WPIP requirements in the Listing Rules • Launch the HKExnews website • Implement proposals on periodic financial reporting	• Launched pilot scheme on 1 January for posting a WPIP on the HKEx website prior to the issue of an IPO prospectus • Published the 2008 CCP on 11 January covering 18 substantive policy issues and the conclusions on 28 November on 15 of the 18 substantive issues • Launched the HKExnews website on 4 February • Published a report on the findings from the second annual review of listed issuers' corporate governance practices on 29 February • Introduced the revised suspension policy on 10 March • Published a joint consultation with the SFC on issue of paper application forms with electronic prospectuses • Published GEM consultation conclusions on 2 May • Implemented the HDR framework on 1 July • Published consultation conclusions on 18 July to shorten the deadlines for Half-Year and Annual Reporting by Main Board issuers • Started publishing listing enforcement guidance letters and RFA Announcements on the HKEx website • Conducted a strategic review of Listing Rules • Worked with FSTB, HKICPA and the Ministry of Finance on deriving an implementation framework in respect of acceptance of PRC accounting standards and audit firms	• Publish consultation conclusions on the 3 remaining issues in the 2008 Combined Consultation Paper • Continue review of CG Code • Finalise the implementation framework in respect of acceptance of PRC accounting standards and audit firms • Publish consultation paper on WPIP requirements in the Main Board Listing Rules • Consider quarterly reporting requirements for Main Board issuers • Review Chapter 18 of the Main Board Listing Rules regarding the requirements applicable to mining and resources companies • Consider the Listing Rules strategic review recommendations • Publish consultation paper on review of IPO documentary requirements • Publish consultation paper on reform of the continuing disclosure obligation • Work with SFC and FSTB for enhancement of statutory backing for disclosure requirements • Pursue e-filing for DI
Cash Market		
• Implement CAS • Further increase the market data broadcast rate • Implement the tick rule suspension • Introduce five-digit stock codes • Implement the EP portal • Review parallel trading arrangement • Review price warning and quotation rules	• Modified the Chinese short names of CBBCs on 13 May • Rolled out the five-digit stock codes on 7 April • Implemented CAS on 26 May • Increased market data broadcast rate in January and August • Put on hold the tick rule suspension proposal due to market conditions • Introduced the MAP regime in January and the listing of SPDR Gold Trust on 31 July • Consulted the market on the introduction of a price control mechanism on 28 November as part of the CAS review	• Publish consultation conclusions on the introduction of a price control mechanism in CAS • Implement changes to CAS with a 2 per cent price limit of nominal prices at 4 pm to restrict extreme price movements • Automate stamp duty payment • Continue supporting issuers on product development • Promote market awareness on products risks
Derivatives Market		
• Introduce Mini H-shares Index Futures and new stock option classes • Change closing time for trading stock index futures and options upon implementation of the closing auction session • Conduct a feasibility study of gold futures • Improve the infrastructure to minimise barriers for acceptance of OTC trades • Improve market liquidity through enhancements to market making services • Further relax position limits • Review the final settlement price determination method for stock index futures and options	• Increased position limits up to 50 per cent for HSI and H-shares index futures and options effective 3 January • Allowed aggregation of orders for block trades subject to fulfillment of certain criteria effective 28 April • Enhanced market makers' services in terms of quote rates and size requirements effective 2 July • Enhanced block trades execution by allowing single entry for spread or combination trades and improved its transparency in March • Introduced Mini H-shares Index futures on 31 March with levies reduction in July • Extended the closing time for index futures and options to 4:30 pm upon implementation of CAS on 26 May • Introduced 3 new stock option classes on 10 June • Introduced gold futures 20 October • Obtained approval for Taiwan investors to trade Mini HSI futures effective 1 October	• Introduce futures contracts on Certified Emission Reductions units subject to market consultation and acceptance • Study the feasibility of introducing futures and options on precious metals • Entice and facilitate derivatives market participation by overseas institutional investors • Seek position limit adjustments for key contracts to accommodate growth • Study the feasibility of introducing flexible options for actively traded equity index option contract

2008 Initiatives	2008 Achievements	2009 Initiatives
Clearing		
• Increase the CCASS immobilisation rate • Admit share registrars as CCASS Participants to facilitate electronic access to CCASS • Study the refund of eIPO application monies with good funds available to CCASS Participants on refund day • Implement a CCASS shareholding disclosure service to the public	• Increased immobilisation rate in CCASS by completing the transfer of holdings from a major custodian bank • Considered the proposals of the share registrars on the registrar participantship model • Reduced the stock withdrawal fee effective 14 January • Lowered the ITM triggering percentage for automatic generation of stock options exercise request effective 30 January • Introduced the CCASS shareholding disclosure service effective 28 April • Increased the number of SSAs used by CCASS Clearing and Custodian Participants from 9 to 15 and replaced the digital certificates used by listed issuers to download Participant Shareholding Reports by user IDs and passwords effective 28 April • Provided CCASS Participants with the option to receive settlement monies for CNS transactions in good funds on T+2 settlement day effective 27 October • Provided DCASS Participants with a new backup centre for free from 21 November • Enhanced the CCASS eIPO refund mechanism effective 15 December • Expanded the CCASS Depositary counter area effective 15 December	• Continue working on the share registrar participantship model and to admit share registrars as CCASS Participants • Re-visit the scripless initiative • Study the T+2 finality for money settlement of CNS positions, and Isolated Trades and SIs transactions
Participant Services		
• Streamline the Participant registration process • Sponsor Participant training programme and promote market education • Admit more EPs	• Streamlined the admission and registration procedures for EPs effective 20 June • Organised 59 CPT courses with HKSI on the services and products in HKEx's markets • Held 34 briefing sessions and seminars on products of HKEx's Derivatives Market • Sponsored 10 OTEPs to conduct 11 briefing sessions for their staff and 10 public seminars for their clients on stock options, and arranged 21 Interactive Options Training courses • Sponsored other EPs to conduct briefing sessions for their staff, public seminars for their clients and On-line Q&A Games and On-line Simulation Trading Games regarding gold futures • Sponsored 12 EPs in the Joint Promotion Program on Mainland-related futures and options • Sponsored Online Simulation Trading Games regarding Mini H-shares Index Futures launched by 3 EPs on their websites • Organised a seminar in Beijing to attract Mainland brokers to become EPs and admitted brokers from the Mainland as EPs	• Participate as co-sponsor in the Joint Promotion Program with EPs for product promotion, and continue conducting Online Q&A Games on their websites • Conduct Interactive Options Training courses for OTEPs' staff and clients to promote stock options • Continue promoting HKEx's markets and services to admit more EPs
Promotional Services		
• Organise promotional activities in overseas to attract new listings of foreign companies from particularly the Asian region and companies having nexus with the Mainland • Organise promotional activities in Hong Kong to attract local and Mainland companies to list in Hong Kong • Organise promotional activities in the Mainland to more quality Mainland companies to list in Hong Kong • Strengthen the relationship with Mainland regulators, ministries, and provincial and municipal governments • Promote secondary market institutional related-business • Arrange training programme on Hong Kong listing requirements in particular for the Mainland companies • Conduct investor education in the Mainland upon the launch of the Pilot Programme for Direct Foreign Portfolio Investments by Domestic Individuals • Continue promoting HKEx's products and services	• Organised 4 conferences in India, Mongolia, Russia and the US respectively to promote Hong Kong listing • Devoted more resources to promote HKEx as a major exchange for listing of mining companies in Asia • Made over 30 trips to other markets outside of the Mainland to promote Hong Kong as a preferred fund-raising centre in Asia • Held 3 conferences in Hong Kong to promote listing on the Exchange, including the revamped GEM • Organised 13 major seminars and roundtable meetings in the Mainland • Conducted over 80 trips for conducting presentations and arranging one-on-one meetings with potential issuers and government officials from about 50 cities in the Mainland • Developed close cooperation and coordination with the Mainland authorities and regulators • Co-organised 2 training programme on corporate governance and Listing Rules for H-share companies in particular • Organised an Investment Expo to promote Mainland-related equity futures and options to retail investors in January 2008 • Participated in global industry conferences and exhibitions in London and Tokyo and the forums in the Mainland to promote HKEx's Derivatives Market • Participated in the activities organised by various financial institutions to promote HKEx's markets • Sponsored the Asia Pacific Financial Information Conference in October to promote HKEx's Information Services • Organised 2 briefing sessions on new system arrangements for information vendors	• Continue promotional activities in Hong Kong, the Mainland and selected overseas markets to attract more quality companies to list in Hong Kong • Enter into cooperation agreement with the Mainland exchanges • Strengthen the relationship with the Mainland regulators, ministries and provincial and municipal governments • Collect market intelligence about the Mainland securities market development • Organise industry-specific Hong Kong listing promotional workshops • Collaborate with local business associations to organise promotional activities in Hong Kong to attract companies, in particular the small medium enterprises, to list in Hong Kong • Further introduce HKEx's strengths as a listing center for overseas mining and energy companies with business nexus with the Mainland • Continue promoting HKEx's products and services

2008 Initiatives	2008 Achievements	2009 Initiatives
Information Services		
• Further strengthen technical requirements for information vendors and ensure compliance • Streamline vendor licensing regime • Further develop the Mainland market • Enrich Derivatives Market datafeed content • Introduce a new pricing model and contract for end-user direct datafeeds for non-display applications • Facilitate growth of OTFS • Explore additional options to facilitate global connectivity for overseas data vendors and users	• Commenced OTFS in early 2008 • Extended the Real-time Market Data Discount Programme for Mainland users to the end of 2010 • Tightened the business and technical requirements for MDF direct connection information vendors in March • Implemented the new vendor application procedure in March • Became an Exchange Member of FISD in April • Delivered the MDF Simulator to all MDF direct connection vendors in May • Introduced the IIS indirect connections effective June • Kicked off the project for the provision of free real-time last trade prices on websites • Signed agreement with SSE Infonet Limited on Market Data Collaboration Programme on 20 October	• Launch free real-time last trade prices on websites • Broaden distribution network of HKEx market data by facilitating direct access to HKEx market data systems via Mainland and overseas information vendors; and introducing single licence for securities and derivatives data • Further promote the market data business in the Mainland • Enhance the Derivatives Market datafeed services with enriched data contents and upgraded system capacity • Finalise the requirements for a new market data system to support next generation trading system, AMS/4
Information Technology		
• Further upgrade AMS/3, MDF, CCASS/3, DCASS and PRS • Study AMS/3 technical architecture design for improvement of AMS/3 capacity throughput by 10 times • Upgrade HKATS and DCASS application to Release 19.1 • Launch the HKExnews website • Commence HKEx's corporate website revamp and further capacity upgrade • Upgrade the capacity and technology of Securities Market Automated Surveillance System (SMARTS) • Support and facilitate independent reviews of ITG and EDS • Commence derivatives data centre and IT offices consolidation	• Completed all market system capacity and technology upgrades, namely AMS/3, MDF, CCASS/3, DCASS and PRS • Completed AMS/3 technical revamp study and prototyping exercise • Upgraded HKATS and DCASS application to Release 19.1 • Launched the HKExnews website • Commenced the HKEx website revamp project • Upgraded the capacity and technology of SMARTS • Completed the independent reviews of ITG and EDS • Commenced derivatives data centre and Derivatives IT offices consolidation to Quarry Bay • Completed the PIS enhancements	• Conduct AMS/3 and MDF technical revamp for a further 100 per cent increase of order rate capacity • Conduct high level solution design and prototyping for AMS/4 • Conduct further HKATS and PRS capacity upgrade to support the substantial growth of the Derivatives Market • Upgrade and replace HKATS/DCASS middle-tier tunnel servers and gateway server • Conduct CCASS/3 architectural restructuring and system level tuning to align with AMS/3 technical revamp • Complete the derivatives data centre and derivatives IT offices consolidation to Quarry Bay • Support and facilitate independent reviews of core mission critical systems for HKATS, DCASS and PRS • Launch the revamped HKEx website
Risk Management		
• Review all risk management policies and arrangements • Implement the PFRSS	• Reviewed, designed and implemented the relevant risk management measures (ie, rule changes, margining methodology, risk management system testing and related controls) to facilitate the successful introduction of several new products and services • Implemented the new PFRSS in July • Completed preliminary due diligence/self-assessment of HKEx's risk management framework in August • Reviewed existing HKSCC risk management measures and introduced specific enhancements designed to address heightened levels of systemic risk in September • Completed review of HKEx's Market Contingency Plan documentation and identified enhancements to be implemented in 2009 • Increased default fees for failed settlement of CNS short positions effective 2 October • Enhanced the holiday margin arrangements of HKCC and SEOCH effective 1 December • Strengthened HKCC's intra-day risk management arrangements effective 8 December	• Finalise a report detailing specific recommended actions tied to the completion of due diligence review of HKEx's risk management framework • Complete an updated review of HKEx capital adequacy (covering counterparty default and stress assumptions and Guarantee and Reserve Funds) • Review means of enhancing HKSCC counterparty risk management measures specific to CCASS settlement risk • Update the key components of HKEx's Risk Management Charter • Review and update HKEx's Market Contingency Plan documentation • Design and implement new system and policies specific to HKEx's enterprise risk management tracking and reporting • Review and update HKEx's Counterparty Risk Management Policies • Deliver appropriate risk management support to facilitate the successful delivery of HKEx's new products and services for 2009

HKEx Group – Overview of 2008 Results and Financial Position

Consolidated Statement of Financial Position

	Note	2007 $'000
Assets		
Fixed assets, land and properties	6	378,282
Clearing House Fund and Margin Fund ("Funds") assets	7	57,632,173
Investments and time deposits		6,745,736
Cash and cash equivalents		4,744,711
Non-current assets held for sale	8	64,092
Other assets	9	18,390,276
		87,955,270
Liabilities		
Participants' contributions to Funds	10	56,925,743
Participants' admission fees received		85,600
Other liabilities	11	22,566,579
		79,577,922
Net assets		8,377,348
Capital and reserves		
Share capital, share premium and reserves		2,137,013
Shares held for Share Award Scheme	12	(47,803)
Retained earnings		6,288,138
		8,377,348

Key Market Statistics and Business Drivers – Cash Market

	2008
Average daily turnover value on the Stock Exchange	$72.1 billion
Number of newly listed DWs	4,822
Number of newly listed CBBCs	**4,231***
Number of newly listed companies on Main Board	47
Number of newly listed companies on GEM	2
Number of Main Board companies at 31 Dec 2008	1,087
Number of GEM companies at 31 Dec 2008	174
Total equity funds raised on Main Board	$418.2 billion
Total equity funds raised on GEM	$9.0 billion
Total equity funds raised	$427.2 billion

* New record high in 2008

Segment Profit for the Year

	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Elimination $'000	Total $'000
	2008					
Revenue and other income	3,151,395	1,641,103	2,083,992	679,706	5 (7,106)	7,549,090
Operating expenses	728,680	198,066	627,476	73,501	(7,106)	1,620,617
	1	2	3	4		
Reportable segment profit before taxation	2,422,715	1,443,037	1,456,516	606,205	–	5,928,473
Taxation						(799,549)
Profit attributable to shareholders						5,128,924

Cash Flows for the Year

	Note	2008 $'000
Net cash inflow from operating activities	13	5,049,315
Purchases of shares held for Share Award Scheme	12	(32,494)
Net proceeds from sales of properties	8	132,733
Capital expenditures		(221,378)
Dividends paid		(6,281,846)
Net decrease in available-for-sale financial assets and time deposits of Corporate Funds		771,009
Interest received from available-for-sale financial assets		524,732
Proceeds from issue of shares		66,533
Other net cash inflows		2,435
Net increase in cash and cash equivalents		11,039
Cash and cash equivalents at 1 Jan 2008		4,744,711
Cash and cash equivalents at 31 Dec 2008		4,755,750

Key Market Statistics and Business Drivers – Derivatives Market

	2008
Average daily number of derivatives contracts traded on the Futures Exchange	**207,052***
Average daily number of stock options contracts traded on the Stock Exchange	**225,074***

* New record high in 2008

Consolidated Statement of Financial Position

	Note	2008 $'000
Assets		
Fixed assets, land and properties	6	371,887
Clearing House Fund and Margin Fund assets	7	43,076,305
Investments and time deposits		6,038,614
Cash and cash equivalents		4,755,750
Other assets	9	8,581,365
		62,823,921
Liabilities		
Participants' contributions to Funds	10	42,289,511
Participants' admission fees received		83,150
Other liabilities	11	13,155,938
		55,528,599
Net assets		7,295,322
Capital and reserves		
Share capital, share premium and reserves		2,117,884
Shares held for Share Award Scheme	12	(65,254)
Retained earnings		5,242,692
		7,295,322

Movements in Share Capital, Share Premium and Reserves for the Year

	2008				
	Share capital and share premium $'000	Employee share-based compensation reserve $'000	Revaluation reserves $'000	Designated reserves $'000	Total $'000
At 1 Jan 2008	1,336,455	49,669	56,036	694,853	2,137,013
Issue of shares	66,533	–	–	–	66,533
Employee share-based compensation benefits	–	28,179	–	–	28,179
Fair value change of financial assets, net of deferred tax	–	–	43,800	–	43,800
Transfer to retained earnings	–	–	(3,155)	(142,470)	(145,625)
Vesting of shares of Share Award Scheme	–	(12,016)	–	–	(12,016)
Transfer	18,800	(18,800)	–	–	–
At 31 Dec 2008	1,421,788	47,032	96,681	552,383	2,117,884

Movements in Retained Earnings for the Year

	2008 $'000
Profit attributable to shareholders	5,128,924
Dividends	(6,319,534)
Dividends forfeited	2,566
Vesting of shares of Share Award Scheme	(3,027)
Transfer from reserves	145,625
Net decrease in retained earnings	(1,045,446)
Retained earnings at 1 Jan 2008	6,288,138
Retained earnings at 31 Dec 2008	5,242,692
Representing:	
Retained earnings	3,309,601
Proposed dividend	1,933,091
	5,242,692

Notes

Profit attributable to shareholders for 2008 decreased mainly due to lower turnover-related income, lower net investment income, higher operating expenses and the one-off gain on disposal of an associate in 2007 which did not repeat in 2008. Market sentiment in 2008 was impacted by the global economic downturn and tumbling stock prices caused by the financial tsunami. As a result, average daily turnover on the Cash Market decreased by 18 per cent as compared to 2007. On the other hand, the activity on the Derivatives Market recorded considerable growth. However, the increase in trading fees and trading tariff from the Derivatives Market was more than offset by the decrease in turnover-related income generated from the Cash Market.

The performance of the Group by operating segment during 2008 was as follows:

1 Profit of the Cash Market decreased by $632m mainly due to the lower turnover of the Cash Market.

2 Profit of the Derivatives Market rose by $198m mainly as a result of the increase in net investment income from Margin Fund investments and the increase in the level of activity on the Derivatives Market.

3 Profit of the Clearing Business dropped by $826m mainly attributable to the decrease in clearing and settlement fees and depository, custody and nominee services fees, as well as a provision for impairment losses of trade receivables from defaulting Participants (in particular the provision relating to the Lehman Brothers Group of $157m). Moreover, the one-off gain on disposal of an associate of $206m in 2007 was not repeated in 2008.

4 Profit of the Information Services Business decreased by $2m as demand for information decreased in tandem with the activity of the Cash Market.

5 The amount represented the inter-segment interest charge from Corporate Centre to Clearing Business Segment for funding the closing-out losses of the defaulting Participant, LBSA.

6 Fixed assets, land and properties decreased by $6m mainly due to depreciation of $109m, but partly offset by additions of $103m.

7 The balance comprised Margin Fund assets of $41,840m (2007: $55,429m) and Clearing House Fund assets of $1,236m (2007: $2,203m). The drop in Margin Fund assets was as a result of decreased open interest in futures and options contracts at the year end. The decrease in Clearing House Fund assets reflected the decrease in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

8 The Group sold two properties (which were classified as non-current assets held for sale as at 31 December 2007) to third parties and generated a gain of $69m.

9 Other assets mainly consisted of money obligations receivable under the CNS system of $7,904m (2007:$17,302m) and other receivables. The decrease in money obligations receivable under the CNS system was due to the decrease in Cash Market activity at the year end.

10 Participants' contributions to Funds represented Margin deposits from Participants of $41,840m (2007:$55,429m) and Participants' contributions to Clearing House Funds of $450m (2007:$1,497m). The reasons for the movements in the contributions were similar to those for the movements in the Fund assets as explained in note 7.

11 Other liabilities mainly represented money obligations payable under the CNS system of $7,904m (2007:$17,300m), cash marks and additional cash collateral collected for risk management purpose of $3,600m (2007: $2,720m) and other payables.

12 Shares were held by The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust") on behalf of eligible employees before the Awarded Shares become vested. During the year, $32m of shares were purchased by the HKEx Employee Share Trust and $15m of shares were vested and transferred to eligible employees.

13 Net cash inflow from operating activities decreased by $2,599m mainly due to lower profit generated during the year, a lower increase in cash marks and additional cash collateral and an increase in payment of Profits tax during 2008.

Overall Performance

	2008 $'000	2007 $'000
RESULTS		
Revenue and other income:		
Income affected by market turnover	**4,704,991**	5,290,786
Stock Exchange listing fees	**711,983**	688,538
Income from sale of information	**673,445**	678,909
Other revenue	**390,855**	489,109
Net investment income	**999,175**	1,238,228
Other income	**68,641**	4,900
	7,549,090	8,390,470
Operating expenses	**1,620,617**	1,411,565
	5,928,473	6,978,905
Gain on disposal of an associate	**–**	206,317
Share of profit of an associate	**–**	5,587
Profit before taxation	**5,928,473**	7,190,809
Taxation	**(799,549)**	(1,021,531)
Profit attributable to shareholders	**5,128,924**	6,169,278

Profit attributable to shareholders decreased by 17 per cent to $5,129 million for the year ended 31 December 2008 against $6,169 million for 2007 mainly due to lower turnover-related income, lower net investment income, higher operating expenses and the one-off gain on disposal of an associate in 2007 which was not repeated in 2008 but was partly offset by a lower taxation charge.

Financial markets around the world were badly hit by the financial crisis in 2008 and Hong Kong was no exception. Hong Kong's market capitalisation as at 31 December 2008 had fallen by 50 per cent from a year before. Although considerable growth was recorded in the Derivatives Market resulting in increase in trading fees and trading tariff derived therefrom, the increase was more than offset by the negative impact due to a fall of 18 per cent in the average daily turnover value on the Stock Exchange. As a result, the total turnover-related income of the Group fell by $586 million to $4,705 million for 2008.

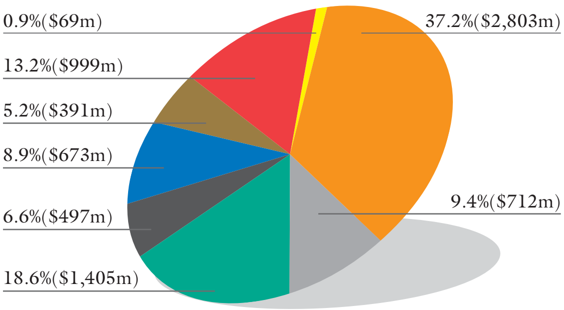
Net investment income dropped primarily due to the fair value losses of Corporate Fund investments in 2008 as opposed to the fair value gains in 2007, which reflected market downward movements amid the financial crisis.

Total operating expenses increased by 15 per cent during the year mainly due to the higher provision for impairment losses of trade receivables from defaulting Participants (in particular the provision relating to the Lehman Brothers Group of $157 million) as well as higher information technology and computer expenses and a higher depreciation charge.

The accounts have been prepared in accordance with HKFRSs issued by the HKICPA, which have been aligned with the requirements of International Financial Reporting Standards in all material respects as at 31 December 2008.

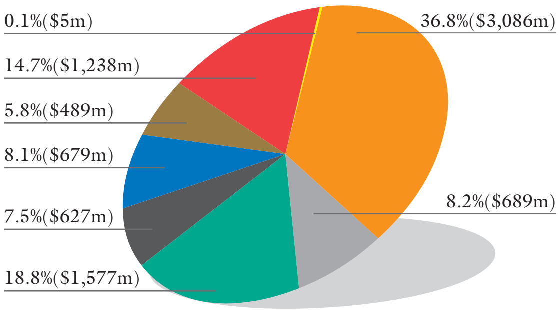
Revenue and Other Income

Analysis of 2008 Revenue and Other Income



Total Revenue and Other Income = $7,549m

Analysis of 2007 Revenue and Other Income



Total Revenue and Other Income = $8,390m

- Trading fees and trading tariff
- Stock Exchange listing fees
- Clearing and settlement fees
- Depository, custody and nominee services fees
- Income from sale of information
- Other revenue
- Net investment income
- Other income

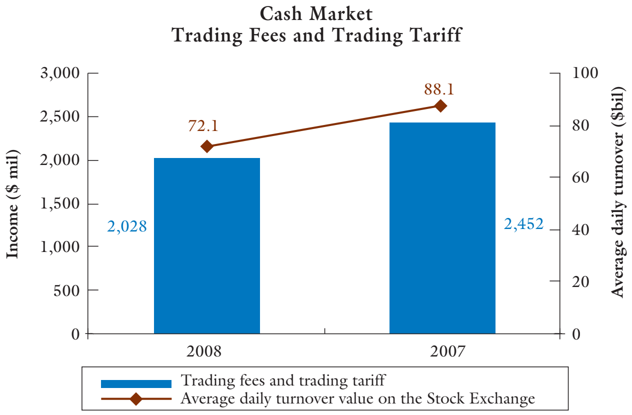
(A) Income affected by Market Turnover

	2008 $'000	2007 $'000	Change
Trading fees and trading tariff	**2,803,081**	3,086,250	(9%)
Clearing and settlement fees	**1,405,202**	1,577,433	(11%)
Depository, custody and nominee services fees	**496,708**	627,103	(21%)
Total	**4,704,991**	5,290,786	(11%)

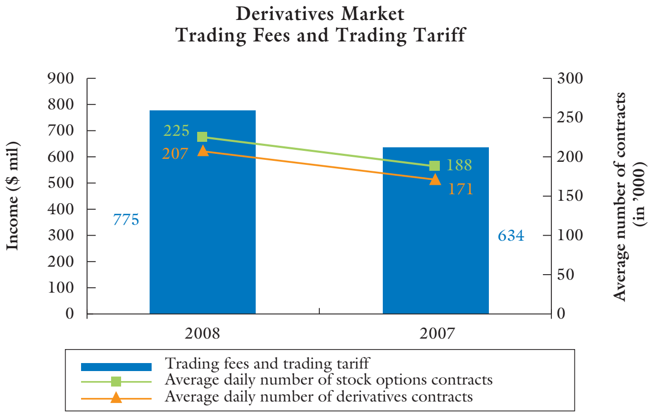
Key Market Indicators

	2008	2007	Change
Average daily turnover value on the Stock Exchange	**$72.1 billion**	$88.1 billion	(18%)
Average daily number of derivatives contracts traded on the Futures Exchange	**207,052**	171,440	21%
Average daily number of stock options contracts traded on the Stock Exchange	**225,074**	187,686	20%

Trading Fees and Trading Tariff



The decrease in trading fees and trading tariff from the Cash Market was mainly due to the lower market turnover.



The increase in trading fees and trading tariff from the Derivatives Market was mainly driven by the increase in the number of contracts traded. The total number of futures, options, HSI Futures, H-shares Index Futures and stock options traded set a record high in 2008.

Clearing and Settlement Fees

Clearing and settlement fees are derived predominantly from Cash Market transactions. The decrease in clearing and settlement fees in 2008 was mainly due to the lower market turnover on the Cash Market. Despite being mostly ad valorem fees, clearing and settlement fees are also affected by the volume of settlement instructions and subject to a minimum and a maximum fee per transaction and therefore may not always move exactly with the changes in the turnover on the Cash Market. In 2008, clearing and settlement fees did not decrease by the same percentage as the turnover on the Cash Market since the drop in transaction value of settlement instructions was smaller, and a lower proportion of the value of exchange-traded transactions settled was subject to the maximum fee and a higher proportion of the value of exchange-traded transactions settled was subject to the minimum fee.

Depository, Custody and Nominee Services Fees

Depository, custody and nominee services fees mainly comprise scrip fees, eIPO handling fees, stock custody fees, dividend collection fees, corporate action fees and stock withdrawal fees. Depository, custody and nominee services fees dropped mainly due to a significant decrease in eIPO handling fees as the number of newly listed companies fell, in particular the larger IPOs. Similarly, scrip fees also decreased consequential to the drop in fees from the first book close of newly listed companies but the decrease was partly offset by a rise in dividend collection fees, stock withdrawal fees and stock custody fees. Other than eIPO handling fees, the other fees are generally influenced by the level of Cash Market activity but do not move proportionately with changes in the turnover on the Cash Market 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.

(B) Stock Exchange Listing Fees

	2008 $'000	2007 $'000	Change
Annual listing fees	**346,263**	308,163	12%
Initial and subsequent issue listing fees	**360,944**	374,239	(4%)
Others	**4,776**	6,136	(22%)
Total	**711,983**	688,538	3%

The increase in annual listing fees was attributable to the higher number of listed companies. Initial and subsequent issue listing fees fell following the decrease in the number of new and subsequent issues of DWs and newly listed companies but the drop in fees was partly offset by the increase in fees earned from the higher number of newly listed CBBCs and higher initial listing fees forfeited due to increased numbers of lapsed and withdrawn IPO applications and approved IPOs not listed within 6 months of application.

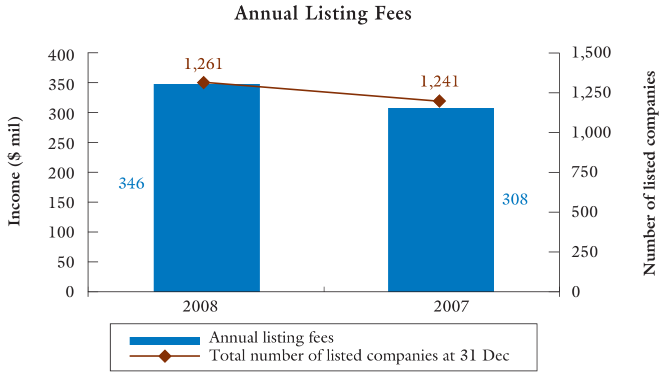
Key Drivers for Annual Listing Fees

	As at 31 Dec 2008	As at 31 Dec 2007	Change
Number of companies listed on Main Board	**1,087**	1,048	4%
Number of companies listed on GEM	**174**	193	(10%)
Total	**1,261**	1,241	2%

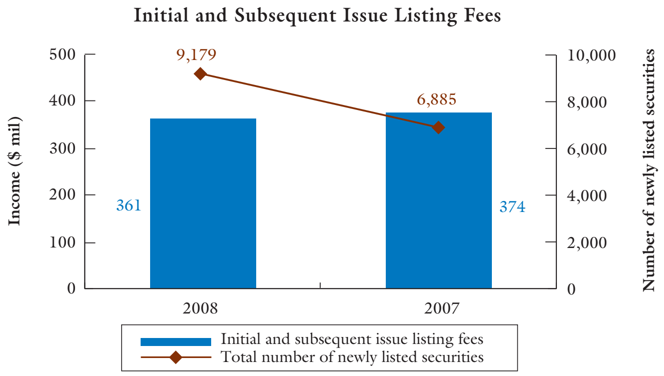
Key Drivers for Initial and Subsequent Issue Listing Fees

	2008	2007	Change
Number of newly listed DWs	**4,822**	6,312	(24%)
Number of newly listed CBBCs	**4,231**	391	982%
Number of newly listed companies on Main Board	**47**	82	(43%)
Number of newly listed companies on GEM	**2**	2	0%
Number of other newly listed securities on Main Board and GEM	**77**	98	(21%)
Total number of newly listed securities	**9,179**	6,885	33%

	2008 $ billion	2007 $ billion	Change
Total equity funds raised on Main Board	**418.2**	571.1	(27%)
Total equity funds raised on GEM	**9.0**	19.7	(54%)
Total	**427.2**	590.8	(28%)



Annual listing fees increased in line with the increase in the total number of listed companies.



Initial and subsequent issue listing fees dropped despite a rise in the total number of newly listed securities as the increase in listing fees generated from the higher number of newly listed CBBCs was more than offset by the drop in listing fees arising from the lower number of new and subsequent issues of DWs.

(C) Income from Sale of Information

	2008 $'000	2007 $'000	Change
Income from sale of information	**673,445**	678,909	(1%)

Income from sale of information dropped as demand for information shrank in tandem with the Cash Market activity.

(D) Other Revenue

	2008 $'000	2007 $'000	Change
Network, terminal user, dataline and software sub-license fees	**289,783**	311,187	(7%)
Participants' subscription and application fees	**34,614**	34,043	2%
Brokerage on direct IPO allotments	**5,313**	97,730	(95%)
Trading booth user fees	**9,603**	9,624	(0%)
Accommodation income on securities deposited by Participants as alternatives to cash deposits of Margin Funds	**21,844**	15,555	40%
Sales of Trading Right	**8,335**	3,000	178%
Miscellaneous revenue	**21,363**	17,970	19%
Total	**390,855**	489,109	(20%)

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

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

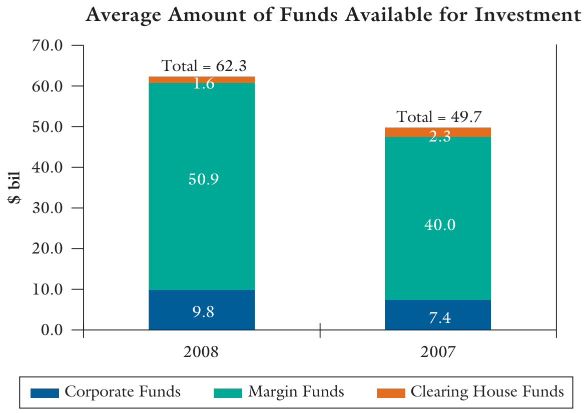
Accommodation income increased mainly due to the increase in utilisation of non-cash collateral by Participants to meet their margin obligations.

Income from sales of Trading Right rose in line with the increase in Trading Rights issued by the Group in 2008 as the scheme was only introduced in March 2007.

(E) Net Investment Income

	2008 $'000	2007 $'000	Change
Investment income	**1,075,590**	1,949,955	(45%)
Interest rebates to Participants	**(76,415)**	(711,727)	(89%)
Net investment income	**999,175**	1,238,228	(19%)

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

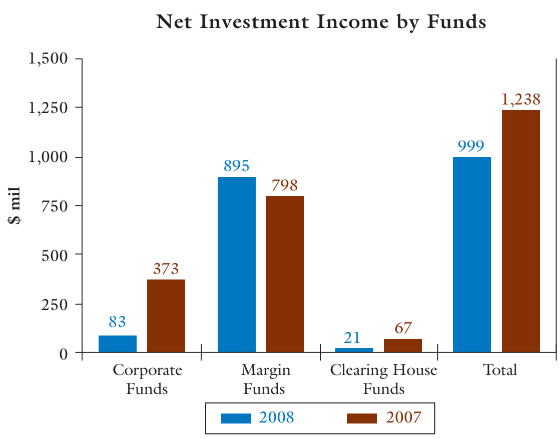


Average amount of Corporate Funds increased as the sizeable profit generated in the second half of 2007 was not distributed until May 2008.

Average amount of Margin Funds rose primarily due to the increase in open interest in futures and options contracts during 2008 and the higher margin rate demanded per contract.

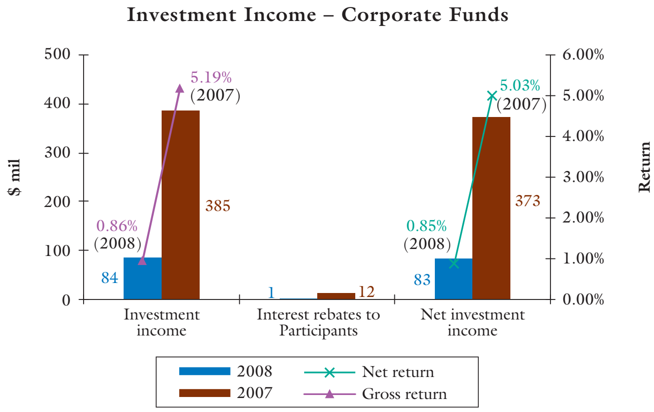
The lower average amount of Clearing House Funds was mainly on account of the decrease in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

The movements in net investment income by Funds were as follows:

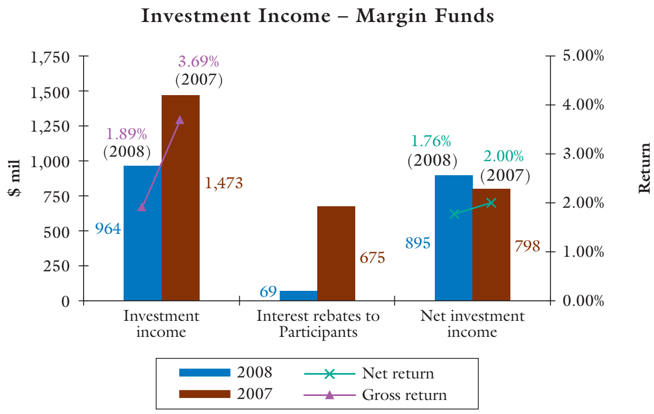


The lower net investment income was mainly due to the decrease in net investment income of the Corporate Funds which was caused by the fair value losses of investments.

The analysis of investment income by Funds is as follows:

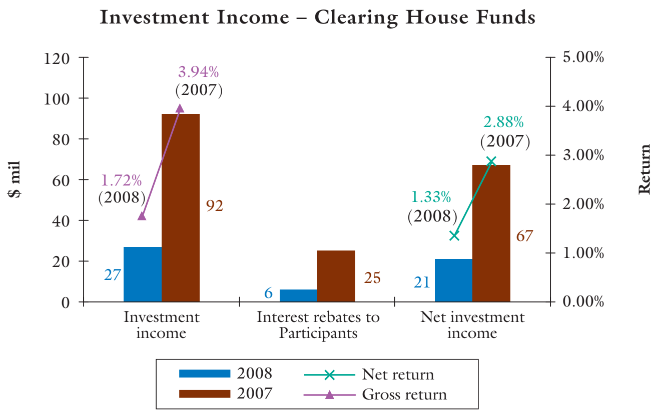


Investment income of Corporate Funds decreased mainly due to the fair value losses of investments reflecting market movements, as opposed to the fair value gains of investments in 2007 and the drop in interest rates, which led to a significant drop in the income and rate of return.



Net investment income of Margin Funds rose due to an increase in average fund size. The drop in investment income before interest rebates arising from the reduction in interest rates was more than offset by the decrease in interest rebates paid to Participants.

The gross return on Margin Fund investments was brought down by the decrease in interest rates and the increase in the proportion of Margin Funds denominated in Japanese Yen, which generated a very low return. The net return did not drop significantly from last year as the decrease in gross return was mostly offset by the drop in interest rate (savings rate) payable to margin depositors.



Investment income of Clearing House Funds dropped due to the lower average fund size and the drop in interest rates.

The lower gross return was mainly due to decreases in the interest rate for overnight deposits. The decrease in net return was less than the drop in gross return as a lower proportion of Clearing House Fund contributions was eligible for interest rebates in 2008.

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

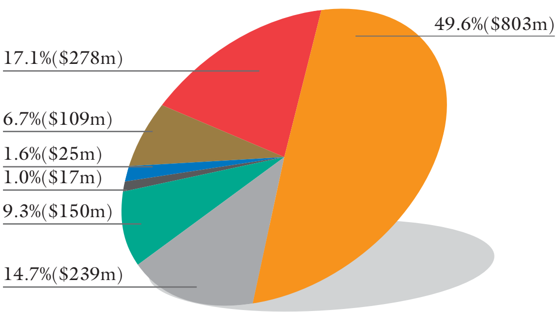
(F) Other Income

	2008 $'000	2007 $'000	Change
Gain on disposal of properties	**68,641**	–	N/A
Fair value gain of an investment property	**–**	4,900	(100%)
	68,641	4,900	1,301%

The Group sold an investment property and one of the leasehold properties during 2008 generating a gain of $69 million.

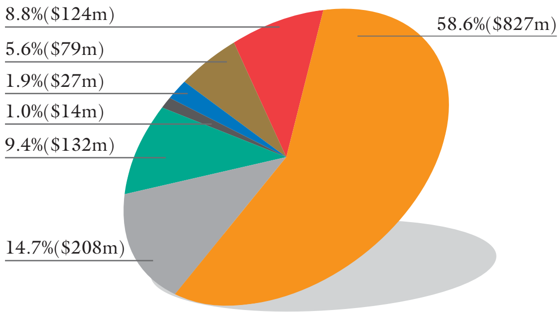
Operating Expenses

Analysis of 2008 Expenses



Total expenses = $1,621m

Analysis of 2007 Expenses



Total expenses = $1,411m

- Staff costs and related expenses
- IT and computer maintenance expenses
- Premises expenses
- Product marketing and promotion expenses
- Legal and professional fees
- Depreciation
- Other operating expenses

	2008 $'000	2007 $'000	Change
Staff costs and related expenses	**803,106**	827,116	(3%)
Information technology and computer maintenance expenses	**238,917**	207,422	15%
Premises expenses	**150,295**	132,244	14%
Product marketing and promotion expenses	**16,986**	14,054	21%
Legal and professional fees	**25,128**	27,185	(8%)
Depreciation	**108,813**	79,144	37%
Other operating expenses	**277,372**	124,400	123%
Total	**1,620,617**	1,411,565	15%

Staff costs and related expenses decreased by $24 million, primarily due to a decrease in performance bonus of $86 million (2008:$168 million; 2007: $254 million) on account of the lower profit of the Group in 2008, but the decrease was partly offset by higher 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 $97 million (2007: $73 million), were $142 million (2007: $135 million). The increase in costs of services and goods consumed by the Group was mainly due to higher CCASS/3 maintenance costs. The increase in costs of services and goods directly consumed by Participants was primarily due to an increase in AMS/3 line rentals incurred by the Participants. Costs of services and goods consumed by Participants were mostly recovered from the Participants and the income was included as part of network, terminal user, dataline and software sub-license fees under Other Revenue.

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

Depreciation increased as the capacity upgrade of certain trading and clearing systems was completed in late 2007 and in 2008.

Other operating expenses rose mainly due to a provision for impairment losses of trade receivables from defaulting Participants (in particular the provision for impairment losses of $157 million relating to the default of the Lehman Brothers Group in 2008).

Gain on Disposal of an Associate

	2008 $'000	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 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

	2008 $'000	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

	2008 $'000	2007 $'000	Change
Taxation	**799,549**	1,021,531	(22%)

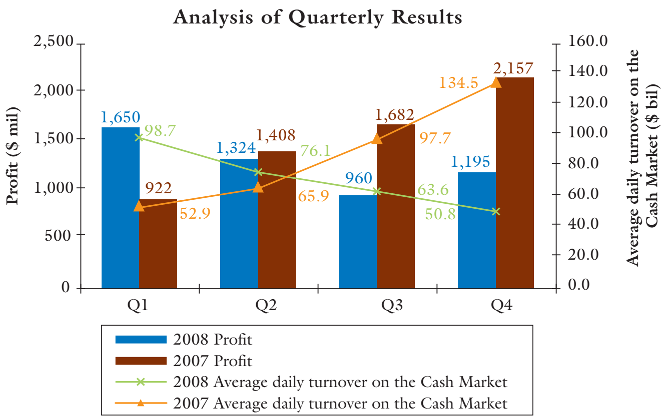
The decrease in taxation was mainly attributable to the cut in the Hong Kong Profits Tax rate from 17.5 per cent to 16.5 per cent and the decrease in profit before taxation.

Analysis of Results by Quarter

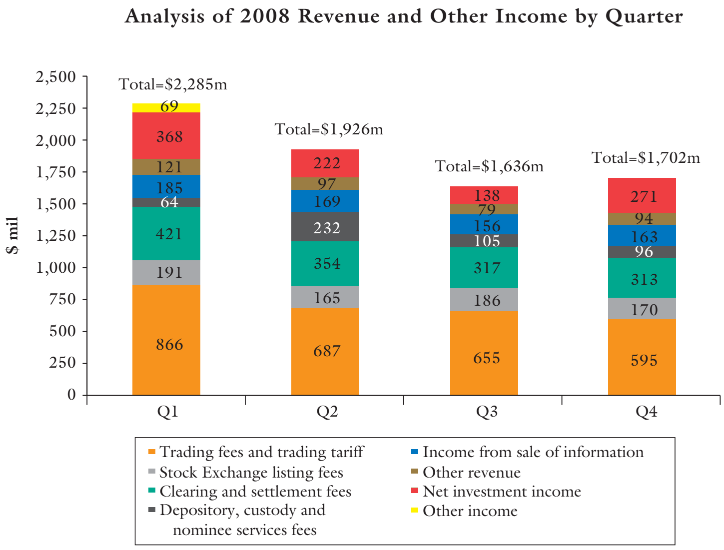
Quarterly Results

	Q1 2008 $'000	Q2 2008 $'000	Q3 2008 $'000	Q4 2008 $'000	Total 2008 $'000
Revenue and other income	2,284,644	1,926,687	1,635,904	1,701,855	7,549,090
Operating expenses	382,559	386,384	529,569	322,105	1,620,617
Profit before taxation	1,902,085	1,540,303	1,106,335	1,379,750	5,928,473
Taxation	(252,344)	(215,638)	(146,688)	(184,879)	(799,549)
Profit attributable to shareholders	1,649,741	1,324,665	959,647	1,194,871	5,128,924

	Q1 2007 $'000	Q2 2007 $'000	Q3 2007 $'000	Q4 2007 $'000	Total 2007 $'000
Profit attributable to shareholders	922,537	1,407,764	1,682,079	2,156,898	6,169,278



Due to the intensifying global economic downturn in 2008, the average daily turnover on the Cash Market dropped. Profit attributable to shareholders was the lowest in the third quarter when net investment income of the Group was impacted by the fair value losses of Corporate Fund investments and the provision for impairment losses of trade receivables relating to the collapse of the Lehman Brothers Group.



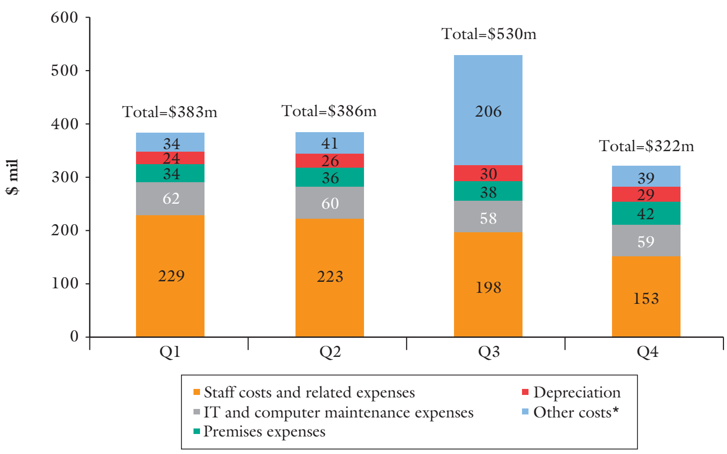
Income affected by market turnover (ie, trading fees and trading tariff, clearing and settlement fees and depository, custody and nominee services fees) generally moved in line with the average daily turnover on the Cash Market. However, depository, custody and nominee services fees were the highest in the second quarter as a result of an increase in scrip fee income due to seasonal factors.

Net investment income was the lowest in the third quarter due to significant fair value losses of Corporate Fund investments which were in line with market movements.

The key market indicators for the income of the Group by quarter are set out below:

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Total 2008
Average daily turnover value on the Stock Exchange ($ billion)	98.7	76.1	63.6	50.8	72.1
Average daily number of derivatives contracts traded on the Futures Exchange	205,853	176,748	215,417	229,779	207,052
Average daily number of stock options contracts traded on the Stock Exchange	266,199	212,191	220,110	202,782	225,074
Number of newly listed DWs	1,719	1,058	1,174	871	4,822
Number of newly listed CBBCs	323	630	1,343	1,935	4,231
Number of newly listed companies on Main Board	10	11	15	11	47
Number of newly listed companies on GEM	–	2	–	–	2

Analysis of 2008 Expenses by Quarter



* Other costs include product marketing and promotion expenses, legal and professional fees and other operating expenses.

Other costs in the third quarter rose sharply due to the provision for impairment losses of trade receivables relating to the Lehman Brothers Group.

Staff costs fell from the first quarter to the third quarter as a lower amount of performance bonus was accrued due to lower profit. The big drop in staff costs in the fourth quarter was due to the reversal of the performance bonus over-accrued during the first three quarters.

Changes to Key Items in Consolidated Statement of Financial Position

(A) Fixed Assets and Capital Commitments

The Group's fixed assets consist of leasehold buildings, trading and clearing systems, other computer hardware and software and miscellaneous assets such as leasehold improvements.

As at 31 December 2008, the net book value of fixed assets decreased by $6 million compared with 31 December 2007, which was mainly attributable to depreciation of $109 million, but was partly offset by additions of $103 million during the year.

The Group's capital expenditure commitments as at 31 December 2008, mainly related to the upgrade and enhancement of trading and clearing systems, development and purchases of various computer systems, and office and data centre consolidation, amounted to $84 million (2007: $165 million). The Group has adequate internal resources to fund its capital expenditure commitments.

(B) Funds

	2008 $'000	2007 $'000	Change
Clearing House Funds*	**1,163,992**	2,192,204	(47%)
Margin Funds	**41,839,991**	55,428,888	(25%)
Corporate Funds	**10,794,364**	11,490,447	(6%)
Total	**53,798,347**	69,111,539	(22%)

* Excluding provision for loss arising from closing-out losses of defaulting Participants

	2008 $'000	2007 $'000	Change
Participants' contributions to Clearing House Funds	**449,520**	1,496,855	(70%)
Margin deposits from Clearing Participants	**41,839,991**	55,428,888	(25%)
Total	**42,289,511**	56,925,743	(26%)

The decrease in Clearing House Funds and Participants' contributions to Clearing House Funds at 31 December 2008 against those as at 31 December 2007 was mainly due to the drop in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

The fall in Margin Funds and margin deposits from Clearing Participants as at 31 December 2008 against those as at 31 December 2007 was due to the decrease in open interest in futures and options contracts at the year end.

Corporate Funds as at 31 December 2008 decreased as compared to those as at 31 December 2007 since dividends paid during the year (based on the higher profit in the second half of 2007 and first half of 2008) were higher than the 2008 profit attributable to shareholders, but was partly offset by the increase in cash marks and additional cash collateral collected at the year end.

(C) Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

Save for those disclosed in this Annual Report, there were no significant investments held, nor material acquisitions and disposals of subsidiaries during the year. There is no plan for material investments or capital assets as at the date of this Annual Report.

(D) Accounts Receivable, Prepayments and Deposits and Accounts Payable, Accruals and Other Liabilities

	2008 $'000	2007 $'000	Change
CNS money obligations receivable	**7,904,042**	17,301,606	(54%)
Other receivables from Participants	**510,532**	796,724	(36%)
Other accounts receivable, prepayments and deposits	**279,432**	270,407	3%
Less: provision for impairment losses of trade receivables	**(167,449)**	(4,608)	3,534%
Total accounts receivable, prepayments and deposits	**8,526,557**	18,364,129	(54%)
CNS money obligations payable	**7,904,083**	17,300,191	(54%)
Other payables to Participants	**3,784,303**	2,889,564	31%
Stamp duty payable	**155,977**	414,202	(62%)
Other accounts payable, accruals and other liabilities	**566,491**	771,952	(27%)
Total accounts payable, accruals and other liabilities	**12,410,854**	21,375,909	(42%)

The Group's accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities mainly comprised CNS money obligations receivable and payable and other receivables from and payables to Exchange and Clearing Participants.

The decrease in CNS money obligations receivable and payable was mainly due to the decrease in the level of Cash Market activity at the end of 2008 against that at the end of 2007.

Similarly, other receivables from Participants (mainly transaction levy, stamp duty and fees receivable) and stamp duty payable to the Government fell with the lower level of Cash Market activity at year end.

The significant increase in provision for impairment losses of trade receivables was mainly attributable to the provision for impairment losses relating to the Lehman Brothers Group.

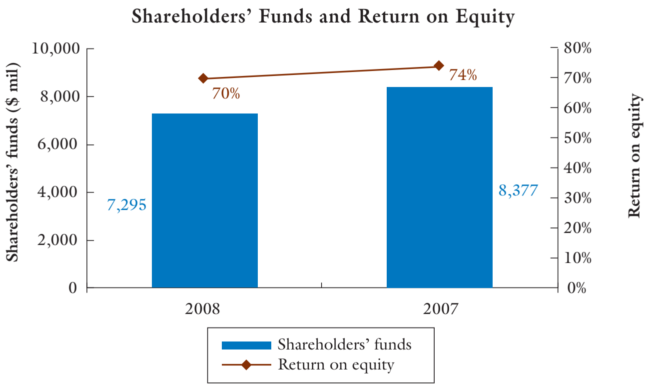
Other payables to Participants (mainly cash marks and additional cash collateral received from Participants) recorded a considerable increase as more cash marks and additional cash collateral were collected to cover the increased risk exposure of the Cash Market.

Other accounts payable, accruals and other liabilities also decreased in 2008 due to the drop in transaction levy payable to the SFC as a result of the decreased activity on the Cash Market and the fall in payable in respect of purchases of fixed assets.

(E) Shareholders' Funds and Return on Equity

Shareholders' funds as at 31 December 2008 decreased by $1,082 million to $7,295 million (2007: $8,377 million). The decrease was mainly attributable to a $1,191 million decrease in retained profit (before transfers to/from designated reserves and leasehold buildings revaluation reserve) as dividends paid during the year (based on the higher profit in the second half of 2007 and first half of 2008) were higher than the 2008 profit attributable to shareholders. The decrease was partly offset by the $44 million increase in investment revaluation reserve and $65 million increase in other shareholders' equity, which mainly arose from employee share options exercised and share-based compensation benefits recognised less the shares purchased for the Share Award Scheme.

Return on equity dropped from 74 per cent in 2007 to 70 per cent in 2008 as profit attributable to shareholders decreased.



Return on equity dropped as profit attributable to shareholders fell.

Liquidity, Financial Resources and Gearing

Working capital fell by $620 million or 8 per cent to $7,197 million as at 31 December 2008 (2007: $7,817 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 Share Award Scheme, but the decrease was partly offset by the profit generated during the year of $5,129 million, the decrease in financial assets of Margin Funds on derivatives contracts maturing over 1 year of $456 million, the proceeds from issuing shares upon the exercise of employee share options of $67 million, and the increase in other net current assets of $79 million.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. As at 31 December 2008, the Group's total available banking facilities amounted to $3,850 million (2007: $3,058 million), of which $3,000 million (2007: $3,000 million) were repurchase facilities to augment the liquidity of the Margin Funds and $800 million (2007: $Nil) was a facility to draw down against certain bank deposits.

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

As at 31 December 2008, 99 per cent (2007: 99 per cent) of the Group's cash and cash equivalents (comprising cash on hand, bank balances and time deposits within 3 months of maturity when acquired) were denominated in HKD or USD.

Charges on Assets

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 49(a)(i) – Foreign exchange risk management to the consolidated accounts of this Annual Report.

Contingent Liabilities

Details of contingent liabilities are included in note 43 to the consolidated accounts of this Annual Report.

FINANCIAL STATISTICS SINCE THE YEAR OF MERGER

	2008	2007	2006	2005	2004	2003	2002	2001	2000
KEY MARKET STATISTICS									
Average daily turnover value on the Stock Exchange in $ billion	**72.1**	88.1	33.9	18.3	16.0	10.4	6.7	8.2	12.7
Average daily number of derivatives contracts traded on the Futures Exchange	**207,052**	171,440	100,318	68,157	56,752	41,889	30,038	27,192	22,118
Average daily number of stock options contracts traded on the Stock Exchange	**225,074**	187,686	73,390	35,385	22,720	17,122	15,203	16,567	16,958
CONSOLIDATED INCOME STATEMENT									
in $ million									
Revenue and other income	**7,549**	8,390	4,147	2,694	2,394	2,020	1,808	1,998	2,312
Operating expenses	**1,621**	1,411	1,210	1,145	1,156	1,224	1,165	1,179	1,331
	5,928	6,979	2,937	1,549	1,238	796	643	819	981
Gain on disposal of an associate	**–**	206	–	–	–	–	–	–	–
Share of profits less losses of associates	**–**	6	27	18	13	9	5	–	–
Profit before taxation	**5,928**	7,191	2,964	1,567	1,251	805	648	819	981
Taxation	**(799)**	(1,022)	(445)	(227)	(194)	(112)	(59)	(85)	(98)
Profit attributable to shareholders	**5,129**	6,169	2,519	1,340	1,057	693	589	734	883
Dividend per share in $									
— Interim and final dividends	**4.29**	5.19	2.13	1.13	0.90	0.60	0.51	0.33	0.33
— Special dividends	**–**	–	–	–	–	1.68	–	–	–
	4.29	5.19	2.13	1.13	0.90	2.28	0.51	0.33	0.33
Basic earnings per share in $	**4.78**	5.78	2.37	1.26	1.00	0.66	0.56	0.71	0.85
CONSOLIDATED STATEMENT OF FINANCIAL POSITIONΩ									
in $ million									
Non-current assets	**426**	885	455	1,710	2,840	3,060	2,251	2,084	1,278
Current assets	**62,398**	87,070	40,207	21,236	18,629	16,772	11,802	11,669	12,891
Current liabilities	**(55,201)**	(79,253)	(35,114)	(18,316)	(17,148)	(13,922)	(8,249)	(8,200)	(8,998)
Net current assets	**7,197**	7,817	5,093	2,920	1,481	2,850	3,553	3,469	3,893
Total assets less current liabilities	**7,623**	8,702	5,548	4,630	4,321	5,910	5,804	5,553	5,171
Non-current liabilities	**(328)**	(325)	(290)	(293)	(289)	(296)	(310)	(331)	(316)
Shareholders' funds	**7,295**	8,377	5,258	4,337	4,032	5,614	5,494	5,222	4,855
Net assets per share in $^	**6.79**	7.83	4.94	4.09	3.82	5.35	5.26	5.02	4.67
FINANCIAL RATIOS									
Dividend payout ratio@	**90%**	90%	90%	90%	90%	91%	91%	46%	39%
Cost to income ratio*	**21%**	16%	29%	42%	48%	60%	64%	59%	58%
Pre-tax profit margin*	**79%**	84%	71%	58%	52%	40%	36%	41%	42%
Return on equity#	**70%**	74%	48%	31%	26%	12%	11%	14%	18%
Current ratio	**1.1**	1.1	1.1	1.2	1.1	1.2	1.4	1.4	1.4

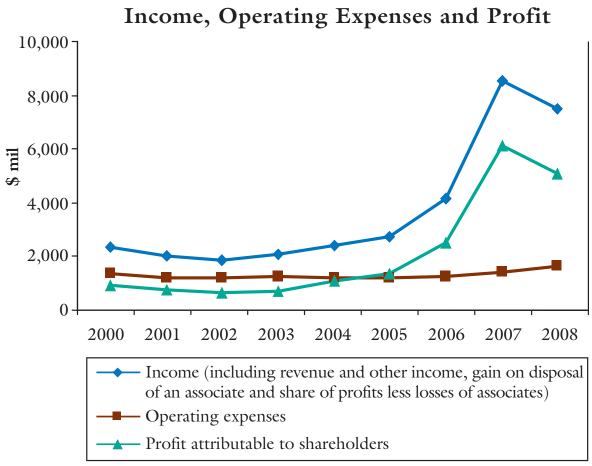
Ω Certain comparative figures have been adjusted to conform with changes in presentation in the current year.

^ Based on number of shares issued and fully paid less number of shares held for the Share Award Scheme as at 31 December

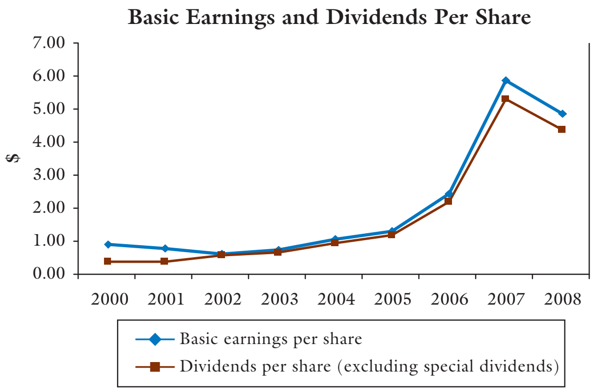
@ The calculation of dividend payout ratio does not take into account special dividends.

* For the purpose of computing cost to income ratio and pre-tax profit margin, income includes gain on disposal of an associate and share of profits less losses of associates.

\# Based on shareholders' funds as at 31 December

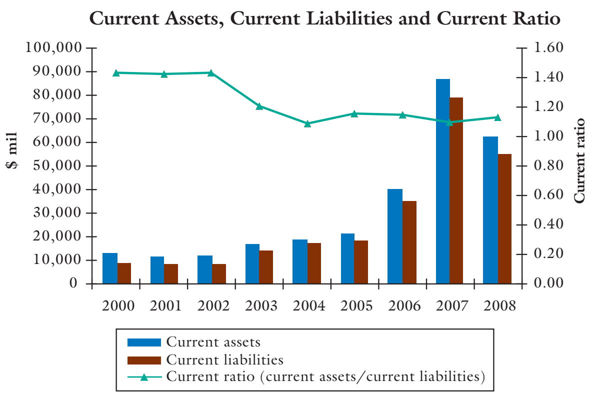


Profit attributable to shareholders declined from 2000 to 2002 as the market sentiment was adversely affected by the weak global economic environment, risk of war against Iraq and accounting scandals in the US. It started to pick up in 2003 following the end of the Severe Acute Respiratory Syndrome threat with increasing hope of a revival in the Hong Kong economy. Thereafter, activity on the Cash and Derivatives Markets continued to gather increasing momentum, in particular in 2006 when various large IPOs were listed. Market sentiment was further boosted in 2007 by the strengthening Mainland economy, the relaxation of rules governing permissible investments under the Qualified Domestic Institutional Investor (QDII) Scheme in the Mainland and the proposed Pilot Programme for Direct Foreign Portfolio Investments by Domestic Individuals which culminated in record high turnover in the Cash and Derivatives Markets. In 2008, the activity of the Cash Market dropped as market sentiment was stricken by the global economic downturn and tumbling stock prices caused by the financial tsunami. Operating expenses were kept relatively stable throughout the years due to stringent cost controls. As a result, profit attributable to shareholders was directly affected by the level of income.

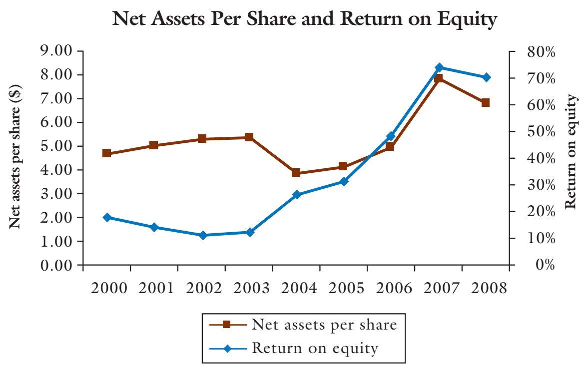


As there were no significant changes in the issued share capital, earnings per share followed the same trend as profit attributable to shareholders.

Since 2002, the Board has adopted a dividend policy of providing shareholders with regular dividends with a target payout ratio of 90%. Thereafter, dividends per share have moved in line with earnings per share.



Current assets and current liabilities are directly affected by the amount of CNS money obligations receivable and payable under the T+2 settlement cycle and the size of the Margin Funds. Therefore the amounts generally follow the level of activity in the Cash and Derivatives Markets.



Net assets per share had been increasing steadily due to profits retained until 2004 when a special dividend of $1.68 per share was paid in May 2004. Thereafter, net assets per share continued to rise again as a result of increasing profits in successive years up to 2007. Net assets per share in 2008 dropped as total dividends paid during 2008 (which was based on the higher profit in the second half of 2007 and the first half of 2008) was higher than the profit for the year.

The return on equity moved in line with profit attributable to shareholders. The sharp increase in the return on equity in 2004 was due to the special dividend paid in May 2004.

The drop in 2008 was due to lower profit caused by the financial tsunami.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

We engaged an independent consultant eight years ago to conduct an evaluation of HKEx's corporate governance to strengthen our corporate governance practices in discharging our responsibilities to act in the interests of the public and maximising Shareholders' value while ensuring an orderly, fair and transparent marketplace. In the past years, our efforts have been recognised and highly rated by independent agencies/organisations. This Corporate Governance Report serves to keep our Shareholders abreast of our corporate governance policies and practices. Shareholders may also visit our Corporate Governance section on the HKEx website at http://www.hkex.com.hk for a view of our governance measures and updated information.

As an exchange controller, HKEx sets and articulates corporate governance practices for the business community and continues to refine and assess corporate governance standards against evolving global developments to reinforce Hong Kong's position as an international financial centre. As a listed issuer, we strive for excellence in corporate governance practices. The Board believes that corporate governance is a crucial element in helping to steer the Company towards achieving sustainable growth in today's highly competitive business environment. A good governance structure not only ensures better internal processes but also boosts investor confidence and the Company's goodwill. Accountability, transparency, fairness and integrity are the four cornerstones on which the Board has formulated our corporate governance policies to guide the Company in discharging its public and corporate responsibilities. We have applied the principles in the CG Code of the Main Board Listing Rules in our corporate governance structure, which is established to cover all the relationships and responsibilities of the external and internal corporate governance with stakeholders in a comprehensive and structured way.

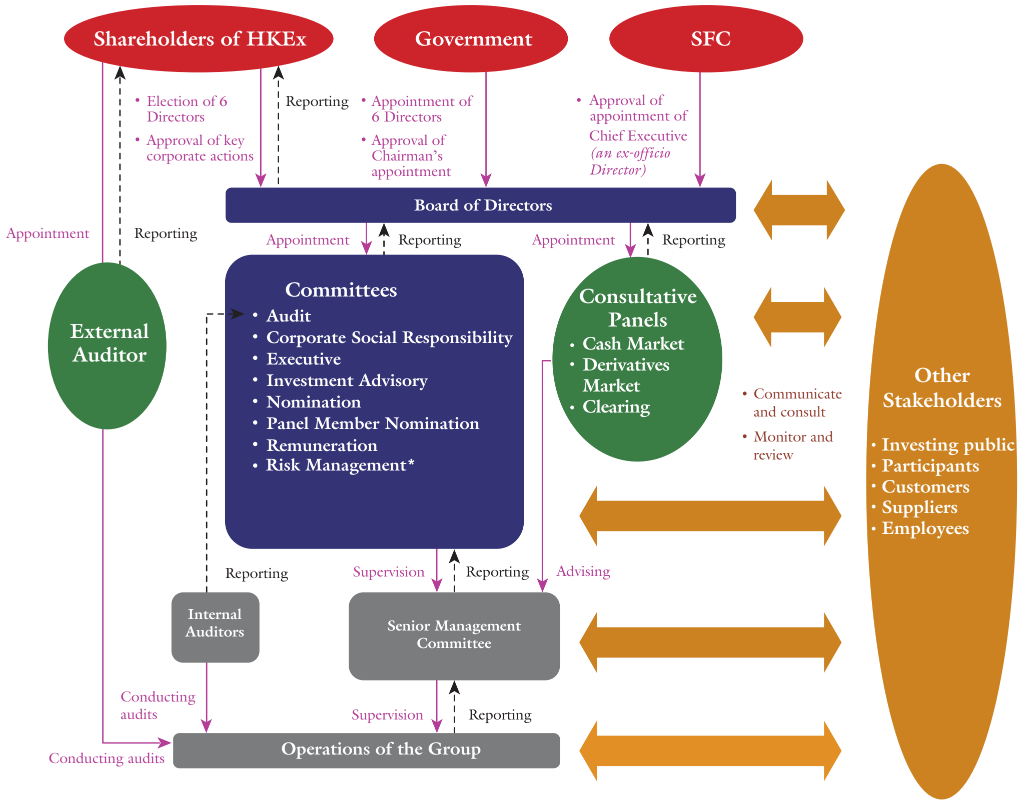
As a company governed by the SFC, HKEx has a comprehensive framework of checks and balances, which is built on the SFO in order to ensure proper performance of our dual roles. As a listed issuer, HKEx has to comply with the Main Board Listing Rules but instead of being regulated by the Exchange, it is regulated by the SFC to avoid any potential conflicts of interest and to ensure a level playing field between HKEx and other listed issuers.

CG Code Compliance

Throughout 2008, HKEx fully complied with all the code provisions set out in the CG Code contained in Appendix 14 to the Main Board Listing Rules, and where appropriate, adopted the recommended best practices, except that the Government Appointed Directors and the Chief Executive, in his capacity as an ex-officio Board member, are not subject to election or re-election by Shareholders, and their appointments are governed by Section 77 of the SFO and HKEx's Articles respectively. HKEx's Articles are available on the HKEx website.

Despite the removal of the requirement for a qualified accountant in the Main Board Listing Rules effective 1 January 2009, the Group continues to maintain a team of qualified accountants to oversee its financial reporting and other accounting-related issues in accordance with the relevant laws, rules and regulations.

Corporate Governance Structure



* A statutory committee and HKEx shall appoint not more than 2 members pursuant to section 65 of the SFO

Note: The Listing Committees of the Stock Exchange operate independently, under no influence from the Board. A regulatory function of the Stock Exchange is assumed by the Listing Division, which is functionally separated from the income-generating business operations of HKEx.

The Board

Board Process and Effectiveness

The Board provides leadership and guidance to the Group's activities. Every Board member is given a Director's Handbook, which sets out key governance issues, including without limitation the Board procedures and all applicable laws, rules and regulations that they are required to observe during their service on Board. The Handbook is updated periodically with the last update in June 2008 and it is posted on the HKEx website. An induction programme is provided for newly appointed Directors to familiarise them with the Group's operations and businesses as well as their obligations on the Board. In June 2008, an induction programme was arranged for Mr John M M Williamson upon his appointment as an INED to fill a casual vacancy.

Under the SFO, Directors are required to act in the interest of the public, having particular regard to the interest of the investing public. They have to ensure that the interest of the public prevails where it conflicts with HKEx's any other interest. The principal responsibilities of the Board and some of the key features of the Board processes are highlighted in the table below.

Principal Responsibilities of the Board

- To lay down the Group's objectives, strategies, policies and business plan and to monitor implementation
- To monitor and control the Group's operations and financial performance through the determination of the annual budgets in particular, the capital expenditure budget
- To set appropriate policies to manage risks in pursuit of the Group's strategic objectives
- To determine the appropriate systems of control, including systems for risk management, financial and operational control, as the foundation for ensuring the integrity of the Company's accounting and financial reporting system
- To review the adequacy of the resources, qualifications and experience of staff for the Company's accounting and financial reporting function

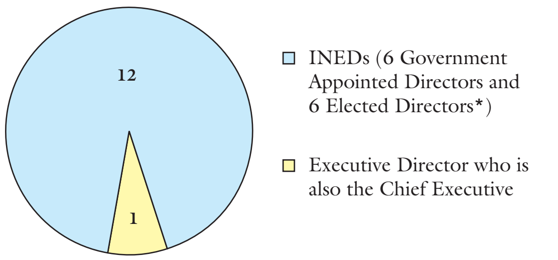
Key Features of the Board Processes

- The meeting schedule of the following year is given to all Directors normally within the last quarter of the year. In 2008, a total of 13 Board meetings were held, and the attendance record of each Director is shown on page 87 of this Annual Report. The overall attendance rate of Board meetings was 88 per cent (2007: 92 per cent).
- The agenda and accompanying papers are normally sent to Directors 4 days before the date of meeting. Members can at any time request relevant information in their role as Directors.
- At each of its meetings, the Board receives a full written report from the Chief Executive on the Company's major events, projects and initiatives, the key matters in each of the divisions/departments and the corporate activities.
- Other than regular meetings, non-executive Directors also meet periodically without the management to discuss matters of particular interest.
- Sufficient resources are available for Directors to discharge their duties, and procedures are in place to enable Directors to seek independent professional advice at the Company's expense, where relevant to the discharge of their duties.
- Directors are required to declare their direct/indirect interests, if any, in any proposals or transactions to be considered by the Board and to withdraw from the relevant meetings, as appropriate. During 2008, there were 2 occasions when a non-executive Director declared his interest and withdrew from the relevant discussions at the Board meetings. In addition, at each financial reporting period, the Company seeks confirmation from Directors in respect of any related party transactions under Hong Kong Accounting Standard 24 and connected transactions under the Main Board Listing Rules. The relevant information is disclosed in note 46 to the consolidated accounts of this Annual Report.
- Insurance cover in respect of legal proceedings and other claims against Directors arising from their office and execution of their powers, duties and responsibilities has been arranged. In 2008, no legal actions were made against any of our Directors in relation to their duties performed for HKEx.

Board Composition

The Board structure is governed by Article 90 of HKEx's Articles and Section 77 of the SFO. Pursuant to the SFO, the Financial Secretary may appoint any person as a Government Appointed Director but the number of such shall not exceed the number of the Elected Directors, excluding the Chief Executive. As at the date of this Annual Report, the Board comprised 13 members with professional background and/or extensive expertise in the financial markets. The list of Directors, their biographies and respective terms of office are set out in the section "Board of Directors and Senior Management" of this Annual Report. They are also available on the HKEx website.

Board Composition



* Including a Director who was appointed to fill a casual vacancy arising from the resignation of an Elected Director in 2008

The roles of the Chairman and the Chief Executive are segregated and assumed by Mr Ronald J Arculli and Mr Paul M Y Chow respectively and their respective responsibilities are set out in the Corporate Governance section on the HKEx website. The Chairman has the primary responsibility of selecting matters and documents to be brought to the Board's attention, in formulating the policy of the Board and in promoting the Company. In addition, the Chairman takes on the responsibility for ensuring good corporate governance practices are in place. The Chief Executive has delegated authority from, and is responsible to, the Board for managing the Company's business.

Every non-executive Director submits to the SFC a written confirmation, stating his/her independence upon his/her appointment with reference to the criteria affecting independence, as set out in the Main Board Listing Rules. Each of them has declared his or her past or present financial or other interest in the business of the Company or its subsidiaries or his or her connection with any connected person (as defined in the Main Board Listing Rules) of the Company, if any. Details of the information are disclosed under Continuing Connected Transactions and Related Party Transactions in this report. All Directors (including, in particular between the Chairman and the Chief Executive) do not have any financial, business, family or other material/relevant relationships with each other.

Appointments and Re-election of Directors

The rules governing the appointment, re-election and removal of Directors are laid down in HKEx's Articles. The service term of every Director, other than that of the Chief Executive who is an ex-officio member, is not longer than approximately 3 years. Retiring Directors are eligible for re-appointment or re-election. The staggered structure enables the Board to change its membership in an orderly manner over time while maintaining leadership, stability and continuity, and allows for regular evaluation of the mix of skills and experience of the Board.

On 24 April 2008, the Financial Secretary re-appointed Mr Ronald J Arculli, Mrs Laura M Cha and Dr Moses M C Cheng as Government Appointed Directors each for a term of approximately 2 years from 24 April 2008 until the conclusion of the AGM to be held in 2010. The Board subsequently on 25 April 2008 re-appointed Mr Arculli as the Chairman of the Board, which appointment was approved by the Chief Executive of Hong Kong on 29 April 2008.

Mr Paul M Y Chow was appointed the Chief Executive on 1 May 2003 for a 4-year term, and the contract was renewed in 2007 for another 2 years. On 5 March 2008, Mr Chow, at the request of the Board, agreed to extend his employment contract for a further year until 30 April 2010. Pursuant to Section 70 of the SFO, the SFC on 10 March 2008 approved the extension.

Candidates standing for election at general meetings are recommended by either the Shareholders or the Board. The Board's recommendations are made in accordance with proposals submitted by the Nomination Committee which comprises 5 members who are all INEDs. Its member list is shown on page 21 of this Annual Report, and together with its terms of reference are available on the HKEx website. In addition, it is also mandated to nominate candidates to fill casual vacancies of Elected Directors, and to review the independence of INEDs on an annual basis.

In the nomination of Directors, the Nomination Committee makes reference to criteria including reputation for integrity, accomplishment and experience in the financial service sector, in particular in the Cash and Derivatives Markets and the clearing business, professional and educational background, and commitment in respect of available time.

During 2008, 3 meetings were held by the Nomination Committee and the attendance record of its members is shown on page 87 of this Annual Report. At its meeting on 5 March 2008, the Nomination Committee (i) reviewed and confirmed the independence of the 12 INEDs for the year ended 31 December 2007, and (ii) nominated Dr Bill C P Kwok and Mr Vincent K H Lee for the Board's recommendation to stand for election by Shareholders at the 2008 AGM. On 24 April 2008, Dr Kwok and Mr Lee were re-elected by Shareholders as Directors and their respective service terms are approximately 3 years from 24 April 2008 until the conclusion of the AGM to be held in 2011.

On 15 May 2008, Mr David M Webb served a notice to the Company to resign with immediate effect as a Director. On 10 June 2008, the Nomination Committee nominated, and the Board on 18 June 2008 appointed Mr John M M Williamson as an INED to fill the casual vacancy that resulted from Mr Webb's resignation. Pursuant to Article 92 of HKEx's Articles, Mr Williamson shall retire at the next general meeting and shall be eligible for re-appointment.

On 4 March 2009, the Nomination Committee assessed the annual confirmations of independence received from the INEDs pursuant to Rule 3.13 of the Main Board Listing Rules. As a good corporate governance practice, every member of the Nomination Committee abstained from assessing his own independence.

Mrs Laura M Cha also confirmed her independence as HKEx's INED despite Tata Consultancy Services Limited ("TCS"), of which she is a non-executive director, was appointed by HKEx in July 2008 to provide consultancy services to the first phase of the Project "LISA" (Listing Information Support Application). The consultancy fee as at 31 December 2008 was $4,427,634. Taking into account that TCS was selected to provide consultancy services following to a tendering exercise undertaken by HKEx which was considered fair and transparent, other than being a non-executive director of TCS, Mrs Cha has no interest in TCS, and the services provided by TCS were on normal commercial terms and in the ordinary course of HKEx's business, the Nomination Committee affirmed that Mrs Cha remained independent for the year ended 31 December 2008.

In addition, after taking into consideration that the Government is a Minority Controller of the Company, the Nomination Committee, by majority, affirmed that all the other INEDs remained independent for the year ended 31 December 2008 albeit 6 were Government-appointed of whom 4 were Executive Councillors.

Dr Christine K W Loh has indicated that she will not stand for re-election at the 2009 AGM and will retire as a Director with effect from the conclusion thereof. The Nomination Committee considered and nominated Mr Ignatius T C Chan and Mr John M M Williamson to stand for election by Shareholders at the 2009 AGM. The said recommendation was accepted by the Board on 4 March 2009. Mr Williamson does not have any service contracts with any member of the Group that is not determinable by the Group within one year without payment of compensation (other than statutory compensation). The particulars of the two proposed candidates are set out in the circular to Shareholders sent together with this Annual Report.

The 3 Government Appointed Directors, namely Dr Marvin K T Cheung, Mr Henry H L Fan and Mr Fong Hup, will also retire in accordance with their respective terms of service at the conclusion of the 2009 AGM. Pursuant to Article 93(5) of HKEx's Articles, they are eligible for re-appointment. The Financial Secretary has not yet informed HKEx of the persons he intends to appoint or re-appoint as Directors. An announcement will be made once HKEx is notified.

Board Committees

A total of 7 Board committees and 1 statutory committee have been formed with specific roles and responsibilities. Their terms of reference are available on the HKEx website. The Audit Committee, Nomination Committee, Remuneration Committee, and Panel Member Nomination Committee comprise solely INEDs. The composition of the 8 committees are set out on page 20 of this Annual Report as well as on the HKEx website. All the Board committees follow the same principles, procedures and arrangements as that of the Board and are provided with sufficient resources to discharge their duties. The Board receives the minutes and updates from the chairman of each of the committees on a regular basis including, their decisions and recommendations.

In 2008, each INED served on one or more committees and actively participated in the meetings. Their respective attendance records on the Board/committees are set out in the following table.

Meetings Held in 2008

	2008 AGM	Board	Audit Committee	Corporate Social Responsibility Committee	Executive Committee	Investment Advisory Committee	Nomination Committee	Panel Member Nomination Committee	Remuneration Committee	Risk Management Committee
Number of Meetings	1	13	7	2	15	4	3	0	5	10
Independent Non-executive Chairman										
Ronald J Arculli	1/1	13/13			14/15		3/3		5/5	10/10
INEDs										
Laura M Cha	0/1	8/13				3/4		0/0	3/5	
Moses M C Cheng	1/1	12/13	6/7						4/5	
Marvin K T Cheung	1/1	9/13	7/7							4/10
Henry H L Fan [1]	1/1	10/13					3/3			
Fong Hup	1/1	13/13	6/7		15/15			0/0		9/10
Bill C P Kwok	1/1	13/13			15/15			0/0		10/10
Vincent K H Lee	1/1	11/13	6/7		13/15		3/3	0/0	4/5	
Christine K W Loh	1/1	10/13							5/5	
John E Strickland	1/1	11/13				4/4	3/3			
David M Webb [2]	1/1	5/5	4/4			1/1	1/1			
John M M Williamson [3]	–/–	5/5	2/3			1/2				
Oscar S H Wong [4]	1/1	13/13				4/4	–/–	0/0		
Executive Director										
Paul M Y Chow (Chief Executive)	1/1	13/13		2/2	15/15					
Market Professionals										
Chan Ka-lok										8/10
Benjamin P C Hung										8/10
Edmond Y P Lau										9/10
Keith K K Lui										10/10
David T K Sun						3/4				
Senior Executives										
Eddie L S Chow				2/2						
Peter J Curley				2/2						
Joseph K S Mau				2/2						
Alfred K K Wong				2/2						
Brenda T M Yen				2/2						
Average Attendance Rate	92%	88%	89%	100%	96%	84%	100%	—	84%	85%

Notes:

1. On 22 October 2008, Mr Henry H L Fan took a leave of absence from meetings of the Board and the Nomination Committee until further notice.
2. On 15 May 2008, Mr David M Webb resigned from the Board and his membership of the Audit Committee, Investment Advisory Committee and Nomination Committee.
3. Mr John M M Williamson was appointed a Director on 18 June 2008 to fill the casual vacancy arising from Mr Webb's resignation, and subsequently a member of the Audit Committee and the Investment Advisory Committee.
4. Mr Oscar S H Wong was appointed a member of the Nomination Committee on 18 June 2008.

Consultative Panels

To facilitate the decision-making of the Board, 3 Consultative Panels have been established, namely the Cash Market Consultative Panel, Derivatives Market Consultative Panel and Clearing Consultative Panel. Their major responsibility is to provide market expertise and advice to the Board on international market trends, the demand of intermediaries, issuers, investors and other market participants, technological challenges and new product opportunities relating to the Cash and Derivatives Markets and clearing business.

Meetings Held in 2008	
Panel	**Number of Meetings**
Cash Market Consultative Panel	1
Derivatives Market Consultative Panel	4
Clearing Consultative Panel	4

The Panel Member Nomination Committee under the Board is mandated to identify and nominate candidates for appointment or re-appointment to the Consultative Panels for the Board's consideration and approval. The composition and respective terms of reference of the Consultative Panels are available on the HKEx website.

Delegation by the Board

While matters relating in particular to the Group's strategies, policies and business plan require the Board's direction and approval, the day-to-day operational responsibilities are delegated to the executive management under the instruction/supervision of the Chief Executive. All management and staff have a clearly defined set of responsibilities and are subject to a Code of Conduct, as set out in the Human Resources Manual, which places them under specific obligations as to the ethics and principles in accordance with which our business is conducted.

Remuneration of Directors and Senior Management

The Remuneration Committee has prepared a report set out on page 98 of this Annual Report, which summarises its work in 2008. It encapsulates the Group's remuneration structure and policy, and discloses, on a named basis, the remuneration of every Director and member of the Senior Management for the year ended 31 December 2008. The biographies of HKEx's Senior Management are set out on page 30 of this Annual Report.

Accountability and Audit

Financial Reporting

The Board acknowledges its responsibility for overseeing the preparation of the annual accounts which give a true and fair view of the Group's state of affairs, results and cash flows for the year. In preparing the accounts for the year ended 31 December 2008, the Directors (i) adopted all HKFRSs which are in conformity to the International Financial Reporting Standards in all material respects; (ii) selected suitable accounting policies and applied them consistently; (iii) made prudent and reasonable judgements and estimates; and (iv) ensured that the accounts were prepared on the going concern basis.

HKEx recognises that high quality, transparent and timely financial reporting is important to secure the confidence of stakeholders in the Company, and reviews and approves the annual, interim, and quarterly results for publication within 3 months, 2 months and 45 days respectively after the end of the relevant periods.

Internal Controls

The Board also acknowledges its responsibility for the effectiveness of the Group's internal control and risk management system. The internal control system is designed to provide reasonable, though not absolute, assurance against material misstatement or loss, and manage rather than eliminate risks of failure to achieve business objectives.

The key processes that the Board has applied in reviewing the effectiveness of the internal control system are summarised below. Full details are available in the Corporate Governance section on the HKEx website.

Internal Control Measures

- The internal control system serves as an integral part of HKEx's management system. The management and individual divisions/departments take part in the day-to-day management of operational risks and implementation of mitigation measures. All the division and department Heads are required to sign annual statements confirming compliance with the internal control policy and procedures.
- The Senior Management Committee which includes the Head of Risk Management Division as a member is responsible for monitoring and assessing risks for individual business initiatives as well as providing oversight of risk management across the Company.
- The Risk Management Division is responsible for supervising the risk management functions of HKEx.
- To ensure the integrity, availability and stability of the IT services and application systems of HKEx, the Board resolved the commissioning of consultants to perform, in phases, independent reviews of the overall effectiveness of the Group's IT risk management processes covering the IT Governance and the core mission critical IT application systems. Phase one, ie, the independent reviews of the IT Governance and EDS, commenced in April 2008 and was completed on 1 September 2008. The review results were generally satisfactory. Phase two which covers HKATS, DCASS and PRS, is expected to commence in the second quarter of 2009 and to be completed by the end of the year.

Annual Assessment of Internal Control System

The Internal Audit Department ("IAD") performed independent reviews and reported regularly the review results to the Board through the Audit Committee ("AC") on the adequacy and effectiveness of the Group's internal control and risk management systems. The IAD also assessed the Group's internal control structure using the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework to provide confirmation of the effectiveness of the Group's internal control systems in the following aspects:

- the provision of sufficient explanation and information to the AC and the Board to enable them to effectively assess the state of controls at HKEx in areas such as the reliability of financial reporting, compliance with applicable laws, rules and regulations, and the effectiveness of risk management functions;
- the responses to changes in HKEx's business and external environment;
- the efficiency in rectifying identified internal control deficiencies and implementing recommendations of the IAD, external auditor and/or regulator;
- the promptness in handling operating errors or failures; and
- the control of price-sensitive information in accordance with the Exchange's guidelines.

Audit Committee

The AC on behalf of the Board assesses the effectiveness of the internal control system in detecting fraud and other irregularities on a regular basis by reviewing IAD's work and findings. During 2008, no suspected frauds, irregularities or infringement of laws, rules and regulations or material control failures were reported. At the meeting on 26 February 2009, the AC concluded that the Group's internal control system was effective and adequate, and that the Group had adopted the necessary control mechanisms to monitor and rectify non-compliance throughout 2008.

To ensure on-going compliance with the newly amended CG Code, AC's terms of reference have been revised to take into account the Board's responsibility for reviewing the adequacy of staffing of the financial reporting functions and the oversight role of the AC. At the meeting on 26 February 2009, the AC also reviewed and was satisfied with the adequacy of resources, qualifications and experience of the employees of the Group's accounting and financial reporting function, and their training programmes and budget. More information about the AC, including a summary of its work in 2008, is set out in the AC Report on page 96 of this Annual Report.

Independence of External Auditor

The AC is mandated to monitor the independence of the external auditor to ensure true objectivity in the financial statements. The external auditor is refrained from engaging in non-audit services except for limited tax-related services or specific approved items. The AC reviews the external auditor's statutory audit scope and non-audit services and approves its fees.

External Auditor's Services and Fees Paid

	2008	2007
Audit	**$2,876,500**	$2,585,000
Permissible		
Non-audit Services:		
• Taxation services	**$457,573**	$406,000
• Training	**$1,450**	$4,100
Total	**$3,335,523**	$2,995,100

Pursuant to the adopted 5-year rotation policy, the engagement partner of the external auditor was first rotated in 2005. Moreover, it is the Group's policy not to hire employees of external auditors who are or have been involved in the Group's audit so as to ensure no impairment of the auditor's judgement or independence in respect of an audit. The policy was strictly complied with in 2008.

Compliance with Model Code

HKEx has adopted the Model Code as its own code of conduct regarding Directors' securities transactions for compliance by Directors. In response to the specific enquiry by the Company, all Directors confirmed that they complied with the required standard set out in the Model Code throughout the year ended 31 December 2008.

Interests and Short Positions of Directors and Chief Executive in Shares and Underlying Shares of HKEx

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

Long Positions in Shares and Underlying Shares of HKEx

	Number of Shares/Underlying Shares Held					
Name of Director	**Personal Interests**	**Family Interests**	**Corporate Interests**	**Other Interests**	**Total**	**% of the Issued Share Capital** (Note 1)
Paul M Y Chow	3,296,787 (Note 2)	–	–	–	3,296,787	0.31
John E Strickland	18,000 (Note 3)	–	–	–	18,000	0.00

Notes:
1. It is based on 1,074,886,346 shares of HKEx in issue as at 31 December 2008.
2. It included Mr Chow's interests in 12,846 Awarded Shares and 847 shares further acquired by reinvesting the dividends received therefrom according to the Share Award Scheme. Details of Mr Chow's Awarded Shares are set out in Note 35(c) to the consolidated accounts of this Annual Report.
3. Such shares were held by Mr Strickland as beneficial owner.

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

Save for the share options and Awarded Shares as disclosed in the Remuneration Report of this Annual Report, none of the Directors or the Chief Executive (including their spouses and children under the age of 18), during the year ended 31 December 2008, held any interests in or was granted any right to subscribe for the securities of HKEx and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Interests and Short Positions of Other Persons in Shares and Underlying Shares of HKEx

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

Long Positions in Shares and Underlying Shares of HKEx

Name	Capacity	Number of Shares/ Underlying Shares Held	Total	% of the Issued Share Capital (Note 1)
JPMorgan Chase & Co	Beneficial owner	11,839,156	55,686,139 (Note 2)	5.18
	Investment manager	8,269,300		
	Custodian corporation/ approved lending agent	35,577,683		
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	62,919,500 (Note 3)	62,919,500	5.85

Short Positions in Shares and Underlying Shares of HKEx

Name	Capacity	Number of Shares/ Underlying Shares Held	Total	% of the Issued Share Capital (Note 1)
JPMorgan Chase & Co	Beneficial owner	18,610,193	18,679,193 (Note 4)	1.74
	Investment manager	69,000		

Notes:
1. It is based on 1,074,886,346 shares of HKEx in issue as at 31 December 2008.
2. It included aggregate interests in 4,938,800 underlying shares through its holding of certain cash settled listed equity derivatives (1,200 underlying shares), and physically settled unlisted equity derivatives (4,937,600 underlying shares). It also included 35,577,683 shares in the lending pool.
3. This is based on a DI filing made by the Government on 10 September 2007 which it stated was voluntary.
4. It included aggregate interests in 13,815,037 underlying shares through its holding of certain listed equity derivatives (physically settled – 54,000 underlying shares, and cash settled – 35,100 underlying shares) and unlisted equity derivatives (physically settled – 3,355,937 underlying shares, and cash settled – 10,370,000 underlying shares).

Save for those disclosed above, as at 31 December 2008, no other persons had any interests or short positions in the shares or underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange.

Interests of Senior Management in Shares and Underlying Shares of HKEx

The Senior Management are obliged to follow strictly the Company's restrictions on dealing in securities, futures contracts and derivatives, which are on terms no less stringent than the Model Code, as set out in the Human Resources Manual. As at 31 December 2008, the interests of the Senior Management in the shares and underlying shares of HKEx are set out below.

Name of Employee	Number of Shares Held	Number of Shares Issuable Under Share Options Granted	Number of Awarded Shares (Note)	Derivatives (Number of Underlying Shares)
Gerald D Greiner	115,048	200,000	40,819	–
Lawrence K M Fok	912,270	80,000	17,353	–
Mary M L Kao	810,799	80,000	21,156	–
Henry M W Law	141,107	65,000	21,799	–
Stewart S C Shing	101,437	273,500	5,746	–
Archie T C Tsim	23,006	123,000	30,438	–
Richard G Williams	3,352	–	18,111	–
Alfred K K Wong	284,802	75,000	30,657	–

Note: The number included further shares acquired through reinvesting dividend received.

Continuing Connected Transactions

During the year ended 31 December 2008, the Group had the following continuing connected transactions. All of them were entered into by the Group in the ordinary and usual course of business and on normal commercial terms.

Continuing Connected Transactions for the year ended 31 December 2008
A. Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with the use of (i) the facilities provided by the Group for the trading, clearing and/or settlement of securities and futures products and transactions; and (ii) all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:
(a) Mr Ronald J Arculli, the Chairman, was interested in the transactions entered into by Bokhary Securities Limited ("BSL"), an EP and a Clearing Participant, in which his sister has a 50 per cent interest.
(b) Dr Bill C P Kwok, an INED, was interested in the transactions entered into by Wocom Securities Limited ("WSL") and Wocom Limited, EPs and Clearing Participants, which are associates of Dr Kwok by virtue of the Main Board Listing Rules.
(c) Mr Vincent K H Lee, an INED, was interested in the transactions entered into by Tung Tai Securities Company Limited ("TTS") and Tung Tai Futures Limited, EPs and Clearing Participants, which are associates of Mr Lee by virtue of the Main Board Listing Rules.
B. Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with (i) the listing of securities on the Stock Exchange; and (ii) all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:
(a) Mrs Laura M Cha, an INED, was interested in the transactions entered into by her associates, HKR International Limited and Hanison Construction Holdings Limited. Both of them are listed on the Stock Exchange.
(b) Dr Bill C P Kwok, an INED, was interested in the transactions entered into by his associate, Wing On Company International Limited which is listed on the Stock Exchange.
C. Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with the HKSCC arrangement on behalf of Clearing Participants for (i) carrying out "buy-in" when a Clearing Participant failed to deliver securities on time for settlement under the CNS System or the Isolated Trades System operated by CCASS; (ii) the purchase or sale of securities in connection with the liquidation of the positions of a CCASS Participant that has been declared by HKSCC to be in default; and (iii) the sale of entitlements of securities held through CCASS (collectively referred as "Buy-in Transactions"):
(a) Mr Ronald J Arculli, the Chairman, was interested in the Buy-in Transactions entered into by BSL, in which his sister has a 50 per cent interest. For the year ended 31 December 2008, the total consideration of such transactions was $11,063,328.76, comprising an aggregate of buy-in cost of $11,035,396.93 and related brokerage fee of $27,931.83 earned by BSL.
(b) Dr Bill C P Kwok, an INED, was interested in the Buy-in Transactions entered into by WSL which is an associate of Dr Kwok by virtue of the Main Board Listing Rules. For the year ended 31 December 2008, the total consideration of such transactions was $21,295,725.84, comprising an aggregate of buy-in cost of $21,268,708.87 and related brokerage fee of $27,016.97 earned by WSL.
(c) Mr Vincent K H Lee, an INED, was interested in the Buy-in Transactions entered into by TTS which is an associate of Mr Lee by virtue of the Main Board Listing Rules. For the year ended 31 December 2008, the total consideration of such transactions was $1,621,277.51, comprising an aggregate of buy-in cost of $1,618,808.07 and related brokerage fee of $2,469.44 earned by TTS.

In respect of the above continuing connected transactions ("Transactions"), the AC comprising 5 INEDs, under the authority delegated by the Board, reviewed the above transactions, pursuant to Rule 14A.37 of the Main Board Listing Rules. As a good corporate governance practice, Mr Vincent K H Lee had abstained from reviewing the transactions in which he had an interest. The AC confirmed that:

(a) the Transactions disclosed above were entered into in the ordinary and usual course of business of the Group and conducted on an arm's length basis on normal commercial terms or on terms no more favourable than terms available to independent third parties;

(b) in respect of the transactions as disclosed under (A) and (B) above, they were conducted in accordance with the rules and regulations of the relevant Group company governing such transactions and where the rules and regulations do not govern those transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;

(c) in respect of the transactions as disclosed under (C) above, ie, the Buy-in Transactions, they were conducted in accordance with the standard terms and conditions of HKSCC applicable generally to all buy-in brokers in such transactions acting for and on behalf of HKSCC and at the agreed commission rate payable by HKSCC in respect of all such Buy-in Transactions; and

(d) the Transactions disclosed above were conducted in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of Shareholders as a whole.

Pursuant to Rule 14A.38 of the Main Board Listing Rules, the external auditor also confirmed that:

(a) the Transactions disclosed above had been approved by the Board;

(b) the pricings of the Transactions were in accordance with the pricing policies of the Group; and

(c) the Transactions had been entered into in accordance with the relevant agreements governing them.

Related Party Transactions

The Group also entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of these transactions are disclosed in note 46 to the consolidated accounts of this Annual Report.

Communications with Shareholders

To account to Shareholders and other stakeholders for the Group's performance and operations, HKEx has a comprehensive investor relations programme. This includes: (i) publication of quarterly, interim and annual reports; (ii) publication of circulars and letters to Shareholders; (iii) publication of results summary in English and Chinese newspapers; (iv) issuance of news releases; (v) regular updates on corporate information on the HKEx website; (vi) publication of the "Exchange" newsletter and the status report on new products and market development initiatives on a quarterly basis; (vii) regular meetings with investors and media; and (viii) market consultations. Starting from 2008, presentations on interim and annual results have been accessible via webcasts through the HKEx website to facilitate stakeholders' understanding of the Group's performance and prospects.

Registered Shareholders can notify HKEx by email at communicationrequest@hkex.com.hk of any change in their choice of language or means of receiving any corporate communications from HKEx. Shareholders are encouraged to access corporate communications from the Company through the HKEx website to help protect the environment. We believe that it is also the most efficient and convenient method of communication with our Shareholders.

The Investor Services team has primary responsibility for day-to-day contact with Shareholders and holds regular meetings with financial analysts who produce research reports on the Company. To ensure equal access by our stakeholders to material information, all discussions with analysts are conducted by designated persons, ie, the Chief Executive, the Chief Financial Officer and the Investor Services team, and are limited to explanations of previously published material and general discussions of non-price sensitive information.

Shareholders are encouraged to attend the AGM which is the principal forum for them to meet and raise questions to their Directors, the management and the external auditor. The full Board (except one member) and key executives along with the external auditor were present at the last Shareholders' meeting, the 2008 AGM held at the Exchange Auditorium in the Exchange Exhibition Hall of SEHK on 24 April 2008 at 4:30pm. Poll voting has been adopted for decision-making at general meetings since 2003, way ahead of poll voting being made mandatory for all general meetings effective 1 January 2009. Details of the poll voting procedures were set out in the circular sent to Shareholders prior to the meeting and explained at the commencement of the meeting. The poll voting procedures as well as the particulars of Shareholders' rights including, the way in which extraordinary general meetings are convened and the procedures for putting forward proposals at a Shareholders' meeting, are set out in the Corporate Governance section on the HKEx website.

At the 2008 AGM, HKEx continued to propose a separate resolution for each substantive issue, including election of individual Directors, and adopted poll voting to ensure that each share is entitled to one vote. The poll voting results and the minutes of the 2008 AGM are available on the HKEx website. The matters resolved thereat are summarised below.

Matters Resolved at the 2008 AGM

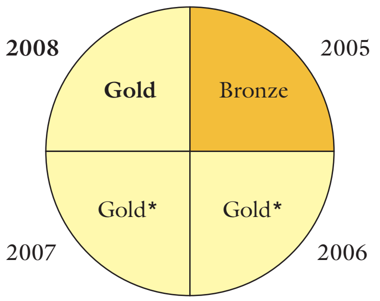
- Receipt of the audited accounts for the year ended 31 December 2007 together with the Reports of the Directors and the Auditor
- Payment of a final dividend of $3.40 per share for the year ended 31 December 2007
- Election of Dr Bill C P Kwok and Mr Vincent K H Lee as Directors
- Re-appointment of PricewaterhouseCoopers as Auditor of the Company and authorisation of the Board of Directors to fix the remuneration of the Auditor
- Approval of granting a general mandate to the Board for the repurchase of not exceeding 10 per cent of the aggregate nominal amount of the Company's issued share capital as at the date of 2008 AGM

The 2008 Financial Calendar is set out on page 110 of this Annual Report, which together with the 2009 Financial Calendar (with tentative important dates) are available at the Investor Relations Corner on the HKEx website.

Corporate Governance Scores and Ratings

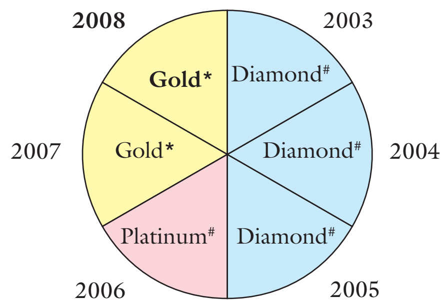
HKEx has been included as a constituent of the FTSE4Good Index since September 2005. Other recognition for HKEx's corporate governance achievements are set out below.

HKMA Best Annual Reports Awards (General Category) of The Hong Kong Management Association



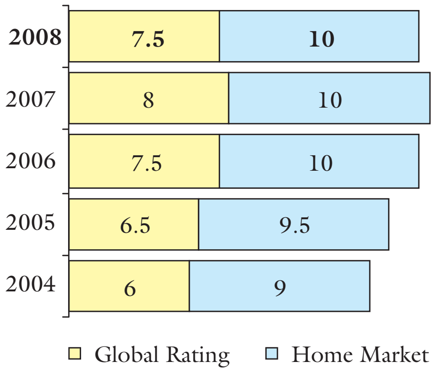
* Also the Winner in Citation for Achievement in Corporate Governance Disclosure

Best Corporate Governance Disclosure Awards of Hong Kong Institute of Certified Public Accountants



* HSI Category # Non-HSI Category

Corporate Governance Rating of GovernanceMetrics International Inc



Note: The above scores were the last scores obtained in the year and the full score was 10.

***IR* Magazine Hong Kong and Taiwan Awards 2008**

HKEx received the Certificates of Excellence and has been awarded points in the following three categories:

- Grand Prix for best overall IR by a Hong Kong domiciled large cap listed on the Hong Kong Exchange
- Best Investor Relations Officer at a Hong Kong domiciled company listed on the Hong Kong Exchange
- Best IR by a CEO at a Hong Kong domiciled company listed on the Hong Kong Exchange

The *Asset* Corporate Governance Ranking

2007	**2008**
One of the best companies in Hong Kong in terms of corporate governance	**The best company in Hong Kong in terms of corporate governance**

CSR Development

As a listed issuer with public interest responsibilities, HKEx has to also safeguard the interests of its stakeholders, particularly its shareholders, employees and customers, and be mindful of its wider obligations to support the community and help preserve the environment. With a view to further enhance HKEx's CSR measures and to develop CSR practices that are both appropriate and sustainable, we took a series of actions at the beginning of 2008 to improve HKEx's CSR development, in particular, the formation of a CSR Committee in September 2008. Details of HKEx's CSR performance in 2008 are set out in the 2008 CSR Report which is posted on the HKEx website. The CSR Committee has prepared a report set out on page 106 of this Annual Report, which summarises its work in 2008 and sets out its plan for 2009.

We continue in our commitment to make further progress in the evolution of our corporate governance practices, in line with the ongoing developments in global corporate governance practices and the interests of our stakeholders. All comments, particularly on areas where we can do better are invaluable to us and are most welcome, which can be sent to us in writing or by email to ssd@hkex.com.hk.

On behalf of the Board
MAU Kam Shing, Joseph
Company Secretary

Hong Kong, 4 March 2009

AUDIT COMMITTEE REPORT

The Audit Committee

The Audit Committee ("AC") comprises 5 INEDs, appointed by the Board, who have extensive experience in financial matters. Among them, Dr Marvin K T Cheung, Mr Fong Hup, and Mr Vincent K H Lee are certified public accountants and Mr John M M Williamson is a chartered accountant. Mr Williamson was appointed on 18 June 2008, following the resignation of Mr David M Webb, as a member of the Audit Committee on 15 May 2008. None of them are employed by or otherwise affiliated with the former or existing auditors of HKEx.

Terms of Reference

The AC assists the Board by providing an independent review and supervision of financial reporting, and satisfying themselves as to the effectiveness of the Group's internal controls and the adequacy of the external and internal audits. In performing its duties, the AC is provided with sufficient resources to discharge its responsibilities and is supported by the Internal Audit Department ("IAD") to examine all matters relating to the Group's adopted accounting principles and practices and to review all material financial, operational and compliance controls. The external auditor, the Chief Executive and senior executives are invited to attend the AC meetings, as and when necessary. The AC is accountable to the Board and the minutes of all meetings are circulated to the Board for information. The AC's terms of reference, setting out its role and the responsibilities, were last updated on 10 December 2008 and posted on the HKEx website.

Summary of Major Work Done

The AC holds regular meetings, at least 4 times a year, and organises additional meetings if and when necessary. In 2008, a total of 7 meetings were convened. The attendance record of the AC's members is shown on page 87 of this Annual Report. The following is a summary of the tasks completed by the AC:

- reviewed the financial reports for the year ended 31 December 2007, for the six months ended 30 June 2008, and for the quarters ended 31 March 2008 and 30 September 2008;
- reviewed the internal audit activities summary and approved the internal audit annual plan;
- reviewed internal/external auditor's significant findings and recommendations, and monitored the subsequent implementation;
- reviewed the effectiveness of the internal control system;
- reviewed the external auditor's statutory audit scope for 2008, including their plan and engagement letter, and the letter of representation of management;
- considered and approved the 2008 external audit fees;
- reviewed and monitored the external auditor's independence and the non-audit services, especially tax-related services, provided by the external auditor; and
- reviewed the independent consultant's reports on the reviews of the ITG and EDS, and monitored the subsequent management actions to address the issues identified in the consultant's reports.

Internal Controls

HKEx's internal control system is reviewed regularly by the management and the IAD. The AC assessed the effectiveness of the internal control system in detecting fraud and irregularities by reviewing the work of the IAD and its findings. Based on the IAD's findings, the AC concluded that for the year ended 31 December 2008, HKEx's internal control system was effective and that HKEx had adopted the necessary control mechanisms to monitor and correct non-compliance. On this basis, the AC confirmed that it was satisfied that the Group had complied with the requirements of the CG Code in respect of internal controls in 2008.

Review of 2008 Consolidated Financial Statements

The AC reviewed the 2008 consolidated financial statements in conjunction with HKEx's external and internal auditors. Based on this review and discussions with management, the AC is satisfied that the consolidated financial statements have been prepared in accordance with applicable accounting standards and fairly presents the financial position and results of the Group for the year ended 31 December 2008. The AC therefore recommended the consolidated financial statements for the year ended 31 December 2008 be approved by the Board.

Review of the Group's Accounting and Financial Reporting Function

In compliance with the newly amended CG Code which took effect on 1 January 2009, the AC at its meeting on 26 February 2009, reviewed the resources, qualifications and experience of the employees of the Group's accounting and financial reporting function, and their training programmes and budget, and was satisfied with their adequacy and effectiveness.

Review of the Continuing Connected Transactions

At its meeting held on 26 February 2009, the AC also reviewed the "Continuing Connected Transactions" set forth on pages 92 to 93 of this Annual Report and confirmed that the continuing connected transactions entered into by the Group were in accordance with the conditions of the waiver granted by the SFC and the requirements of the Main Board Listing Rules.

Re-appointment of External Auditor

The AC's recommendation on the re-appointment of PricewaterhouseCoopers as the Group's external auditor for 2008 was approved by Shareholders at the 2008 AGM.

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

Hong Kong, 26 February 2009

REMUNERATION COMMITTEE REPORT

The Remuneration Committee

The Remuneration Committee ("RC") comprises 5 INEDs. Its composition is set out on page 21 of this Annual Report.

Terms of Reference

The RC is mandated to formulate the Group's remuneration policy for the Board's approval. Other key functions include, inter alia, setting the guidelines for the recruitment of the Chief Executive and the Senior Management, determining their remuneration packages, and making recommendations to the Board on the Group's annual salary adjustment, annual performance bonus and share award. The terms of reference are posted on the HKEx website.

Summary of Major Work Done in 2008

During 2008, the RC held 5 meetings and members' attendance record is shown on page 87 of this Annual Report. The following is a summary of the major tasks completed by the RC in 2008:

- reviewed the remuneration level for non-executive Directors and recommended to keep the remuneration level unchanged for 2008/2009;
- reviewed the succession plan for senior positions;
- reviewed the report presented by a human resources consulting firm, on the job evaluation and remuneration of senior executives of the Company;
- recommended a salary freeze for 2009;
- recommended a one-off payment of half a month's salary to employees at junior grades as a relief measure in view of the inflationary pressure in 2008;
- recommended the performance bonus pool for 2008 based on the assessment of the Company's financial and non-financial performance and a pre-set formula implemented since 2006; and
- recommended the performance bonus for the Chief Executive for 2008.

Remuneration Policy

Non-executive Directors

It is the Group's objective to remunerate non-executive Directors fairly but not excessively for their efforts and time dedicated to HKEx. Their remuneration is reviewed annually with reference to companies of comparable business or scale. Recommendations for changes in non-executive Directors' remuneration are subject to Shareholders' approval at general meetings.

Non-executive Directors are not entitled to participate in the Share Option Schemes and the Share Award Scheme, or other fringe benefits.

Employees

Quality and dedicated staff are valuable assets contributing to the Group's success. HKEx's remuneration policy is built on the principle of providing an equitable, performance-oriented, motivating and market-competitive remuneration package for every employee. To enable our employees to reach their full potential, we are committed to staff training and development. In 2008, HKEx spent $3.8 million on staff training and organised 116 in-house training classes with more than 3,500 participants. In addition, 19 employees of different grades participated in the academic sponsorship programme and 763 participants attended external training programmes. HKEx's e-learning programme also provided a variety of courses covering managerial, language and technical skills to 172 employees. More details are set out in the CSR section of the HKEx website and the 2008 CSR Report. As at 31 December 2008, we had a total of 848 permanent employees (2007: 805) and 17 temporary employees (2007: 32) and maintained a low turnover rate of 6.8 per cent (2007: 10.4 per cent).

Our employees' remuneration packages (including that of the Chief Executive) comprise fixed and variable components benchmarked against companies in the financial services sector. The following illustrates the mix of fixed and variable pay for employees at different grades in a year when the Group achieves its performance targets:

Different Grades of Staff	Fixed	Variable (Performance-related)	
Senior staff (Note)	67%	22%	11%
Middle-level staff	75%	25%	
Supervisory-level staff	80%	20%	
General staff	86%	14%	

Base compensation – salary   Annual incentive – cash bonus   Long-term incentive – share award

Note: Including the Chief Executive

Employees' rewards are linked to performance and differentiated based on a six-level performance rating scale. A performance development process is in place to help employees set performance objectives, focus on performance improvement and identify training and development opportunities.

Other benefits include the provident fund (contribution to the provident fund is set out in note 9 to the consolidated accounts of this Annual Report), medical insurance, dental insurance, life and personal accident insurance, employee compensation insurance and business travel insurance.

Details of HKEx's remuneration policy and structure are set out in the Corporate Governance section on the HKEx website.

Non-executive Directors' Fee Review for 2008/2009

Based on information collected on the average annual remuneration of non-executive Directors and INEDs of HSI constituent companies as well as overseas listed exchanges, the RC recommended in early 2008 that the remuneration package for INEDs for 2008/2009 should remain unchanged:

	2008/2009 ($)	2007/2008 ($)
Board Chairman	**450,000**	450,000
Board member	**300,000**	300,000
Executive Committee member	**50,000**	50,000
Audit Committee member	**50,000**	50,000
Remuneration Committee member	**50,000**	50,000
Investment Advisory Committee member	**50,000**	50,000

Employees' Pay Review for 2008/2009

During 2007, an independent external consultant was engaged to review the remuneration packages and structures of 22 senior executives in grade 1 and grade 2 with reference to their duties and responsibilities, and market levels. The exercise was repeated in 2008 covering another 22 senior executives in grade 3. The results of the consultant's review were taken into consideration in the remuneration review and succession planning.

In view of uncertainties in the market and a slowdown in market activities in 2008, the RC recommended and the Board decided that, as part of efforts to manage costs, no salary increment would be awarded for 2009 except that a special one-off cash payment equivalent to half-a-month's salary was awarded to 291 junior staff in grade 9 to grade 11 as a relief measure in view of the inflation in 2008.

In recognition of employees' contribution in 2008 and under the Group's bonus schemes with pre-set formula and measures, the Board approved the RC's recommendation of paying a discretionary performance bonus to eligible employees. The performance bonus was determined based on the Company's performance, taking into account both financial and non-financial factors including profit, business development, market and regulatory development, organisational development and market availability.

In anticipation of the departure and retirement of a number of senior executives in 2009 and 2010, a review of the organisation structure to implement the succession plan will be conducted in early 2009. In this connection, the Board, based on RC's recommendation, decided to defer the award of long-term incentives and to tie it with the succession plan.

Neither the Chief Executive nor the Senior Management participated in the RC's discussion on his/her performance award. The RC consulted the Chief Executive about the performance of members of the Senior Management.

Emoluments for 2008

Non-executive Directors

	Director's Fee ($)	
Name	**2008**	2007
Current Directors		
Ronald J Arculli	**550,000**	472,500
Laura M Cha	**400,000**	360,000
Moses M C Cheng	**400,000**	360,000
Marvin K T Cheung	**350,000**	322,500
Henry H L Fan	**300,000**	285,000
Fong Hup	**400,000**	360,000
Bill C P Kwok	**350,000**	322,500
Vincent K H Lee	**450,000**	397,500
Christine K W Loh	**350,000**	322,500
John E Strickland	**350,000**	322,500
John M M Williamson (Note)	**214,444**	–
Oscar S H Wong	**350,000**	322,500
Ex-Director		
David M Webb (resigned on 14 May 2008)	**122,832**	360,000
Total	**4,587,276**	4,207,500

Note: Mr John M M Williamson was appointed on 18 June 2008 to fill the casual vacancy arising from the resignation of Mr David M Webb.

Executive Director

Name	2008 Salary ($)	2008 Cash Bonus ($)	2008 Other Benefits ($) (Note 1)	2008 Retirement Benefits Cost ($) (Note 2)	2008 Director's Fee ($)	2008 Total ($)	2007 Total ($)	2008 Share Option Benefits ($) (Note 3)	2008 Share Awards Benefits ($) (Note 3)
Chief Executive									
Paul M Y Chow	7,800,000	3,900,000	57,504	975,000	–	12,732,504	14,134,540	559,130	530,637

Senior Management

Name	2008 Salary ($)	2008 Cash Bonus ($)	2008 Other Benefits ($) (Note 1)	2008 Retirement Benefits Cost ($) (Note 2)	2008 Compensation for Loss of Office ($)	2008 Total ($)	2007 Total ($)	2008 Share Options Benefits ($) (Note 3)	2008 Share Awards Benefits ($) (Note 3)
Gerald D Greiner	5,851,200	2,457,510	83,304	731,400	–	9,123,414	9,970,073	297,309	1,024,192
Lawrence K M Fok	3,672,000	1,224,000	78,178	459,000	–	5,433,178	5,435,747	131,376	313,621
Mary M L Kao	3,681,360	1,533,910	63,784	460,170	–	5,739,224	6,318,783	131,376	401,721
Henry M W Law	2,594,880	1,081,210	32,060	324,360	–	4,032,510	4,466,349	107,544	519,619
Stewart S C Shing	3,908,280	1,641,480	67,496	488,536	–	6,105,792	6,868,741	940,667	200,874
Archie T C Tsim	3,274,200	1,282,410	63,504	409,276	–	5,029,390	5,802,032	95,261	716,826
Richard G Williams (Note 4)	4,534,920	2,307,150	120,432	566,866	–	7,529,368	8,160,864	367,649	694,598
Alfred K K Wong	3,240,000	1,717,200	59,250	405,000	–	5,421,450	5,819,455	119,161	732,119

Notes:
1. Other benefits include insurance premium and club membership.
2. An employee who retires before normal retirement age is eligible to 18 per cent of the employer's contribution to the provident fund after completion of 2 years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of 7 years of service.
3. The share options benefits and the share awards benefits represent the aggregate of the amortised fair value of the share options granted and shares awarded to the Chief Executive and respective members of the Senior Management under the Post-Listing Scheme and the Share Award Scheme respectively that were charged to the consolidated income statement for the year ended 31 December 2008. (Under HKFRS2, amortisation of the fair value of the options granted under the Pre-Listing Scheme is not required.)
4. Mr Richard G Williams is a member of a pension scheme operating in the UK, and he is exempted under Section 4(3) of the Mandatory Provident Fund Schemes Ordinance from participating in HKEx's provident fund scheme. The vesting scale of retirement benefits is not applicable to Mr Williams.

Further particulars regarding the emoluments of Directors and the 5 top-paid employees as required to be disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Main Board Listing Rules are set out in notes 14 and 15 to the consolidated accounts of this Annual Report respectively.

Directors' Service Contract

Mr Paul M Y Chow is employed as the Chief Executive whose existing contract will expire on 30 April 2010. Save as the aforesaid, no Director has any existing or proposed service contract with any member of the Group.

Chief Executive and the Senior Management's Interests in HKEx's Securities under Long-Term Incentive Schemes

Share Options

Name	Date of Grant	Exercise Price ($)	Number of Shares Issuable Under the Options: As at 1 Jan 2008	Subscribed during the Year	Lapsed during the Year	As at 31 Dec 2008	Exercise Period (Note)
Chief Executive							
Paul M Y Chow	2 May 2003	8.28	1,240,000	1,240,000	–	–	2 May 2005 – 1 May 2013
Senior Management							
Gerald D Greiner	17 May 2004	15.91	125,000	25,000	–	100,000	17 May 2006 – 16 May 2014
	26 Jan 2005	19.25	150,000	50,000	–	100,000	26 Jan 2007 – 25 Jan 2015
Lawrence K M Fok	31 Mar 2004	16.96	60,000	30,000	–	30,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	100,000	50,000	–	50,000	26 Jan 2007 – 25 Jan 2015
Mary M L Kao	31 Mar 2004	16.96	60,000	30,000	–	30,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	75,000	25,000	–	50,000	26 Jan 2007 – 25 Jan 2015
Henry M W Law	31 Mar 2004	16.96	50,000	25,000	–	25,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	80,000	40,000	–	40,000	26 Jan 2007 – 25 Jan 2015
Stewart S C Shing	15 Jan 2004	17.30	547,000	273,500	–	273,500	15 Jan 2006 – 14 Jan 2014
Archie T C Tsim	26 Jan 2005	19.25	164,000	41,000	–	123,000	26 Jan 2007 – 25 Jan 2015
Richard G Williams	14 Aug 2003	12.45	273,500	273,500	–	–	14 Aug 2005 – 13 Aug 2013
Alfred K K Wong	31 Mar 2004	16.96	50,000	25,000	–	25,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	100,000	50,000	–	50,000	26 Jan 2007 – 25 Jan 2015

Note: Options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of grant.

Awarded Shares

Name	Date of Award (Note 2)	Number of Awarded Shares	Average Fair Value per Share ($) (Note 3)	Number of Shares (Note 1): As at 1 Jan 2008	Further Shares Acquired during the Year through Reinvesting Dividends Received	Vested during the Year	Lapsed during the Year	As at 31 Dec 2008	Vesting Period (Note 4)
Chief Executive									
Paul M Y Chow	15 Jan 2007	11,528	72.28	11,800	576	3,094	–	9,282	13 Dec 2008 – 13 Dec 2011
	7 Apr 2008	4,200	144.18	–	211	–	–	4,411	18 Feb 2010 – 18 Feb 2013
Senior Management									
Gerald D Greiner	19 Dec 2005	40,600	31.20	31,997	1,572	11,188	–	22,381	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	11,911	72.28	12,199	597	3,196	–	9,600	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	8,418	163.72	–	420	–	–	8,838	12 Dec 2009 – 12 Dec 2012
Lawrence K M Fok	19 Dec 2005	24,600	31.20	19,387	951	6,779	–	13,559	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	3,842	72.28	3,936	189	1,029	–	3,096	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	658	163.72	–	40	–	–	698	12 Dec 2009 – 12 Dec 2012
Mary M L Kao	19 Dec 2005	28,700	31.20	22,619	1,110	7,908	–	15,821	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	5,048	72.28	5,170	248	1,353	–	4,065	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	1,202	163.72	–	68	–	–	1,270	12 Dec 2009 – 12 Dec 2012
Henry M W Law	19 Dec 2005	22,900	31.20	18,045	882	6,308	–	12,619	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	6,660	72.28	6,823	330	1,785	–	5,368	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	3,623	163.72	–	189	–	–	3,812	12 Dec 2009 – 12 Dec 2012
Stewart S C Shing	15 Jan 2007	5,360	72.28	5,486	264	1,437	–	4,313	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	1,361	163.72	–	72	–	–	1,433	12 Dec 2009 – 12 Dec 2012
Archie T C Tsim	19 Dec 2005	32,700	31.20	25,770	1,266	9,011	–	18,025	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	8,965	72.28	9,182	448	2,406	–	7,224	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	4,941	163.72	–	248	–	–	5,189	12 Dec 2009 – 12 Dec 2012
Richard G Williams	15 Jan 2007	12,490	72.28	12,785	628	3,352	–	10,061	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	7,672	163.72	–	378	–	–	8,050	12 Dec 2009 – 12 Dec 2012
Alfred K K Wong	19 Dec 2005	32,100	31.20	25,297	1,242	8,845	–	17,694	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	9,417	72.28	9,647	469	2,526	–	7,590	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	5,113	163.72	–	260	–	–	5,373	12 Dec 2009 – 12 Dec 2012

Notes:
1. The number included shares acquired through reinvesting dividends received.
2. Prior to 16 August 2006, the date of award refers to the date on which the Board determined such number of shares awarded to the selected employees. Following the amendments to the rules of the Share Award Scheme which took effect from 16 August 2006, the date of award refers to the date on which the trustee allocated such number of Awarded Shares to the selected employees from the total number of shares purchased with the sum determined by the Board.
3. Prior to 16 August 2006, the fair value of the Awarded Shares was based on the market value at the date of award. With effect from 16 August 2006, as a result of the amendments to the rules of the Share Award Scheme, the fair value of the Awarded Shares was based on the average purchase cost per share.
4. The shares awarded are vested in tranches of 25 per cent per annum starting from the second anniversary until the fifth anniversary of the date of approval of the award by the Board.

Long-Term Incentive Schemes

HKEx maintains two share option schemes, the Pre-Listing Scheme and the Post-Listing Scheme, and the Share Award Scheme for the purpose of recognising the contributions of certain employees of the Group and retaining them for the continual operation and development of the Group.

Share Option Schemes

Under the Share Option Schemes, the Board may, at its discretion, offer any employee (including any Executive Director) of the Group, options to subscribe for shares in HKEx subject to the terms and conditions stipulated in the two schemes. Both schemes were approved by the Shareholders on 31 May 2000 and have a life of 10 years until 30 May 2010. Pursuant to the terms of the Pre-Listing Scheme, no further options can be granted thereunder as from 27 June 2000, the date of listing of HKEx shares on the Exchange. Amendments to the Post-Listing Scheme, including, inter alia, the abolition of granting options at a discounted price, were approved by Shareholders on 17 April 2002 so as to comply with the new requirements of Chapter 17 of the Main Board Listing Rules which came into effect on 1 September 2001.

A non-refundable sum of $1 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the granted option. Pursuant to these schemes, the maximum number of subscribable shares under options that may be granted shall not in aggregate exceed 10 per cent of the shares in issue as at the date of approval of the schemes, ie, a total of 104,066,484 shares.

The total number of shares available for issue, save for those granted but yet to be exercised, under the Pre-Listing Scheme and the Post-Listing Scheme aggregated to 65,159,484 shares, which represented approximately 6 per cent of the issued share capital of HKEx as at the date of this Annual Report.

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

The maximum entitlement of each participant and the basis of determining the exercise price of the options granted pursuant to the Pre-Listing Scheme and the Post-Listing Scheme are set out below.

Pre-Listing Scheme

The maximum entitlement of each participant, when aggregated with shares issued and issuable under all options granted to him/her, must not exceed 25 per cent of the aggregated number of shares issued and issuable under the Pre-Listing Scheme.

The subscription price for a share in HKEx in respect of any particular option granted was determined based on a formula: P = 80 per cent (A x B), where "P" was the subscription price; "A" was 18.81, a price/earnings multiple determined by reference to the price/earnings multiples of various financial companies listed on the Stock Exchange and/or overseas; and "B" was the earnings per share of the Group based on its audited combined results for the year ended 31 December 1999 as if the then group structure of HKEx had been in existence throughout the year divided by 1,040,664,846 shares in issue. Based on this formula, the subscription price of the option granted was $7.52 per share, which was subsequently adjusted by Shareholders at the AGM held in 2004, to $6.88 per share as the result of the payment of a special dividend of $1.68 per share in 2004.

Post-Listing Scheme

Unless approved by Shareholders in a general meeting, no employee shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to such employee in any 12-month period up to the date of the latest grant would exceed 1 per cent of the share capital of HKEx in issue at the relevant time.

The subscription price of shares in respect of any particular option granted shall be at least the higher of: (i) the closing price of HKEx shares on the Exchange, as stated in the Exchange's daily quotations sheet on the relevant offer date in respect of such option; or (ii) the average of the closing prices of HKEx shares on the Exchange, as stated in the Exchange's daily quotations sheet for the 5 trading days immediately preceding the relevant offer date in respect of such option; or (iii) the nominal value of a share in HKEx.

Further details of the Share Option Schemes are set out in note 35(b) to the consolidated accounts of this Annual Report. The share options granted under the two schemes, which remained outstanding as at 31 December 2008 were as follows:

Pre-Listing Scheme

		Number of Shares Issuable Under the Options				
Date of Grant	Exercise Price ($)	As at 1 Jan 2008	Issued upon Subscription during the Year (Note 1)	Lapsed during the Year	As at 31 Dec 2008	Exercise Period (Note 2)
Employees (Note 3)						
20 Jun 2000	6.88	379,000	249,000	–	130,000	6 Mar 2002 – 30 May 2010

Post-Listing Scheme

		Number of Shares Issuable Under the Options				
Date of Grant	Exercise Price ($)	As at 1 Jan 2008	Issued upon Subscription during the Year (Note 4)	Lapsed during the Year	As at 31 Dec 2008	Exercise Period (Note 5)
Executive Director (Note 6)						
2 May 2003	8.28	1,240,000	1,240,000	–	–	2 May 2005 – 1 May 2013
Employees (Note 3)						
14 Aug 2003	12.45	273,500	273,500	–	–	14 Aug 2005 – 13 Aug 2013
15 Jan 2004	17.30	547,000	273,500	–	273,500	15 Jan 2006 – 14 Jan 2014
31 Mar 2004	16.96	2,827,500	1,256,000	57,000	1,514,500	31 Mar 2006 – 30 Mar 2014
17 May 2004	15.91	125,000	25,000	–	100,000	17 May 2006 – 16 May 2014
26 Jan 2005	19.25	4,076,500	1,284,000	125,000	2,667,500	26 Jan 2007 – 25 Jan 2015

No options granted under the Share Option Schemes were cancelled during the year ended 31 December 2008.

Notes:

1. The weighted average closing price immediately before the dates on which the options were exercised was $138.39.
2. Options granted are subject to a vesting scale in tranches of 25 per cent each per annum reaching 100 per cent as from 6 March 2005.
3. Employees working under employment contracts that were regarded as "continuous contracts" for the purpose of the Employment Ordinance of Hong Kong.
4. The weighted average closing price immediately before the dates on which the options were exercised was $140.39.
5. Options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of grant.
6. The option was granted to Mr Paul M Y Chow, an Executive Director and the Chief Executive.

Share Award Scheme

The Share Award Scheme was approved by the Board on 14 September 2005 ("Adoption Date"). The rules and the trust deed of the Share Award Scheme are posted on the HKEx website. The maximum numbers of shares which can be awarded under the Share Award Scheme and to a selected employee throughout its duration are limited to 3 per cent (ie, 31,871,575 shares) and 1 per cent (ie, 10,623,858 shares) respectively of the HKEx shares in issue as at the Adoption Date.

During 2008, the Board approved an aggregate sum of $5,512,000 for purchase of the HKEx shares to be awarded to eligible employees, of which $612,000 was awarded on 18 February 2008 for purchase of the HKEx shares for the Chief Executive in recognition of his contribution to the Group in 2007, and the balance was awarded to an employee upon his joining HKEx on 1 January 2009. The shares so purchased were allocated and awarded to the relevant employees according to the rules of the Share Award Scheme. Further details in relation to these awards and the Share Award Scheme are set out in note 35(c) to the consolidated accounts of this Annual Report.

Since its adoption, a total of 1,460,030 shares have been awarded up to the date of this Annual Report, representing about 0.14 per cent of the issued share capital of HKEx as at the Adoption Date.

Members of the Remuneration Committee
Ronald Joseph ARCULLI (Chairman)
CHA May-Lung, Laura
CHENG Mo Chi, Moses
LEE Kwan Ho, Vincent Marshall
LOH Kung Wai, Christine

Hong Kong, 4 March 2009

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE REPORT

The Corporate Social Responsibility Committee

The Board delegated the day-to-day responsibility for all CSR-related matters to the CSR Committee which is chaired by the Chief Executive and comprises 5 other senior executives. The CSR Committee reports to the Board on a regular basis.

Terms of Reference

The CSR Committee is mandated to (i) consider and establish the Group's CSR strategy, vision, principles, framework and policies; (ii) adopt practices and initiatives to promote the Group's CSR; and (iii) set corporate objectives, targets, key performance indicators and measures to ascertain performance in prioritised CSR areas. The CSR Committee is also responsible for monitoring the implementation of the CSR policies, practices and initiatives, reviewing their effectiveness and recommending improvement measures to the Board where appropriate. In order to address our stakeholders' evolving expectations, the CSR Committee has to keep track of the emerging CSR issues and to make recommendations to the Board as appropriate in line with the Group's CSR commitments, and to consider and monitor any green audit issues. The CSR Committee's terms of reference are posted on the HKEx website.

CSR Communication

We understand that CSR is not a one-off project but constitutes a major part of our business philosophy. A company's understanding of CSR as well as its actual application when conducting daily activities are therefore of paramount importance. The CSR Committee is working towards full internal integration of CSR into the Group's daily operations through efforts such as promoting the importance of CSR within the Group, signing CSR charters, participating in CSR promotion events and organising CSR training programmes and workshops in order to raise awareness of corporate sustainability both within and outside HKEx.

A CSR co-ordinator has been appointed to maintain close communication with the various Divisions/ Departments for the implementation of our CSR initiatives. We have established a CSR section on the HKEx website to give our stakeholders an update on our CSR performance and it also serves as an additional communication channel for our stakeholders to respond to our CSR practices. A 2008 CSR Report is published which is HKEx's inaugural stand-alone CSR report and another demonstration of our commitment to social responsibility and sustainable development. To ensure the credibility of the information presented in the 2008 CSR Report, we commissioned a verifier to provide an independent opinion on its completeness, accuracy and reliability. The 2008 CSR Report will be sent together with this Annual Report to Shareholders and posted on the CSR section of the HKEx website.

Major Work Done in 2008

After its inception in September 2008, the CSR Committee held 2 meetings before the end of the year with no absentees. The following is a summary of the major tasks completed by the CSR Committee in 2008:

- considered and approved HKEx's CSR Vision Statement;
- considered and endorsed a paper reduction plan;
- considered the corporate donation focus;
- endorsed a series of measures for a green office environment;
- approved the provision of paternity leave of 5 days to all eligible male employees effective 1 January 2009;
- approved a total budget of $1.5 million for various CSR improvement measures;
- approved the signing of Community Business's Hong Kong Corporate Social Responsibility Charter and the Hong Kong Environmental Protection Department's Carbon Reduction Charter;
- retained the consultant to help implement its recommendations for 6 months; and
- approved the engagement of an independent verifier for the 2008 CSR Report.

2009 Work Plan

With the Board's full support and our consultant's advice, various projects are underway to improve HKEx's efforts to preserve the environment and contribute to sustainability in the longer term. The following is a list of the major initiatives for 2009:

- determine HKEx's carbon footprint;
- consider the CSR goals associated with HKEx's strategies for 2009;
- formulate the CSR strategies for integration into the HKEx Strategic Plan 2010-2012;
- set CSR key performance indicators for long-term CSR development;
- further consider and adopt a corporate donation focus;
- implement the energy monitoring and reporting plan;
- conduct a lighting systems audit and work out improvement measures;
- undertake indoor air quality inspection and certification and consider improvement measures if appropriate;
- carry out a waste audit and consider improvement measures;
- endorse and roll out green purchasing and procurement guidelines; and
- conduct CSR training programme to raise employees' awareness of CSR.

CSR has always been an integral part of the approach to management at HKEx as we are convinced that business sustainability can only be achieved by operating profitable enterprises without compromising the well-being of either the society or the environment. "Being a Responsible Corporate Citizen" remains part of our success mantra. To this end, we welcome feedback from our stakeholders on our performance and plans at http://www.hkex.com.hk/exchange/csr/csr.htm.

Members of the Corporate Social Responsibility Committee
CHOW Man Yiu, Paul (Chairman)
CHOW Lok Sum, Eddie
CURLEY, Peter Joseph
MAU Kam Shing, Joseph
WONG Kwok Kuen, Alfred
YEN Tai Mui, Brenda

Hong Kong, 4 March 2009

SHAREHOLDING ANALYSIS

Share Capital (as at 31 December 2008)

Authorised Share Capital	$2,000 million with shares of $1 each
Issued Share Capital	$1,074,886,346 with shares of $1 each

An analysis of the Shareholders based on the ROM as at 31 December 2008 and 31 December 2007 is as follows:

Shareholding Distribution

Size of Shareholding	Number of Shareholders		% of Shareholders		Number of Shares Held ('000)		% of the Issued Share Capital	
	2008	2007	2008	2007	2008	2007	2008	2007
1 – 1,000	**2,458**	709	**47.99**	29.24	**1,526**	508	**0.14**	0.05
1,001 – 5,000	**1,648**	932	**32.17**	38.43	**4,365**	2,606	**0.41**	0.24
5,001 – 10,000	**460**	313	**8.98**	12.91	**3,718**	2,607	**0.35**	0.24
10,001 – 100,000	**402**	326	**7.85**	13.44	**12,593**	10,572	**1.17**	0.99
100,001 and above	**154**	145	**3.01**	5.98	**1,052,684**	1,053,992	**97.93**	98.48
Total	**5,122**	2,425	**100.00**	100.00	**1,074,886**	1,070,285	**100.00**	100.00

Geographical Distribution

Location	Number of Shareholders		Number of Shares Held ('000)	
	2008	2007	2008	2007
Hong Kong	**5,108**	2,417	**1,074,333**	1,069,742
Outside Hong Kong	**14**	8	**553**	543
Canada	3	2	3	3
Macau	6	2	38	30
People's Republic of China	2	1	8	6
United Kingdom	2	2	102	102
United States	1	1	402	402
Total	**5,122**	2,425	**1,074,886**	1,070,285

Share Ownership by Type

Type of Shareholders	Number of Shareholders		Number of Shares Held ('000)		% of the Issued Share Capital	
	2008	2007	2008	2007	2008	2007
Individual	**5,022**	2,328	**66,892**	57,716	**6.22**	5.39
Non-Individual	**100**	97	**1,007,994**	1,012,569	**93.78**	94.61
HKSCC Nominees Limited	1	1	963,973	961,301	89.68	89.82
Category A Participants			47,939	54,969	4.46	5.14
Category B Participants			72,919	54,953	6.78	5.13
Category C Participants			66,266	58,857	6.16	5.50
Custodians			765,486	784,998	71.22	73.34
IPs			9,124	7,112	0.85	0.66
Defaulting Participant			1,489	4	0.14	0.00
			963,223*	960,893*	89.61	89.77
Other corporate/ incorporated bodies	99	96	44,021	51,268	4.10	4.79
Total	**5,122**	2,425	**1,074,886**	1,070,285	**100.00**	100.00

* The breakdown of the shareholding in the name of HKSCC Nominees Limited was obtained from the record shown in the Participant Shareholding Report ("PSH Report"). The number of shares registered in HKSCC Nominees Limited as shown in the PSH Report is different from that shown on the ROM because some shares withdrawn from or deposited into the CCASS depository had not yet been re-registered.

For 2008, the shares were held for 12 (2007: 13) Category A Participants (top 14 brokers by market turnover), 41 (2007: 43) Category B Participants (brokers ranked 15-65 by market turnover), 346 (2007: 322) Category C Participants (all remaining brokers), 29 (2007: 30) Custodians, 1,025 (2007: 506) IPs and 1 (2007: 1) Defaulting Participant.

INFORMATION FOR STAKEHOLDERS

Annual Report

This Annual Report is printed in English and Chinese and is available on the HKEx website at http://www.hkex.com.hk under the "Investor Relations Corner". Shareholders can elect to receive printed or electronic copies. To contribute to environmental protection, HKEx will make a $50 charitable donation for each election made by Shareholders to access corporate communication electronically, subject to a cap of $100,000 per annum. Registered Shareholders may at any time decide to change their choice of language or means of receipt of the Company's corporate communications free of charge by notice in writing to the Company Secretary or HKEx's registrar, Hong Kong Registrars Limited or by email to the Company at communicationrequest@hkex.com.hk. Shareholders with shares held through brokers or custodians should inform their respective brokers or custodians to effect any change.

Closure of ROM

HKEx's ROM will be closed from Monday, 20 April 2009 to Thursday, 23 April 2009, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify for the proposed final dividend and be entitled to attend and vote at the 2009 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with HKEx's registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30pm on Friday, 17 April 2009. Subject to Shareholders' approval of the proposed final dividend at the 2009 AGM, dividend warrants will be despatched on or about Tuesday, 5 May 2009 to Shareholders whose names are on HKEx's ROM on 23 April 2009.

AGM

The 2009 AGM will be held on Thursday, 23 April 2009. The Notice of the 2009 AGM which constitutes part of the circular to Shareholders will be sent together with this Annual Report. The Notice of the 2009 AGM and the proxy form will also be available on the HKEx website.

Share Information

Share Listing

First listed on the Stock Exchange	27 Jun 2000
As a HSI constituent stock	Since 11 Sep 2006
Board Lot	100 shares
Market Capitalisation as at 31 Dec 2008	
Public float capitalisation	$79.1 billion
Number of issued shares	1,074,886,346 shares
Closing price	$73.60 per share

Stock Codes

Stock Exchange	388
Access to Reuters	0388.HK
Access to Bloomberg	388 HK Equity
WPK Number	A0NJY9
SEDOL1	6267359 HK
ISIN	HK0388045442
COMMON	035776478
Access to Bloomberg ADR	HKXCY US
CUSIP	43858F109

Price and Turnover History

	Price per Share		Turnover (in millions)*	
2008	**High ($)**	**Low ($)**	**Shares**	**$**
January	222.00	155.60	370.9	67,402.1
February	180.50	139.10	246.4	38,999.1
March	148.90	116.40	268.1	35,618.9
April	164.80	131.80	224.2	33,509.0
May	167.50	130.40	174.9	25,829.7
June	138.90	112.10	170.2	21,171.2
July	126.00	100.00	240.6	26,906.0
August	115.90	92.75	199.5	20,617.6
September	104.00	80.50	273.0	25,989.5
October	97.20	55.00	346.7	27,675.0
November	83.15	49.70	242.2	15,555.3
December	80.00	59.00	205.9	14,579.4

* Figures have been rounded

Financial Calendar

2008 AGM	24 April 2008
Announcement of first quarter results	14 May 2008
Announcement of interim results	13 August 2008
Announcement of third quarter results	12 November 2008
Announcement of final results	4 March 2009
2009 AGM	23 April 2009

Dividends

Interim dividend	$2.49 per share
Payment date for interim dividend	11 September 2008
Proposed final dividend	$1.80 per share
Ex-dividend date for final dividend	16 April 2009
Book close dates for final dividend	20-23 April 2009
Record date for final dividend	23 April 2009
Payment date for final dividend	on or about 5 May 2009

HKEx's Registrar and Transfer Office

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

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Fax No.: +852 2878 7029
Email address: ssd@hkex.com.hk

DIRECTORS' REPORT

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 2008.

Principal Activities

HKEx is the recognised exchange controller under the SFO. It owns and operates the only stock exchange and futures exchange in Hong Kong and their related clearing houses, namely HKSCC, SEOCH and HKCC.

The Stock Exchange and the Futures Exchange are recognised exchange companies under the SFO to operate and maintain a stock market and futures market in Hong Kong respectively. HKSCC, SEOCH and HKCC are the recognised clearing houses pursuant to the SFO.

The Group's revenue is derived solely from business activities conducted in Hong Kong. An analysis of the Group's income and profit before taxation for the year ended 31 December 2008 is set out in note 4 to the consolidated accounts of this Annual Report.

Particulars of HKEx's subsidiaries as at 31 December 2008 are set out in note 33 to the consolidated accounts of this Annual Report.

Results and Appropriations

The Group's results for the year ended 31 December 2008 are set out in the consolidated income statement on page 115 of this Annual Report.

An interim dividend of $2.49 (2007: $1.79) per share, amounting to a total of about $2,676 million (2007: $1,914 million) was paid to Shareholders on 11 September 2008 that included a sum of about $3.1 million paid for shares held in trust under the Share Award Scheme (2007: $2.3 million).

The Board recommends the payment of a final dividend of $1.80 (2007: $3.40) per share to Shareholders whose names appear on HKEx's ROM on 23 April 2009, and the retention of the remaining profit for the year. The proposed final dividend together with the interim dividend payment amounts to a total of about $4,611 million (including dividend of about $4.8 million for shares held in trust under the Share Award Scheme) (2007: $5,565 million, including dividend of about $6.4 million for shares held in trust under the Share Award Scheme).

Reserves

HKEx's distributable reserves as at 31 December 2008, calculated under Section 79B of the Companies Ordinance, amounted to $4,536 million (2007: $3,353 million).

Details of the movements in the reserves of the Group and HKEx during the year are set out in notes 35 to 40 to the consolidated accounts of this Annual Report.

Donations

The Group's charitable and other donations during the year amounted to about $10.6 million (2007: $328,000), including $10 million to support earthquake recovery efforts in Sichuan. No donations were made to political parties.

Fixed Assets

Details of the movements in fixed assets of the Group and HKEx during the year are set out in note 19 to the consolidated accounts of this Annual Report.

Share Capital

Details of the movements in HKEx's share capital during the year are set out in note 34 to the consolidated accounts of this Annual Report.

Group Financial Summary

A summary of the Group's results and assets and liabilities for the past 9 financial years is set out in the section "Financial Statistics since the Year of Merger" on page 80 of this Annual Report.

Purchase, Sale or Redemption of HKEx's Listed Securities

In 2008, neither HKEx nor any of its subsidiaries purchased, sold or redeemed any of the Company'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 about $32.5 million.

Public Float

As at the date of this report, the Directors acknowledge that 100 per cent of HKEx's issued share capital is held by the public. Details of HKEx's share information, including its market capitalisation as at 31 December 2008, are set out on page 108 of this Annual Report.

Directors

The list of Directors during the year and up to the date of this Annual Report is set out in the section "Board and Committees" on page 20 of this Annual Report. Information about the Board, including members' appointments and retirements, and their interests in HKEx's shares, is set out in the Corporate Governance Report of this Annual Report.

Biographical Details of Directors and Senior Management

The biographical details of Directors and Senior Management are set out in the section "Board of Directors and Senior Management" on page 22 of this Annual Report.

Management Contracts

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the year.

Directors' Interests in Contracts

Details of the connected transactions and related party transactions are set out in the Corporate Governance Report on page 82 and note 46 to the consolidated accounts of this Annual Report respectively.

Save for the above, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at any time during the year or at the end of the year.

Directors' Rights to Acquire Shares or Debentures

Pursuant to the Post-Listing Scheme and the Share Award Scheme, options were granted and shares were awarded to the Company's sole executive director, details of which are set out in the Remuneration Committee Report on 98 and note 35 to the consolidated accounts of this Annual Report.

Save for the above, neither HKEx nor any of its subsidiaries was a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debenture of, HKEx or any other body corporate at any time during the year or at the end of the year.

Major Customers and Suppliers

During the year ended 31 December 2008, contracts with the HKEx's 5 largest suppliers combined by value which are not of a capital nature, contributed to less than 30 per cent in value of supplies purchased. HKEx's 5 largest customers combined by value also contributed to less than 30 per cent in value of the income during the year ended 31 December 2008.

Provident Fund Schemes

Particulars of the Group's provident fund schemes are set out in note 9 to the consolidated accounts of this Annual Report.

Corporate Governance

Details of HKEx's corporate governance practices are set out in the Corporate Governance Report, Audit Committee Report, Remuneration Committee Report and Corporate Social Responsibility Committee Report of this Annual Report.

Minority Controller

Under Section 61 of the SFO, no person shall be or become a Minority Controller, ie, a person who either alone or with any associated person or persons, is entitled to exercise, or control the exercise of, 5 per cent or more of the voting power at any general meeting of the recognised exchange controller, except with the SFC's approval in writing after consultation with the Financial Secretary.

The SFC has only granted approval to 5 entities to be Minority Controllers, on the basis that the shares are held by them in custody for their clients. According to the Participant Shareholding Report as at 31 December 2008, the 5 approved Minority Controllers in aggregate held 55.82 per cent of HKEx's issued share capital (31 December 2007: 62.47 per cent).

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

Auditor

The accounts for the year ended 31 December 2008 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the 2009 AGM. A resolution to re-appoint them and to authorise the Directors to fix their remuneration will be proposed at the 2009 AGM.

On behalf of the Board
Ronald Joseph ARCULLI
Chairman

Hong Kong, 4 March 2009

AUDITOR'S REPORT

Independent Auditor's Report to the Shareholders of Hong Kong Exchanges and Clearing Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Hong Kong Exchanges and Clearing Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 115 to 206, which comprise the consolidated and company statements of financial position as at 31 December 2008, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 4 March 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 $'000	2007 $'000
Trading fees and trading tariff	5	**2,803,081**	3,086,250
Stock Exchange listing fees	6	**711,983**	688,538
Clearing and settlement fees		**1,405,202**	1,577,433
Depository, custody and nominee services fees		**496,708**	627,103
Income from sale of information		**673,445**	678,909
Other revenue	7(a)	**390,855**	489,109
REVENUE		**6,481,274**	7,147,342
Investment income		**1,075,590**	1,949,955
Interest rebates to Participants		**(76,415)**	(711,727)
Net investment income	8	**999,175**	1,238,228
Other income	7(b)	**68,641**	4,900
	4	**7,549,090**	8,390,470
OPERATING EXPENSES			
Staff costs and related expenses	9	**803,106**	827,116
Information technology and computer maintenance expenses	10	**238,917**	207,422
Premises expenses		**150,295**	132,244
Product marketing and promotion expenses		**16,986**	14,054
Legal and professional fees		**25,128**	27,185
Depreciation		**108,813**	79,144
Other operating expenses:			
Provision for impairment losses arising from Participants' default on market contracts	11(a)	**163,203**	–
Others	11(b)	**114,169**	124,400
	4	**1,620,617**	1,411,565
	4	**5,928,473**	6,978,905
GAIN ON DISPOSAL OF AN ASSOCIATE	4/12	**–**	206,317
SHARE OF PROFIT OF AN ASSOCIATE	4	**–**	5,587
PROFIT BEFORE TAXATION	4/13	**5,928,473**	7,190,809
TAXATION	16(a)	**(799,549)**	(1,021,531)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	40	**5,128,924**	6,169,278
Earnings per share			
Basic	18(a)	**$4.78**	$5.78
Diluted	18(b)	**$4.75**	$5.72

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2008

	2008 $'000	2007 $'000
Profit attributable to shareholders	**5,128,924**	6,169,278
Other comprehensive income:		
Available-for-sale financial assets:		
Change in fair value during the year	**111,494**	63,421
Change in fair value on maturity	**(54,451)**	(9,951)
Less: Reclassification adjustment:		
Gains included in profit or loss on disposal	**(4,678)**	–
Deferred tax	**(8,565)**	(8,460)
	43,800	45,010
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
Deferred tax arising from reclassification of a leasehold building to "Non-current assets held for sale"	**–**	552
	–	515
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	**43,800**	45,467
Total comprehensive income attributable to shareholders	**5,172,724**	6,214,745

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Share capital, share premium and shares held for Share Award Scheme (note 34) $'000	Employee share-based compensation reserve (note 35) $'000	Other comprehensive income: Revaluation reserves (note 36) $'000	Other comprehensive income: Hedging reserve (note 37) $'000	Designated reserves (note 38) $'000	Retained earnings (note 40) $'000	Total equity $'000
At 1 Jan 2007	1,200,093	52,119	10,569	–	627,816	3,366,989	5,257,586
Total comprehensive income attributable to shareholders	–	–	45,467	–	–	6,169,278	6,214,745
2006 final dividend at $1.19 per share	–	–	–	–	–	(1,270,266)	(1,270,266)
2007 interim dividend at $1.79 per share	–	–	–	–	–	(1,912,193)	(1,912,193)
Unclaimed dividend forfeited	–	–	–	–	–	2,454	2,454
Shares issued under employee share option schemes	66,052	–	–	–	–	–	66,052
Shares purchased for Share Award Scheme	(4,879)	–	–	–	–	–	(4,879)
Vesting of shares of Share Award Scheme	8,373	(7,286)	–	–	–	(1,087)	–
Employee share-based compensation benefits	–	24,362	–	–	–	–	24,362
Share of reserve of an associate:							
– during the year	–	47	–	–	–	–	47
– eliminated through disposal of associate	–	(560)	–	–	–	–	(560)
Transfer of reserves	19,013	(19,013)	–	–	67,037	(67,037)	–
At 31 Dec 2007	1,288,652	49,669	56,036	–	694,853	6,288,138	8,377,348
At 1 Jan 2008	**1,288,652**	**49,669**	**56,036**	**–**	**694,853**	**6,288,138**	**8,377,348**
Total comprehensive income attributable to shareholders	**–**	**–**	**43,800**	**–**	**–**	**5,128,924**	**5,172,724**
2007 final dividend at $3.40 per share	**–**	**–**	**–**	**–**	**–**	**(3,646,159)**	**(3,646,159)**
2008 interim dividend at $2.49 per share	**–**	**–**	**–**	**–**	**–**	**(2,673,375)**	**(2,673,375)**
Unclaimed dividend forfeited	**–**	**–**	**–**	**–**	**–**	**2,566**	**2,566**
Shares issued under employee share option schemes	**66,533**	**–**	**–**	**–**	**–**	**–**	**66,533**
Shares purchased for Share Award Scheme	**(32,494)**	**–**	**–**	**–**	**–**	**–**	**(32,494)**
Vesting of shares of Share Award Scheme	**15,043**	**(12,016)**	**–**	**–**	**–**	**(3,027)**	**–**
Employee share-based compensation benefits	**–**	**28,179**	**–**	**–**	**–**	**–**	**28,179**
Transfer of reserves	**18,800**	**(18,800)**	**(3,155)**	**–**	**(142,470)**	**145,625**	**–**
At 31 Dec 2008	**1,356,534**	**47,032**	**96,681**	**–**	**552,383**	**5,242,692**	**7,295,322**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2008

	Note	2008 $'000	2007 $'000
NON-CURRENT ASSETS			
Fixed assets	19(a)	**311,179**	317,065
Lease premium for land	21	**60,199**	60,708
Financial assets of Margin Funds on derivatives contracts	22	**–**	456,396
Available-for-sale financial assets	23	**–**	25,270
Deferred tax assets	31(e)	**4,429**	3,610
Other financial assets		**47,172**	19,177
Other assets		**3,207**	3,212
		426,186	885,438
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	24	**8,526,557**	18,364,129
Lease premium for land	21	**509**	509
Tax recoverable		**–**	148
Financial assets of Clearing House Funds	25	**393,202**	361,506
Cash and cash equivalents of Clearing House Funds	25	**843,109**	1,841,508
		1,236,311	2,203,014
Financial assets of Margin Funds on derivatives contracts	22	**19,655,161**	18,790,237
Cash and cash equivalents of Margin Funds on derivatives contracts	22	**22,184,833**	36,182,526
		41,839,994	54,972,763
Financial assets at fair value through profit or loss	26	**3,020,035**	2,996,555
Available-for-sale financial assets	23	**2,581,683**	3,041,737
Time deposits with original maturities over three months		**436,896**	682,174
Cash and cash equivalents		**4,755,750**	4,744,711
		62,397,735	87,005,740
Non-current assets held for sale	27	**–**	64,092
		62,397,735	87,069,832
CURRENT LIABILITIES			
Participants' contributions to Clearing House Funds	25	**197,520**	1,252,355
Other financial liabilities of Clearing House Funds	25	**72,319**	10,810
Margin deposits from Clearing Participants on derivatives contracts	22	**41,839,991**	55,428,888
Other financial liabilities of Margin Funds on derivatives contracts	22	**3**	271
Accounts payable, accruals and other liabilities	28	**12,410,854**	21,375,909
Financial liabilities at fair value through profit or loss	26	**26,254**	6,149
Participants' admission fees received	29	**83,150**	85,600
Deferred revenue		**392,688**	375,174
Taxation payable		**141,363**	687,726
Provisions	30(a)	**36,290**	29,630
		55,200,432	79,252,512
NET CURRENT ASSETS		**7,197,303**	7,817,320
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,623,489**	8,702,758

	Note	2008 $'000	2007 $'000
NON-CURRENT LIABILITIES			
Participants' contributions to Clearing House Funds	25	**252,000**	244,500
Deferred tax liabilities	31(e)	**30,775**	36,873
Financial guarantee contract	32(a)	**19,909**	19,909
Provisions	30(a)	**25,483**	24,128
		328,167	325,410
NET ASSETS		**7,295,322**	8,377,348
CAPITAL AND RESERVES			
Share capital	34	**1,074,886**	1,070,285
Share premium	34	**346,902**	266,170
Shares held for Share Award Scheme	34	**(65,254)**	(47,803)
Employee share-based compensation reserve	35	**47,032**	49,669
Revaluation reserves	36	**96,681**	56,036
Designated reserves	38	**552,383**	694,853
Retained earnings	40	**5,242,692**	6,288,138
SHAREHOLDERS' FUNDS		**7,295,322**	8,377,348
TOTAL ASSETS		**62,823,921**	87,955,270
TOTAL LIABILITIES		**55,528,599**	79,577,922
SHAREHOLDERS' FUNDS PER SHARE		**$6.79**	$7.83

Approved by the Board of Directors on 4 March 2009

Ronald Joseph ARCULLI
Director

CHOW Man Yiu, Paul
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2008

	Note	2008 $'000	2007 $'000
NON-CURRENT ASSETS			
Fixed assets	19(b)	**23,237**	19,206
Investments in subsidiaries	33(a)	**4,156,588**	4,156,588
Contributions to HKEx Employee Share Trust	33(d)	**56,946**	43,635
Deferred tax assets	31(e)	**4,393**	3,610
Other financial assets		**720**	481
Other assets		**3,089**	3,089
		4,244,973	4,226,609
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	24	**17,434**	17,136
Amounts due from subsidiaries	33(b)	**1,839,066**	1,171,921
Available-for-sale financial assets	23	**8,220**	–
Time deposits with original maturities over three months		**142,167**	46,880
Cash and cash equivalents		**31,680**	20,184
		2,038,567	1,256,121
CURRENT LIABILITIES			
Accounts payable, accruals and other liabilities	28	**175,211**	167,044
Amounts due to subsidiaries	33(b)	**32,269**	522,218
Taxation payable		**24,052**	12,982
Provisions	30(b)	**35,104**	29,630
		266,636	731,874
NET CURRENT ASSETS		**1,771,931**	524,247
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,016,904**	4,750,856
NON-CURRENT LIABILITIES			
Financial guarantee contract	32(b)	**11,390**	11,390
Provisions	30(b)	**634**	575
		12,024	11,965
NET ASSETS		**6,004,880**	4,738,891

	Note	2008 $'000	2007 $'000
CAPITAL AND RESERVES			
Share capital	34	**1,074,886**	1,070,285
Share premium	34	**346,902**	266,170
Employee share-based compensation reserve	35	**47,032**	49,669
Revaluation reserves	36	**111**	–
Merger reserve	39	**2,997,115**	2,997,115
Retained earnings	40	**1,538,834**	355,652
SHAREHOLDERS' FUNDS		**6,004,880**	4,738,891
TOTAL ASSETS		**6,283,540**	5,482,730
TOTAL LIABILITIES		**278,660**	743,839
SHAREHOLDERS' FUNDS PER SHARE		**$5.59**	$4.43

Approved by the Board of Directors on 4 March 2009

Ronald Joseph ARCULLI
Director

CHOW Man Yiu, Paul
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2008

	Note	2008 $'000	2007 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	41	**5,049,315**	7,648,334
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		**(221,378)**	(68,727)
Net proceeds from sales of properties		**132,733**	–
Net proceeds from sales of fixed assets		**2,435**	262
Net proceeds from disposal of an associate		**–**	270,050
Dividends received from an associate		**–**	9,660
Decrease/(increase) in time deposits with original maturities more than three months		**245,278**	(457,677)
Net (increase)/decrease in available-for-sale financial assets of the Corporate Funds:			
Payments for purchases of available-for-sale financial assets		**(4,592,100)**	(6,232,436)
Net proceeds from sales or maturity of available-for-sale financial assets		**5,117,831**	3,800,300
Interest received from available-for-sale financial assets		**524,732**	653,307
Net cash inflow/(outflow) from investing activities		**1,209,531**	(2,025,261)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		**66,533**	66,052
Purchases of shares for Share Award Scheme		**(32,494)**	(4,879)
Dividends paid		**(6,281,846)**	(3,163,445)
Net cash outflow from financing activities		**(6,247,807)**	(3,102,272)
Net increase in cash and cash equivalents		**11,039**	2,520,801
Cash and cash equivalents at 1 Jan		**4,744,711**	2,223,910
Cash and cash equivalents at 31 Dec		**4,755,750**	4,744,711
Analysis of cash and cash equivalents			
Time deposits with original maturities within three months		**534,963**	1,774,729
Cash at bank and in hand		**4,220,787**	2,969,982
Cash and cash equivalents at 31 Dec		**4,755,750**	4,744,711

The cash and cash equivalents of the Clearing House Funds and Margin Funds are held in segregated accounts for specific purposes and therefore are not included in cash and cash equivalents of the Group for cash flow purpose.

NOTES TO THE CONSOLIDATED ACCOUNTS

1. General Information

Hong Kong Exchanges and Clearing Limited ("HKEx") and its subsidiaries (collectively, the "Group") own and operate the only stock exchange and futures exchange in Hong Kong and their related clearing houses.

HKEx is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is 12th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

These consolidated accounts were approved for issue by the Board of Directors ("Board") on 4 March 2009.

2. Principal Accounting Policies

(a) Statement of compliance

These consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Main Board Listing Rules"). HKFRSs have been aligned with the requirements of International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") in all material respects as at 31 December 2008.

(b) Basis of preparation

These consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of leasehold buildings, investment properties, available-for-sale financial assets and financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts are disclosed in note 3.

<u>Adoption of new/revised HKFRSs</u>

In 2008, the Group adopted the amendments to HKAS 39 and HKFRS 7: Reclassification of Financial Assets, which were the only new/revised HKFRSs effective in 2008 that were relevant to its operations.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

The amendments to HKAS 39 and HKFRS 7 permit reclassification of non-derivative securities (other than those designated as fair value through profit or loss upon initial recognition) out of the trading category in rare circumstances. The amendments also permit reclassification of non-derivative securities (other than those designated as fair value through profit or loss upon initial recognition) which would have met the definition of loans and receivables out of the trading category (ie, out of the fair value through profit or loss category) if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity. The reclassified assets would be carried at their fair value on the date of reclassification, which will become their new costs or amortised costs, as applicable. The amendments also permit reclassification of financial assets from the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity. The amendments to HKAS 39 and HKFRS 7 are effective from 1 July 2008 and they can only be applied prospectively from that date. The adoption of the amendments to HKAS 39 and HKFRS 7 did not have any financial impact to the Group as no reclassification of financial assets was made by the Group in 2008.

Early adoption of new/revised HKFRSs

For the year 2008, the Group early adopted all new/revised HKFRSs issued up to 31 December 2008 which were pertinent to its operations where early adoption was permitted. The applicable HKFRSs are set out below:

HKFRS 2 (Amendment)	Vesting Conditions and Cancellation
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
Amendments to HKFRS 1 and HKAS 27	Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners

HKFRS 2 (Amendment) deals with vesting conditions and cancellations of share-based payment arrangements. It clarifies that vesting conditions are service conditions (which require the counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. Other features of a share-based payment are not vesting conditions. These non-vesting features shall be taken into account when estimating the fair value of the equity instruments granted and would not affect the number of awards expected to vest. All cancellations, whether by the entity or by other parties, are accounted for as an acceleration of the vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The application of the amendment requires retrospective application. The early adoption of HKFRS 2 (Amendment) did not have any financial impact to the Group in 2008 or prior years as the Group did not have share-based payment arrangements which contain non-vesting features and no share-based payment arrangements have been cancelled.

HKFRS 3 (Revised) continues to apply acquisition method to business combinations, with a number of major changes: All payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as liabilities subsequently remeasured through the income statement (rather than by adjusting goodwill). All acquisition-related costs will no longer be capitalised as part of the costs of the acquisition but will be expensed immediately.

HKAS 27 (Revised) specifies the accounting treatment when control is lost-any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

HKFRS 3 (Revised) requires prospective application and HKAS 27 (Revised) should be applied at the same time. The changes to HKAS 27 (Revised) require retrospective applications with certain exceptions (accounting for loss of control of a subsidiary should be applied prospectively). The early adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) did not have any financial impact to the Group as there were no business acquisitions or disposals by the Group in 2008.

The amendments to HKFRS 1 and HKAS 27 require all dividends be presented as income in the separate financial statements of the investor (prior to the amendments, the investor recognises income from the investment only to the extent that the investor receives distributions from retained earnings of the investee arising after the date of acquisition, and distributions received in excess of such profits are regarded as recovery of investment and are recognised as a reduction of the cost of the investment). The amendments to HKFRS 1 and HKAS 27 require prospective application. The adoption of the amendments to HKFRS 1 and HKAS 27 did not have any financial impact to HKEx as HKEx did not receive distributions from subsidiaries that are in excess of their retained earnings arising after the date of acquisition in 2008.

HK(IFRIC)-Int 17 (the "interpretation") clarifies that a dividend payable in the form of non-cash assets should be recognised when the dividend is appropriately authorised and the dividend payable should be measured at the fair value of the net assets to be distributed. The difference between the dividend paid and the carrying amount of the net assets distributed should be recognised in profit or loss. The interpretation requires prospective application. The early adoption of HK(IFRIC)-Int 17 did not have any financial impact to the Group as the Group did not distribute non-cash assets to shareholders in 2008.

Improvements to HKFRSs

In October 2008, the HKICPA published several improvements to HKFRSs which were based on the annual improvements project of IASB. In the fourth quarter of 2008, the Group early adopted all such amendments which were pertinent to its operations where early adoption was permitted. The applicable HKFRSs are set out below:

HKAS 1: Presentation of Financial Statements

Assets and liabilities classified as held for trading in accordance with HKAS 39: Financial Instruments-Recognition and Measurement are not automatically classified as current in the consolidated statement of financial position. The Group amended its accounting policy accordingly and classified the financial assets and liabilities in accordance with management's intention of the period of realisation. The application of the amendment requires retrospective application. The adoption of the amendment did not result in any reclassification of financial instruments between current and non-current in the consolidated statement of financial position.

HKAS 28: Investment in Associates

An investment in associate is a single asset for the purpose of conducting impairment test. Therefore, any impairment loss is not separately allocated to any asset (including goodwill) within the investment. Reversals of impairment are permitted and are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The amendment can be applied prospectively. This did not have any financial impact to the Group as the Group disposed of its last associate in 2007.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

HKAS 38: Intangible Assets

Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. Retrospective application is required. The adoption of this amendment did not have any financial impact to the Group as the Group's accounting policy already complies with this amendment.

HKAS 39: Financial Instruments-Recognition and Measurement

This amendment clarifies that it is possible for a derivative to move into or out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in a cash flow or net investment hedge. The amendment should be applied as of the date and in the manner the Group applied the 2005 amendment (fair value option) to HKAS 39 (ie, 1 January 2005). The adoption of this amendment did not have financial impact to the Group as no such derivatives were held by the Group in 2008 or prior years.

All relevant changes in accounting policies and disclosures have been made in accordance with the provisions of the respective standards.

Effects of HKFRSs that were issued after 31 December 2008 and up to the date of approval of the consolidated accounts

Subsequent to 31 December 2008 and up to the date of approval of these consolidated accounts, the HKICPA has issued one HKFRS – HK(IFRIC)-Int 18: Transfer of Assets from Customers, which is not applicable to the Group's operations.

Changes in presentation of Margin Funds and Clearing House Funds

In previous years, financial assets and financial liabilities of the Margin Funds (except for margin deposits from Clearing Participants) were presented in the consolidated statement of financial position as a single item, "Margin Funds on derivatives contracts", under current assets. Similarly, financial assets and financial liabilities of the Clearing House Funds (except for Clearing House Fund contributions from Clearing Participants) were presented in the consolidated statement of financial position as a single line item, "Clearing House Funds", under non-current assets whereas all the financial liabilities of Clearing House Fund contributions from Clearing Participants were disclosed as "Participants' contributions to Clearing House Funds" under non-current liabilities. The nature of the assets and liabilities and the maturity profiles of the net assets of the Margin Funds and Clearing House Funds were disclosed in the notes to the accounts.

In 2008, as an enhancement to the presentation of the consolidated statement of financial position, instead of only disclosing the maturity profiles of the net assets of the Margin Funds and Clearing House Funds in the notes, the constituent cash and cash equivalents, other financial assets and financial liabilities of the Margin Funds and the Clearing House Funds are presented based on their maturity under the "current" or "non-current" sections on the face of the consolidated statement of financial position (notes 2(n) and 2(o)). Participants' contributions to Clearing House Funds which may be refunded to Participants within twelve months are reclassified as current liabilities (note 2(o)).

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Comparative figures have been adjusted to conform with the changes in presentation of the Margin Funds and Clearing House Funds.

The nature of the assets, liabilities and funding of the Margin Funds and Clearing House Funds continue to be disclosed in the notes to the consolidated accounts (notes 22 and 25 respectively).

Reclassification of Participants' admission fees received

Although not strictly obliged to do so, Hong Kong Securities Clearing Company Limited ("HKSCC") aims to refund the admission fee paid by a Participant without interest after a period of seven years from the date of its admission as a Participant or upon the termination of its participation in Central Clearing and Settlement System ("CCASS"), whichever is the later. Therefore, in previous years, Participants' admission fees received were included in non-current liabilities unless they were expected to be repayable to the Participants within twelve months. From 2008 onwards, Participants' admission fees received are classified under current liabilities as it is the Group's practice to refund admission fees to Participants within one year from the date of termination of their participation in CCASS and to Participants within one year of the date of sale of their Stock Exchange Trading Rights.

Comparative figures have been adjusted to conform with the changes in presentation.

Presentation of Net Investment Income

In previous years, the breakdown of net investment income was disclosed in a note to the accounts. From 2008 onwards, as an enhancement to the presentation of the consolidated income statement, net investment income together with its breakdown into "investment income" and "interest rebates to Participants" are shown on the face of the consolidated income statement.

(c) Consolidation

The Group has adopted merger accounting in the preparation of the consolidated accounts at the time of the merger of the Group in 2000. The consolidated accounts include the accounts of HKEx and all of its subsidiaries made up to 31 December.

(i) Subsidiaries and controlled special purpose entities

Subsidiaries and controlled special purpose entities are entities over which HKEx, directly or indirectly, has the power to govern the financial and operating policies generally accompanying a holding of more than one half of the voting rights or issued share capital.

The accounts of subsidiaries and controlled special purpose entities are included in the consolidated accounts from the date on which control commences until the date that control ceases. All material intra-group transactions and balances have been eliminated on consolidation.

In HKEx's statement of financial position, investments in subsidiaries and contributions to The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust"), a controlled special purpose entity, are stated at cost less provision for any impairment, if necessary. The results of subsidiaries are accounted for by HKEx on the basis of dividends received and receivable.

2. Principal Accounting Policies (continued)

(c) Consolidation (continued)

(ii) Associates

Associates are all entities, not being subsidiaries nor interests in joint ventures, in which the Group has significant influence generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights.

Investments in associates are accounted for in the consolidated accounts under the equity method, except when the investment is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5-Non-current Assets Held for Sale and Discontinued Operations (note 2(t)). Under the equity method, the Group's share of its associates' post acquisition profits or losses is recognised in the consolidated income statement, and its share of the associates' post-acquisition other comprehensive income is recognised in other comprehensive income. The consolidated statement of financial position includes the Group's share of the net assets of associates and goodwill (net of accumulated impairment losses).

Gains and losses arising from disposal of investment in associates are recognised in the consolidated income statement.

(d) Turnover

Turnover comprises trading fees and trading tariff from securities and options traded on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and derivatives contracts traded on Hong Kong Futures Exchange Limited ("Futures Exchange"), Stock Exchange listing fees, clearing and settlement fees, depository, custody and nominee services fees, income from sale of information, net investment income (including investment income net of interest rebates to Participants of Clearing House Funds) and other revenue.

(e) Revenue and other income recognition

Revenue and other income are recognised in the consolidated income statement on the following basis:

(i) Trading fees and trading tariff on securities and options traded on the Stock Exchange and trading fees on derivatives contracts traded on the Futures Exchange are recognised on a trade date basis.

(ii) Initial listing fees for initial public offering ("IPO") are recognised upon the listing of an applicant, cancellation of the application or six months after submission of the application, whichever is earlier. Initial listing fees for warrants, callable bull/bear contracts and other securities are recognised upon the listing of the securities. Income from annual listing fees is recognised on a straight-line basis over the period covered by the respective fees received in advance (note 2(y)).

(iii) Settlement fees on derivatives contracts traded on the Futures Exchange are recognised on the official final settlement day.

(iv) Fees for clearing and settlement of trades between Participants in eligible securities transacted on the Stock Exchange are recognised in full on T+1, ie, on the day following the trade day, upon acceptance of the trades. Fees for other settlement transactions are recognised upon completion of the settlement.

(v) Custody fees for securities held in the CCASS depository are calculated and accrued on a monthly basis. Income on registration and transfer fees on nominee services are calculated and accrued on the book close dates of the relevant stocks during the financial year.

2. Principal Accounting Policies (continued)

(e) Revenue and other income recognition (continued)

(vi) Income from sale of information and other fees are recognised when the related services are rendered.

(vii) Interest income on investments represents gross interest income from bank deposits and securities and is recognised on a time apportionment basis using the effective interest method.

When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rates of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(viii) Dividend income is recognised when the right to receive payment is established.

(ix) Rental income is recognised on an accrual basis.

(f) Interest expenses

Interest expenses (including interest rebates to Participants) are recognised on a time apportionment basis, taking into account the principal outstanding and the applicable interest rates using the effective interest method. All interest expenses are charged to profit or loss in the year in which they are incurred.

(g) Employee benefit costs

(i) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

(ii) Equity compensation benefits

For share options granted under the Post-Listing Share Option Scheme ("Post-Listing Scheme") and HKEx's shares ("Awarded Shares") granted under the Employees' Share Award Scheme ("Share Award Scheme"), the fair value of the employee services received in exchange for the grant of the options and the Awarded Shares is recognised as an expense and credited to an employee share-based compensation reserve under equity over the period in which the vesting conditions (ie, service conditions and/or performance conditions) are fulfilled. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, and Awarded Shares awarded and purchased with contributions paid to the HKEx Employee Share Trust. Non-vesting conditions and market conditions shall be taken into account when estimating the fair value of the equity instruments granted.

At the end of each reporting period, the Group revises its estimates of the number of options and Awarded Shares that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the employee share-based compensation reserve.

2. Principal Accounting Policies (continued)

(g) Employee benefit costs (continued)

(ii) Equity compensation benefits (continued)

Share options granted under the Pre-Listing Share Option Scheme ("Pre-Listing Scheme") are not expensed as the options were granted before 7 November 2002 and not subject to requirements of HKFRS 2: Share-based Payment.

When the options are exercised, the proceeds received are credited to share capital (nominal value) and share premium, and the associated amount in the employee share-based compensation reserve, if any, is transferred to share premium.

When the Awarded Shares purchased with contributions paid to the HKEx Employee Share Trust are vested, the related cost of the vested shares is released from the employee shared-based compensation reserve to eliminate the related amount of "Shares held for Share Award Scheme" (note 2 (ac)).

Contributions made by HKEx to the HKEx Employee Share Trust for shares not yet vested are recorded as "Contributions to HKEx Employee Share Trust" in HKEx's statement of financial position. For HKEx, when Awarded Shares purchased with contributions paid to HKEx Employee Share Trust are vested, the related cost of vested shares is released from the employee share-based compensation reserve to eliminate the related amount of "Contributions to HKEx Employee Share Trust".

(iii) Retirement benefit costs

Contributions to the defined contribution provident fund regulated under the Occupational Retirement Schemes Ordinance ("ORSO") and operated by the Group and the AIA-JF Premium MPF Scheme are expensed as incurred. Forfeited contributions of the provident fund in respect of employees who leave before the contributions are fully vested are not used to offset existing contributions but are credited to a reserve account of that provident fund. Reserves of the provident fund representing forfeited employer's contributions are available for distribution to the provident fund members at the discretion of the trustees. Assets of the provident fund and the AIA-JF Premium MPF Scheme are held separately from those of the Group and are independently administered.

(h) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases net of any incentives received from the leasing company are charged to profit or loss on a straight-line basis over the lease term.

2. Principal Accounting Policies (continued)

(i) Fixed assets

The building component of owner-occupied leasehold properties is stated at valuation less accumulated depreciation, except when the property is reclassified as held for sale, in which case no further revaluation and depreciation are required and it is accounted for in accordance with HKFRS 5 (note 2(t)). Fair value is determined by the Directors based on independent valuations which are performed at least annually. The valuations are on the basis of depreciated replacement cost and are performed with sufficient regularity that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period. Depreciated replacement cost is used since open market value cannot be reliably allocated to the building component. The Directors review the carrying value of the leasehold buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are recognised in other comprehensive income and credited to the leasehold buildings revaluation reserve. Decreases in valuation are recognised in other comprehensive income and debited to the leasehold buildings revaluation reserve to the extent of any credit balance existing in the leasehold buildings revaluation reserve in respect of the same property and are thereafter charged to profit or loss. Any subsequent increases are credited to profit or loss up to the amount previously charged and thereafter to leasehold buildings revaluation reserve.

Other tangible fixed assets are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Tangible fixed assets are depreciated at rates sufficient to write off their costs net of expected residual values over their estimated useful lives on a straight-line basis. The residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The useful lives of major categories of fixed assets are as follows:

Leasehold buildings	25 years
Leasehold improvements	Over the remaining life of the leases but not exceeding 5 years
Computer trading and clearing systems – hardware and software	5 years
Other computer hardware and software	3 years
Furniture and equipment	Up to 5 years
Motor vehicles	3 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 2(m)).

Qualifying software system development expenditures are capitalised and recognised as a fixed asset as the software forms an integral part of the hardware on which it operates. The expenditures comprise all qualifying direct and allocated expenses attributable to the development of distinct major computer systems.

2. Principal Accounting Policies (continued)

(i) Fixed assets (continued)

Qualifying development expenditures incurred after the completion of a system are added to the carrying amount of the related asset when it is probable that future economic benefits that are attributable to the asset will flow to the Group. All other subsequent expenditures are recognised as non-qualifying expenditures.

All non-qualifying expenditures and expenses incurred on other non-qualifying development activities are charged as expenses to profit or loss in the period in which such expenses are incurred.

Amortisation of the cost of capitalised software system development expenditures is provided from the dates when the systems are available for use.

Upon the disposal of leasehold buildings, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the leasehold buildings revaluation reserve to retained earnings.

The gain or loss on disposal of fixed assets is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(j) Investment properties

Investment properties are properties held for long-term rental yields and not occupied by the Group. Investment properties comprise land held under operating leases and buildings held under finance leases. Investment properties are carried at fair value, representing open-market value determined by independent qualified valuers in accordance with the "HKIS Valuation Standards on Properties" issued by the Hong Kong Institute of Surveyors ("HKIS Valuation Standards"), "The RICS Appraisal and Valuation Standards" published by the Royal Institution of Chartered Surveyors ("RICS") and the "International Valuation Standards" published by the International Valuation Standards Committee where the HKIS Valuation Standards are silent on subjects requiring guidance. Changes in fair value are recognised in profit or loss.

(k) Lease premiums for land

Leasehold land premiums are up-front payments to acquire long-term interests in lessee-occupied properties. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to profit or loss, except when the leasehold land is reclassified as held for sale, in which case no further amortisation is required and the premiums are accounted for in accordance with HKFRS 5 (note 2(t)).

(l) Goodwill

Goodwill represents the excess of the cost of an acquisition (including contingent consideration which should be measured at fair value at the acquisition date) over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

2. Principal Accounting Policies (continued)

(m) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (ie, the higher of an asset's fair value less costs to sell and value in use). Such impairment losses are recognised in profit or loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is recognised in other comprehensive income and treated as a decline in revaluation.

In respect of assets other than goodwill, impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the circumstances and events leading to the impairment cease to exist. Impairment loss in respect of goodwill is not reversed. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is credited to profit or loss except when the asset is carried at valuation, in which case the reversal of impairment loss is credited to profit or loss up to the amount previously charged to profit or loss and thereafter recognised in other comprehensive income and treated as a revaluation movement.

The Group publishes its interim financial reports on a quarterly basis. At the end of each interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year. Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(n) Margin Funds on derivatives contracts

Margin Funds are established by cash received or receivable from The SEHK Options Clearing House Limited ("SEOCH") and HKFE Clearing Corporation Limited ("HKCC") Clearing Participants for covering their open positions in derivatives contracts. The funds are refundable to the Clearing Participants of SEOCH and HKCC when they close their positions in derivatives contracts. These funds are held in segregated accounts of the respective clearing houses for this specific purpose and cannot be used by the Group to finance any other activities. The funds are invested in financial assets to earn investment income and the Clearing Participants are entitled to an interest rebate at a rate determined by SEOCH and HKCC on the margin deposits they place with SEOCH and HKCC respectively (note 2(f)).

Financial assets of Margin Funds are classified as current assets unless they mature after more than twelve months, in which case, they are included in non-current assets. The obligation to refund the deposits is disclosed as Margin deposits from Clearing Participants on derivatives contracts under current liabilities. Other financial liabilities of the Margin Funds are classified as current liabilities as they are due within twelve months. Non-cash collateral (ie, securities and bank guarantees) received from Clearing Participants for satisfying margin requirements and the corresponding liabilities are not recorded as assets and liabilities of the Margin Funds in accordance with HKAS 39. Non-cash collateral is disclosed in note 45 to the consolidated accounts.

2. Principal Accounting Policies (continued)

(n) Margin Funds on derivatives contracts (continued)

Income arising from bank deposits and investments comprising these Margin Funds and expenses incurred for these funds are recorded in profit or loss. Changes in fair value of available-for-sale financial assets comprising these Margin Funds are recognised in other comprehensive income and recorded in the investment revaluation reserve. Changes in fair value of investments designated as financial assets at fair value through profit or loss, if any, are included in profit or loss.

(o) Clearing House Funds

The Clearing House Funds were established to support the respective clearing houses (ie, HKSCC, HKCC and SEOCH) to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to the clearing houses. The Clearing House Fund of HKSCC (ie, HKSCC Guarantee Fund) also provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Clearing Participants arising from depositing defective securities into CCASS. The Clearing House Funds are derived from contributions from CCASS Clearing Participants, HKCC Clearing Participants and SEOCH Clearing Participants and the respective clearing houses, and the accumulated net investment income net of expenses of the Clearing House Funds appropriated from retained earnings. The appropriation of the funds is governed by the relevant clearing house rules for the stated specific purposes only and the funds cannot be used to finance any other activities of the Group. These funds are therefore held in segregated accounts of the respective clearing houses. The funds are invested in financial assets to earn investment income and the Clearing Participants are entitled to an interest rebate at a rate determined by the clearing houses (note 2(f)).

Financial assets of Clearing House Funds are included in the consolidated statement of financial position as current assets unless they mature after more than twelve months, in which case, they are included in non-current assets. Clearing Participants' contributions to Clearing House Funds are treated as non-current liabilities in the consolidated statement of financial position with the exception of those amounts which are refundable to Participants within twelve months and are included as current liabilities. Other financial liabilities of the Clearing House Funds are classified as current liabilities as they are due within twelve months. Non-cash collateral of the Clearing House Funds (ie, contributions receivable from Clearing Participants fully secured by bank guarantees) and the corresponding liabilities are not reflected as assets and liabilities in the consolidated statement of financial position in accordance with HKAS 39. Non-cash collateral is disclosed in note 45 to the consolidated accounts. Contributions from the respective clearing houses and the accumulated net investment income net of expenses of the Clearing House Funds appropriated from retained earnings are included in the consolidated statement of financial position as designated reserves.

Income arising from bank deposits and investments comprising the Clearing House Funds and expenses incurred for these funds are recorded in profit or loss. Net investment income net of expenses of the Clearing House Funds is appropriated from retained earnings to the respective designated reserves of the Clearing House Funds. Changes in valuation of the available-for-sale financial assets comprising the Clearing House Funds are recognised in other comprehensive income and recorded in the investment revaluation reserve.

2. Principal Accounting Policies (continued)

(p) Cash marks and cash collateral received from Participants

Cash marks and cash collateral received from HKSCC Participants for their open positions are recorded as assets in the consolidated statement of financial position. As these funds are refundable to the Participants when they settle their positions, the marks and collateral received are reflected as liabilities to the Participants in the consolidated statement of financial position.

Income arising from bank deposits comprising these funds is recorded in profit or loss. HKSCC Participants are entitled to an interest rebate at a rate determined by HKSCC on the cash marks and cash collateral they place with HKSCC (note 2(f)).

(q) Derivative financial instruments

Derivatives, which may include forward foreign exchange contracts, futures and options contracts, are initially recognised at fair value on the date on which the derivative contracts are entered into and subsequently remeasured at their fair values. Fair values are based on quoted market prices in active markets, recent market transactions or valuation techniques such as discounted cash flow models and options pricing models, as appropriate. Changes in fair value of the derivatives are recognised in profit or loss except where the derivatives are designated as a qualifying cash flow hedge in which case recognition of any resultant fair value gain or loss depends on the nature of the item being hedged (note 2(r)). All derivatives except those designated as qualifying cash flow hedges are classified as financial assets at fair value through profit or loss when their fair values are positive and as financial liabilities at fair value through profit or loss when their fair values are negative.

(r) Hedge accounting

The Group documents at the inception of the transactions the relationship between the hedging instruments and the hedged items, as well as the risk management objectives and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at the inception of the hedges and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of the hedged items caused by the risk being hedged.

The fair value of a hedging derivative instrument is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

(i) Fair value hedges

Changes in the fair value of hedging instruments that are designated and qualify as fair value hedges are recognised in profit or loss together with the changes in the fair value of the hedged assets, liabilities or firm commitments that are subject to the hedged risk.

(ii) Cash flow hedges

For hedging instruments that are designated and qualify as cash flow hedges, the changes in the fair value relating to the effective portion of the hedges are recognised in other comprehensive income and transferred to hedging reserve. The gains or losses relating to the ineffective portion of the hedges are recognised immediately in profit or loss.

2. Principal Accounting Policies (continued)

(r) Hedge accounting (continued)

(ii) Cash flow hedges (continued)

Amounts accumulated in hedging reserve are reclassified from hedging reserve to profit or loss as a reclassification adjustment in the periods when the hedged items affect profit or loss. However, when the forecast transactions that are hedged result in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and deferred in hedging reserve are transferred from hedging reserve and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income and retained in hedging reserve at that time remains in hedging reserve and is recognised in accordance with the above policy when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that has been recognised in other comprehensive income and retained in hedging reserve is immediately reclassified from hedging reserve to profit or loss as a reclassification adjustment.

(s) Investments

(i) Classification

Investments of the Group are funded by Corporate Funds (mainly share capital and retained earnings of the Group) and Clearing House Funds and Margin Funds received from Participants.

Investments of the Group are classified under the following categories:

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading (ie, those acquired for the purpose of selling in short-term or derivatives which are not financial guarantee contracts or designated as hedging instruments), shares receivable by HKSCC under stock borrowing for the purpose of settlement under the Continuous Net Settlement ("CNS") basis and financial assets designated as fair value through profit or loss at inception if the designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or financial liabilities or recognising the gains and losses on them on different bases; or

- applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or

- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

2. Principal Accounting Policies (continued)

(s) Investments (continued)

(i) Classification (continued)

Financial assets at fair value through profit or loss held by the Corporate Funds are classified as current assets unless management intends to dispose of the investments or the investments are expected to mature after twelve months as at the end of the reporting period and, in which case, they are included in non-current assets.

Available-for-sale financial assets

This category comprises financial assets which are non-derivatives and are designated as available-for-sale financial assets or not classified under other investment categories.

Available-for-sale financial assets held by the Corporate Funds are included in non-current assets unless management intends to dispose of the investments or the investments are expected to mature within twelve months of the end of the reporting period.

Loans and receivables

Loans and receivables, which comprise bank deposits, trade and accounts receivable, deposits and other assets, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the loans or receivables. Bank deposits are disclosed as time deposits and cash equivalents.

Loans and receivables of the Corporate Funds are included in current assets, except for items which are expected to mature after twelve months as at the end of the reporting period and, in which case, they are included in non-current assets.

(ii) Recognition and initial measurement

Loans and receivables arise when the Group provides money, goods or services directly to a debtor.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the assets. Investments classified as financial assets at fair value through profit or loss are initially recognised at fair value with transaction costs recognised as expenses in profit or loss. Investments not classified as financial assets at fair value through profit or loss are initially recognised at fair value plus transaction costs.

(iii) Derecognition

Investments are derecognised when the rights to receive cash flows from the investments have expired or the Group has transferred substantially all the risks and rewards of ownership of the investments.

(iv) Gains or losses on subsequent measurement and interest income and dividend income

Financial assets at fair value through profit or loss

- Investments under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in profit or loss in the period in which they arise. Upon disposal, the difference between the net sale proceeds and the carrying value is included in profit or loss.
- Interest income is recognised using the effective interest method and included as net realised and unrealised gains/(losses) and interest income from these investments.
- Dividend income is recognised when the right to receive dividend is established and disclosed separately as dividend income.

2. Principal Accounting Policies (continued)

(s) Investments (continued)

(iv) Gains or losses on subsequent measurement and interest income and dividend income (continued)

Available-for-sale financial assets

- Available-for-sale financial assets are carried at fair value. Unrealised gains and losses (including transaction costs on acquisition) arising from changes in the fair value are recognised in other comprehensive income and transferred to investment revaluation reserve, except for impairment losses and exchange differences of monetary securities resulting from changes in amortised costs are recognised in profit or loss. For the purpose of recognising foreign exchange gains and losses, monetary available-for-sale financial assets are treated as if they were carried at amortised cost in the foreign currency and, accordingly, exchange differences resulting from changes in amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in other comprehensive income and transferred to investment revaluation reserve. When the securities are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments recognised in other comprehensive income and retained in the investment revaluation reserve are reclassified from investment revaluation reserve to profit or loss as a reclassification adjustment.

- Interest income is recognised using the effective interest method and disclosed as interest income.

- Dividend income is recognised when the right to receive dividend is established and disclosed as dividend income.

Loans and receivables

- Loans and receivables are carried at amortised cost using the effective interest method less provision for impairment.

- Interest income is recognised using the effective interest method and disclosed as interest income.

(v) Fair value measurement principles

Fair values of quoted investments are based on bid prices. For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2. Principal Accounting Policies (continued)

(s) Investments (continued)

(vi) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more loss events that have occurred after the initial recognition of the assets and have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the debtor or obligor;
- fees receivable that have been outstanding for over 180 days;
- the Group granting to the debtor or obligor, for economic or legal reasons relating to the debtor's or obligor's financial difficulty, a concession that the Group would not otherwise consider;
- it is becoming probable that the debtor or obligor will enter into bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
    - adverse changes in the payment status of debtors or obligors in the Group;
    - economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics relevant to the estimation of future cash flows. These financial assets are collectively assessed based on historical loss experience on each type of assets and management judgement of the current economic and credit environment.

2. Principal Accounting Policies (continued)

(s) Investments (continued)

(vi) Impairment (continued)

Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amounts and the present values of estimated future cash flows discounted at the financial assets' original effective interest rates. The carrying amounts of the assets are reduced through the use of a doubtful debt allowance account and the amount of the loss is recognised in profit or loss.

When there is no realistic prospect of recovery of a loan or receivable, it is written off against the related provision for impairment loss. Subsequent recovery of the amount previously written off is reversed against the provision for impairment loss in profit or loss.

As soon as a loan or receivable becomes impaired, the Group may continue to allow the debtor or obligor concerned to participate in our markets but no further accounts receivable is recognised on the consolidated statement of financial position as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when cash is received.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the doubtful debt allowance account. The amount of reversal is recognised in profit or loss.

Available-for-sale financial assets

If there is objective evidence that an impairment loss on available-for-sale financial assets has been incurred, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in profit or loss) is reclassified from investment revaluation reserve to profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss up to the amount previously charged to profit or loss and any further increase in fair value thereafter is recognised in other comprehensive income and credited to investment revaluation reserve.

In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the securities below their cost is considered in determining whether the securities are impaired. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. Any subsequent increase in fair value on such assets is recognised in other comprehensive income and credited to investment revaluation reserve directly.

The Group publishes its interim financial reports on a quarterly basis. At the end of each interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year. Impairment losses recognised in an interim period in respect of available-for-sale equity securities are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2. Principal Accounting Policies (continued)

(t) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than continuing use. This condition will only be satisfied when the sale is highly probable and the assets are available for immediate sale in their present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (except for investment properties) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Investment properties classified as held for sale are stated at fair value.

(u) Financial liabilities

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading (ie, principally held for the short-term and derivatives which are not financial guarantee contracts or designated as hedging instruments), shares borrowed by HKSCC for the purpose of settlement under the CNS basis and financial liabilities designated as fair value through profit or loss at inception if the designation satisfies the same criteria as set out in note 2(s)(i) under the caption of "Financial assets at fair value through profit or loss".

Liabilities under this category are initially recognised at fair value on the date on which a contract is entered into and subsequently remeasured at their fair values. Changes in fair value of the liabilities are recognised in profit or loss.

(ii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified entity or person fails to make payment when due in accordance with the original or modified terms of an undertaking.

Financial guarantee contracts are accounted for as financial instruments under HKAS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 – Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

(iii) Other financial liabilities

Financial liabilities, other than financial liabilities at fair value through profit or loss and financial guarantee contracts, are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

(v) Repurchase transactions

When securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the consolidated statement of financial position and the consideration received is recorded as a liability.

2. Principal Accounting Policies (continued)

(w) Recognition of receivables and payables from/to HKSCC Clearing Participants on Stock Exchange trades settled on the CNS basis

Upon acceptance of Stock Exchange trades for settlement in CCASS under the CNS basis, HKSCC interposes itself between the HKSCC Clearing Participants as the settlement counterparty to the trades through novation. Final acceptance of Stock Exchange trades is confirmed on T+1 by details contained in the final clearing statement transmitted to every HKSCC Clearing Participant.

The CNS money obligations due by/to HKSCC Clearing Participants on the Stock Exchange trades are recognised as receivables and payables when they are confirmed and accepted on T+1.

For all other trades and transactions, HKSCC merely provides a facility for settlement within CCASS and does not interpose itself between the HKSCC Clearing Participants as the settlement counterparty to the trades. The settlement of these trades does not constitute money obligations and is excluded from the consolidated accounts of the Group.

(x) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the income tax losses can be utilised. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine deferred tax assets and liabilities. Movements in deferred tax provision are recognised in profit or loss with the exception of deferred tax related to transactions or other events recognised outside profit or loss (either in other comprehensive income (such as fair value re-measurement of leasehold buildings, available-for-sale financial assets and cash flow hedges) or directly in equity (such as an adjustment to the opening balance of retained earnings resulting either from a change in accounting policy or correction of an error)), which are recognised in other comprehensive income or directly in equity.

(y) Deferred revenue

Deferred revenue comprises annual listing fees received in advance, payments received in advance for services in relation to the sales of stock market information and telecommunication line rentals for trading facilities located at brokers' offices.

(z) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2. Principal Accounting Policies (continued)

(z) Provisions, contingent liabilities and contingent assets (continued)

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(aa) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated accounts are presented in Hong Kong Dollars ("HKD"), which is HKEx's and the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets (accounting treatment for available-for-sale financial assets is included in note 2(s)(iv)) and liabilities denominated in foreign currencies are recognised in profit or loss, except when the foreign exchange gains/losses are related to a qualifying cash flow hedge in which case the amount will be recognised in other comprehensive income and deferred in the hedging reserve.

Translation differences on non-monetary financial assets and liabilities that are classified as financial assets and financial liabilities at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets that are classified as available-for-sale financial assets are recognised in other comprehensive income and included in the investment revaluation reserve in equity.

(ab) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and other short-term highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value (mainly time deposits), with original maturities of three months or less.

2. Principal Accounting Policies (continued)

(ac) Shares held for Share Award Scheme

Where the HKEx Employee Share Trust purchases HKEx shares from the market, the consideration paid, including any directly attributable incremental costs, is presented as "Shares held for Share Award Scheme" and deducted from total equity.

When the HKEx Employee Share Trust transfers the HKEx shares to the awardees upon vesting, the related costs of the Awarded Shares vested are credited to "Shares held for Share Award Scheme", with a corresponding decrease in employee share-based compensation reserve for shares purchased with contributions paid to the HKEx Employee Share Trust, and decrease in retained earnings for shares purchased through reinvesting dividends received on the vested Awarded Shares.

(ad) Operating Segments

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-makers. Segment assets consist primarily of fixed assets, assets of the Clearing House Funds, Margin Funds, financial assets and other assets. Segment liabilities comprise primarily liabilities to Participants, financial and other liabilities. Taxation recoverable and payable, deferred tax assets and liabilities and dividends declared by HKEx but not yet claimed by its shareholders are not allocated to segment assets and segment liabilities.

(ae) Dividends

Dividends disclosed in note 17 to the consolidated accounts represent interim dividend paid and final and special dividends proposed (based on the issued share capital less the number of shares held for the Share Award Scheme as at the end of the reporting period) for the year.

Dividends declared are recognised as liabilities in the Group's accounts in the year the dividends are approved by the shareholders.

Dividends declared by HKEx which have not been claimed by its shareholders for a period of over six years from the dividend payment date are forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association.

(af) Related parties

Parties are considered to be related to the Group if the Group has the ability to control, directly or indirectly, the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are controlled or under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

3. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may differ from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Impairment of trade receivables

The Group assesses at the end of each reporting period whether there is objective evidence that the trade receivables of the Group are impaired. In determining whether they are impaired, the Group tests the trade receivables for impairment in accordance with the accounting policy stated in note 2(s)(vi). Management judgement and estimates are required to determine whether a trade receivable is impaired and the appropriate action to recover the trade receivable. The Group closely monitors the debtors' repayment history, and takes regular follow-up actions to recover amounts overdue. If a trade receivable is determined to be impaired, the amount of loss is recognised in profit or loss. The Group will continue to recover the trade receivable from all avenues available to the Group. Other than the exceptional impairment losses caused by the default on market contracts by Lehman Brothers Securities Asia Limited ("LBSA") in 2008, the trade receivables are of good credit quality.

If the actual amount of non-recovery differs from the total provision for impairment losses (notes 11(a) and 11(b)) by 10 per cent, the Group's profit will change by $16,496,000 (2007:$7,000).

(b) Income taxes

The Group is subject to income taxes in Hong Kong. Judgement is required in determining the provision for income taxes and deferred taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for potential tax exposures based on its estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences would impact the income tax and deferred tax provisions in the year in which such determination is made.

If the actual taxation charge differs by 10 per cent from management's estimates, the Group's profit will be affected by $79,970,000 (2007:$102,377,000).

(c) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the estimated level of future taxable profits of the subsidiaries.

As at 31 December 2008, the Group had tax losses carried forward amounting to $224,612,000 (2007:$239,773,000). These losses relate to subsidiaries that have a history of losses. They will not expire and may be able to offset against taxable income in the future. If the Group was able to recognise all unrecognised deferred tax assets, the profit would increase by $37,061,000 (2007:$41,960,000).

3. Critical Accounting Estimates and Judgements (continued)

(d) Impairment of investments

The Group has a significant amount of investments that are stated at fair value. The valuations are provided by the custodian of the investments, a reputable independent third party custodian bank. The Group also obtains quotations for the investments from other independent sources to verify the accuracy of the fair values of the investments provided by the custodian. If independent quotations are not available, the Group will compute the fair values using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis. As the results are comparable, management is of the view that the investments are stated at their fair values.

Under the current credit crisis, the Group continues to monitor the credit quality of the investments. As at the end of the reporting period, all of the bonds held were of investment grade, and there were no investments whose terms were renegotiated or overdue.

4. Operating Segments

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

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

The **Cash Market** business mainly refers to the operations of the Stock Exchange, which covers all products traded on the Cash Market platforms, such as equities, debt securities, unit trusts, callable bull/bear contracts ("CBBCs"), exchange traded funds, warrants and rights. Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market ("GEM"). The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market. Stock Exchange listing fees and costs of the Listing Function are further explained in note 6.

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, interest rate, commodity 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.

4. Operating Segments (continued)

An analysis of the Group's reportable segment profit before taxation, assets, liabilities, and other selected financial information for the year by operating segment is as follows:

	2008					
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Inter-segment elimination (note b) $'000	Group $'000
Income from external customers	3,048,703	724,069	2,033,545	674,957	–	6,481,274
Net investment income	69,250	905,454	31,331	246	(7,106)	999,175
Gain on disposal of properties	33,442	11,580	19,116	4,503	–	68,641
	3,151,395	1,641,103	2,083,992	679,706	(7,106)	7,549,090
Operating expenses						
Direct costs	562,405	139,951	513,476	50,257	(7,106)	1,258,983
Indirect costs	166,275	58,115	114,000	23,244	–	361,634
	728,680	198,066	627,476	73,501	(7,106)	1,620,617
Reportable segment profit before taxation	2,422,715	1,443,037	1,456,516	606,205	–	5,928,473
Interest income	111,853	978,864	43,857	398	(7,106)	1,127,866
Interest expenses (including interest rebates to Participants):						
– included under net investment income	(921)	(69,201)	(6,290)	(3)	–	(76,415)
– others	(122)	(42)	(7,193)	(17)	7,106	(268)
Depreciation and amortisation	(46,300)	(7,183)	(53,206)	(2,633)	–	(109,322)
Other material non-cash items:						
Employee share-based compensation expenses	(15,105)	(3,401)	(7,978)	(1,695)	–	(28,179)
Provision for impairment losses	(1,613)	(55)	(163,255)	(30)	–	(164,953)
Reportable segment assets	6,204,197	42,724,783	13,777,418	113,094	–	62,819,492
Reportable segment liabilities	831,436	41,910,856	12,464,866	56,275	–	55,263,433
Additions to fixed assets (ie, non-current assets excluding financial assets and deferred tax assets)	12,711	26,283	61,288	2,701	–	102,983

4. Operating Segments (continued)

	2007				
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Group $'000
Income from external customers	3,569,780	582,606	2,314,184	680,772	7,147,342
Net investment income	152,340	858,412	226,712	764	1,238,228
Fair value gain of an investment property	4,900	–	–	–	4,900
	3,727,020	1,441,018	2,540,896	681,536	8,390,470
Operating expenses					
Direct costs	507,739	143,123	357,646	50,625	1,059,133
Indirect costs	164,080	52,904	112,937	22,511	352,432
	671,819	196,027	470,583	73,136	1,411,565
	3,055,201	1,244,991	2,070,313	608,400	6,978,905
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	3,055,201	1,244,991	2,282,217	608,400	7,190,809
Interest income	69,363	1,490,554	164,450	348	1,724,715
Interest expenses (including interest rebates to Participants):					
– included under net investment income	(4,760)	(677,345)	(29,598)	(24)	(711,727)
– others	(224)	(72)	(164)	(31)	(491)
Depreciation and amortisation	(25,961)	(8,376)	(43,231)	(2,114)	(79,682)
Other material non-cash items:					
Employee share-based compensation expenses	(12,838)	(2,924)	(7,172)	(1,428)	(24,362)
Reversal of provision for/(provision for) impairment losses	52	(19)	(31)	(5)	(3)
Reportable segment assets (excluding non-current assets held for sale)	4,664,621	56,877,839	26,230,025	114,935	87,887,420
Non-current assets held for sale	29,880	9,588	20,567	4,057	64,092
Reportable segment assets	4,694,501	56,887,427	26,250,592	118,992	87,951,512
Reportable segment liabilities	1,249,741	55,470,820	22,023,261	51,595	78,795,417
Additions to fixed assets (ie, non-current assets excluding financial assets and deferred tax assets)	98,874	2,587	88,650	3,579	193,690

4. Operating Segments (continued)

(a) The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. 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.

(b) The elimination adjustment represents the inter-segment interest charge from the Corporate Centre to the Clearing Business segment for funding the closing-out of market contracts of the defaulting Participant, LBSA. There were no inter-segment sales and charges in 2007.

(c) Reconciliation of reportable segment assets and segment liabilities

The assets and liabilities of the Group are allocated based on the operations of the segments. Central assets and liabilities are generally allocated to the segments. However, deferred tax assets, tax recoverable, taxation payable, deferred tax liabilities and unclaimed dividends declared by HKEx are not allocated to the segments.

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

	2008 $'000	2007 $'000
Reportable segment assets	**62,819,492**	87,951,512
Unallocated assets:		
Tax recoverable	**–**	148
Deferred tax assets	**4,429**	3,610
Total assets per consolidated statement of financial position	**62,823,921**	87,955,270

	2008 $'000	2007 $'000
Reportable segment liabilities	**55,263,433**	78,795,417
Unallocated liabilities:		
Taxation payable	**141,363**	687,726
Deferred tax liabilities	**30,775**	36,873
Unclaimed dividends declared by HKEx	**93,028**	57,906
Total liabilities per consolidated statement of financial position	**55,528,599**	79,577,922

4. Operating Segments (continued)

(d) Geographical information

The Group's income from external customers is derived solely from its operations in Hong Kong. Its non-current assets (excluding financial assets and deferred tax assets) by geographical location are detailed below:

	2008 $'000	2007 $'000
Hong Kong	**373,742**	380,956
China	**843**	29
	374,585	380,985

(e) Information about major customers

In 2008 and 2007, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's total revenue.

5. Trading Fees and Trading Tariff

	2008 $'000	2007 $'000
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	**2,028,480**	2,452,037
Derivatives contracts traded on the Derivatives Market	**774,601**	634,213
	2,803,081	3,086,250

6. Stock Exchange Listing Fees

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

	2008				2007			
	Equity		CBBCs, Derivative warrants & others	Total	Equity		CBBCs, Derivative warrants & others	Total
	Main Board $'000	GEM $'000	$'000	$'000	Main Board $'000	GEM $'000	$'000	$'000
Stock Exchange Listing Fees								
Annual listing fees	318,322	25,138	2,803	346,263	280,879	25,297	1,987	308,163
Initial and subsequent issue listing fees	86,566	3,580	270,798	360,944	66,425	5,710	302,104	374,239
Prospectus vetting fees	2,300	240	30	2,570	3,745	345	140	4,230
Other listing fees	1,724	482	–	2,206	1,514	392	–	1,906
Total	408,912	29,440	273,631	711,983	352,563	31,744	304,231	688,538
Costs of Listing Function								
Direct costs								
Staff costs and related expenses	167,122	35,075	12,449	214,646	169,979	33,393	13,045	216,417
Information technology and computer maintenance expenses	4,481	882	301	5,664	2,052	496	1,086	3,634
Premises expenses	18,658	3,789	864	23,311	17,888	3,393	855	22,136
Legal and professional fees	11,792	1,252	–	13,044	4,558	211	–	4,769
Depreciation	4,298	1,198	1,503	6,999	2,956	595	143	3,694
Other operating expenses	7,252	2,015	508	9,775	5,724	1,884	371	7,979
Total direct costs	213,603	44,211	15,625	273,439	203,157	39,972	15,500	258,629
Total indirect costs	34,657	6,100	8,538	49,295	33,807	6,060	9,669	49,536
Total costs	248,260	50,311	24,163	322,734	236,964	46,032	25,169	308,165
Contribution to Cash Market Segment Profit/(Loss) before Taxation	160,652	(20,871)	249,468	389,249	115,599	(14,288)	279,062	380,373

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

The direct costs listed above are regulatory in nature, which comprise costs of the Listing Function on vetting IPOs and enforcing 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 and disseminating information relating to listed companies. Indirect costs comprise costs of support services and other central overheads attributable to the Listing Function.

7. Other Revenue/Other Income

(a) Other Revenue

	2008 $'000	2007 $'000
Network, terminal user, dataline and software sub-license fees	**289,783**	311,187
Participants' subscription and application fees	**34,614**	34,043
Brokerage on direct IPO allotments	**5,313**	97,730
Trading booth user fees	**9,603**	9,624
Accommodation income on securities deposited by Participants as alternatives to cash deposits of Margin Funds	**21,844**	15,555
Sales of Trading Right	**8,335**	3,000
Miscellaneous revenue	**21,363**	17,970
	390,855	489,109

(b) Other Income

	2008 $'000	2007 $'000
Gain on disposal of properties (note 27(a))	**68,641**	–
Fair value gain of an investment property (note i)	**–**	4,900
	68,641	4,900

(i) Amount for 2007 comprises fair value gain of an investment property arising from revaluation of $1,100,000 (note 20(b)) prior to the reclassification of the property to non-current assets held for sale and fair value gain arising from revaluation of $3,800,000 (note 27(c)) subsequent to the reclassification.

8. Net Investment Income

	2008 $'000	2007 $'000
Interest income		
– bank deposits	**564,725**	1,030,736
– listed available-for-sale financial assets	**11,573**	23,092
– unlisted available-for-sale financial assets	**551,568**	670,887
	1,127,866	1,724,715
Interest rebates to Participants	**(76,415)**	(711,727)
Net interest income	**1,051,451**	1,012,988
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	**171**	–
Held for trading		
– listed securities	**(75,191)**	138,744
– unlisted securities	**41,149**	57,670
– exchange differences	**(24,021)**	12,314
	(58,063)	208,728
	(57,892)	208,728
Realised gains on disposal of unlisted available-for-sale financial assets	**1,523**	–
Dividend income from listed financial assets at fair value through profit or loss	**3,769**	6,091
Other exchange differences on loans and receivables	**324**	10,421
Net investment income	**999,175**	1,238,228
Net investment income was derived from:		
Corporate Funds	**83,056**	373,304
Margin Funds	**895,151**	797,714
Clearing House Funds	**20,968**	67,210
	999,175	1,238,228

9. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	2008 $'000	2007 $'000
Salaries and other short-term employee benefits	**713,827**	748,165
Employee share-based compensation benefits (note 35)		
– employee share options	**6,506**	9,779
– Awarded Shares	**21,673**	14,583
	28,179	24,362
Termination benefits	**429**	259
Retirement benefit costs (note a):		
– ORSO Plan	**60,142**	53,858
– MPF Scheme	**529**	472
	803,106	827,116

(a) Retirement Benefit Costs

The Group has sponsored a defined contribution provident fund scheme, namely the Hong Kong Exchanges and Clearing Provident Fund Scheme ("ORSO Plan"), which is registered under ORSO and has obtained Mandatory Provident Fund ("MPF") exemption. The ORSO Plan is for all full-time permanent employees. The Group contributes 12.5 per cent of the employee's basic salary to the ORSO Plan if an employee contributes 5 per cent. If the employee chooses not to contribute, the Group will contribute 10 per cent of the employee's salary to the ORSO Plan.

In compliance with the MPF Ordinance, HKEx has participated in a master trust MPF scheme, the AIA-JF Premium MPF Scheme ("MPF Scheme"), to provide retirement benefits to full-time permanent employees who elect to join the MPF Scheme and all temporary or part-time employees who are not eligible for joining the ORSO Plan. Contributions to the MPF Scheme are in accordance with the statutory limits prescribed by the MPF Ordinance (ie, 5 per cent of the employee's relevant income subject to a maximum of $1,000 per month).

The retirement benefit costs charged to the consolidated income statement represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees. The contribution payable to the MPF Scheme as at 31 December 2008 was $109,000 (2007: $104,000) and no contribution to the ORSO Plan was outstanding as at 31 December 2007 and 2008.

For the ORSO Plan, contributions during the year are not offset by contributions forfeited in respect of employees who left the ORSO Plan before the contributions were fully vested. Instead, forfeited contributions are credited to a reserve account of the ORSO Plan for the benefit of its members.

	2008 $'000	2007 $'000
Contributions forfeited during the year and retained in the ORSO Plan	**2,202**	5,830

10. Information Technology and Computer Maintenance Expenses

	2008 $'000	2007 $'000
Costs of services and goods:		
– consumed by the Group	**142,052**	135,045
– directly consumed by Participants	**96,865**	72,377
	238,917	207,422

11. Other Operating Expenses

(a) Provision for impairment losses arising from Participants' default on market contracts

The amount $163,203,000 (2007: $Nil) (note 24(b)) mainly includes $154,968,000 of provision for impairment loss of trade receivables arising from the default on market contracts by LBSA.

On 16 September 2008, the Securities and Futures Commission ("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 $154,968,000 (including costs and expenses net of recoveries up to 31 December 2008) 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 HKSCC for the recovery of such loss.

(b) Others

	2008 $'000	2007 $'000
Provision for/(reversal of provision for) impairment losses of other trade receivables (note 24(b))	**1,757**	(71)
(Reversal of provision for)/provision for impairment losses of leasehold buildings – revaluation (gain)/deficit (note 19(a)(iv))	**(12)**	74
Insurance	**4,394**	4,482
Financial data subscription fees	**4,499**	4,095
Custodian and fund management fees	**11,901**	10,042
Bank charges	**9,711**	22,919
Repair and maintenance expenses	**8,389**	8,615
License fees	**15,009**	13,445
Communication expenses	**5,486**	5,266
Overseas travel expenses	**6,474**	4,812
Contribution to Financial Reporting Council	**2,500**	7,153
Charitable donations	**10,633**	328
Other miscellaneous expenses	**33,428**	43,240
	114,169	124,400

12. Gain on Disposal of an Associate

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

13. Profit before Taxation

	2008 $'000	2007 $'000
Profit before taxation is stated after (charging)/crediting:		
Amortisation of lease premiums for land	**(509)**	(538)
Auditor's remuneration		
– audit fees		
– charge for the year	**(2,877)**	(2,585)
– reversal of provision in respect of prior years	**–**	75
– non-audit fees:		
– charge for the year	**(458)**	(410)
– reversal of provision in respect of prior years	**–**	5
Interest on bank loans and overdrafts repayable within five years	**(268)**	(491)
Operating lease rentals		
– land and buildings	**(104,384)**	(91,288)
– computer systems and equipment	**(6,009)**	(5,605)
Rental income from investment property	**82**	612
Direct operating expenses of the investment property that generates rental income	**(22)**	(167)
Depreciation	**(108,813)**	(79,144)
Reversal of provision for/(provision for) impairment losses of leasehold buildings under other operating expenses	**12**	(74)
(Provision for)/reversal of provision for impairment losses of trade receivables under other operating expenses	**(164,960)**	71
Provision for impairment losses of club debenture under other operating expenses	**(5)**	–
Gain on disposal of an investment property	**5,932**	–
Gain on disposal of a leasehold property	**62,709**	–
Gain on disposal of fixed assets	**2,367**	262
Gain on disposal of an associate	**–**	206,317
Exchange gains/(losses) on:		
– financial assets (excluding financial assets at fair value through profit or loss)	**324**	10,421
– Others	**1**	(99)

14. Directors' Emoluments

All Directors, including one Executive Director, received emoluments during the years ended 31 December 2008 and 31 December 2007. The aggregate emoluments paid and payable to the Directors during the two years were as follows:

	2008 $'000	2007 $'000
Executive Director:		
Salaries and other short-term employee benefits	**7,858**	7,402
Performance bonus	**3,900**	5,814
Retirement benefit costs	**975**	918
	12,733	14,134
Employee share-based compensation benefits (note a)	**1,090**	1,048
	13,823	15,182
Non-executive Directors:		
Fees	**4,587**	4,208
	18,410	19,390

(a) Employee share-based compensation benefits represent fair value of share options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme amortised to profit or loss during the year disregarding whether the options and the Awarded Shares have been vested/exercised or not.

(b) The emoluments, including employee share-based compensation benefits for options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme, of the Directors were within the following bands:

	2008 Number of Directors	2007 Number of Directors
$1 – $500,000	**12**	12
$500,001 – $1,000,000	**1**	–
$13,500,001 – $14,000,000	**1**	–
$15,000,001 – $15,500,000	**–**	1
	14	13

14. Directors' Emoluments (continued)

(c) The emoluments of all Directors, including the Chief Executive who is an ex-officio member, for the years ended 31 December 2008 and 2007 are set out below:

	2008							
Name of Director	Fees $'000	Salary $'000	Other benefits (note i) $'000	Performance bonus $'000	Retirement benefits costs (note ii) $'000	Sub-total $'000	Employee share-based compensation benefits $'000	Total $'000
Ronald J Arculli	550	–	–	–	–	550	–	550
Paul M Y Chow	–	7,800	58	3,900	975	12,733	1,090	13,823
Laura M Cha	400	–	–	–	–	400	–	400
Moses M C Cheng	400	–	–	–	–	400	–	400
Marvin K T Cheung	350	–	–	–	–	350	–	350
Henry H L Fan	300	–	–	–	–	300	–	300
Fong Hup	400	–	–	–	–	400	–	400
Bill C P Kwok	350	–	–	–	–	350	–	350
Vincent K H Lee	450	–	–	–	–	450	–	450
Christine K W Loh	350	–	–	–	–	350	–	350
John E Strickland	350	–	–	–	–	350	–	350
David M Webb (note iii)	123	–	–	–	–	123	–	123
John M M Williamson (note iv)	214	–	–	–	–	214	–	214
Oscar S H Wong	350	–	–	–	–	350	–	350
Total	4,587	7,800	58	3,900	975	17,320	1,090	18,410

	2007							
Name of Director	Fees $'000	Salary $'000	Other benefits (note i) $'000	Performance bonus $'000	Retirement benefits costs (note ii) $'000	Sub-total $'000	Employee share-based compensation benefits $'000	Total $'000
Ronald J Arculli	472	–	–	–	–	472	–	472
Paul M Y Chow	–	7,344	58	5,814	918	14,134	1,048	15,182
Laura M Cha	360	–	–	–	–	360	–	360
Moses M C Cheng	360	–	–	–	–	360	–	360
Marvin K T Cheung	323	–	–	–	–	323	–	323
Henry H L Fan	285	–	–	–	–	285	–	285
Fong Hup	360	–	–	–	–	360	–	360
Bill C P Kwok	323	–	–	–	–	323	–	323
Vincent K H Lee	397	–	–	–	–	397	–	397
Christine K W Loh	323	–	–	–	–	323	–	323
John E Strickland	323	–	–	–	–	323	–	323
David M Webb (note iii)	360	–	–	–	–	360	–	360
Oscar S H Wong	322	–	–	–	–	322	–	322
Total	4,208	7,344	58	5,814	918	18,342	1,048	19,390

14. Directors' Emoluments (continued)

(c) (continued)

Notes:

(i) Other benefits included insurance premium and club membership.

(ii) Employees who retire before normal retirement age are eligible for 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of seven years of service.

(iii) Resigned on 15 May 2008

(iv) Appointment effective 18 June 2008

15. Five Top-paid Employees

One (2007: one) of the five top-paid employees was a Director whose emoluments are disclosed in note 14. Details of the emoluments of the other four (2007: four) top-paid employees were as follows:

	2008 $'000	2007 $'000
Salaries and other short-term employee benefits	**17,865**	16,999
Performance bonus	**8,123**	12,237
Retirement benefit costs	**2,192**	2,082
	28,180	31,318
Employee share-based compensation benefits (note a)	**4,377**	3,274
	32,557	34,592

(a) Employee share-based compensation benefits represent fair value of share options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme amortised to profit or loss during the year disregarding whether the options and the Awarded Shares have been vested/exercised or not.

(b) The emoluments of these four (2007: four) employees, including employee share-based compensation benefits for options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme, were within the following bands:

	2008 Number of employees	2007 Number of employees
$6,000,001 – $6,500,000	**1**	–
$6,500,001 – $7,000,000	**–**	1
$7,000,001 – $7,500,000	**1**	–
$7,500,001 – $8,000,000	**–**	1
$8,500,001 – $9,000,000	**1**	1
$10,000,001 – $10,500,000	**1**	–
$10,500,001 – $11,000,000	**–**	1
	4	4

The employees, whose emoluments are disclosed above, included senior executives who were also Directors of the subsidiaries during the years. No Directors of the subsidiaries waived any emoluments.

16. Taxation

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

	2008 $'000	2007 $'000
Provision for Hong Kong Profits Tax for the year (note i)	**815,183**	1,009,076
Over provision in respect of prior years	**(152)**	(2,234)
	815,031	1,006,842
Deferred taxation (note 31(a))	**(15,482)**	14,689
	799,549	1,021,531

(i) 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 year.

(b) The taxation on the Group's profit before taxation (excluding share of profit of an associate and gain on disposal of an associate) differs from the theoretical amount that would arise using the taxation rate of 16.5 per cent (2007: 17.5 per cent) as follows:

	2008 $'000	2007 $'000
Profit before taxation (excluding share of profit of an associate and gain on disposal of an associate)	**5,928,473**	6,978,905
Calculated at a taxation rate of 16.5 per cent (2007: 17.5 per cent)	**978,198**	1,221,308
Income not subject to taxation	**(182,106)**	(202,363)
Expenses not deductible for taxation purposes	**8,569**	12,378
Change in deferred tax arising from reclassification of properties to "Non-current assets held for sale"	**–**	(2,061)
Change in opening net deferred tax liabilities resulting from a decrease in tax rate	**(1,299)**	–
Change in deferred tax arising from unrecognised tax losses and other deferred tax adjustments	**(3,661)**	(5,497)
Over provision of Hong Kong Profits Tax in respect of prior years	**(152)**	(2,234)
Taxation charge	**799,549**	1,021,531

17. Dividends

	2008 $'000	2007 $'000
Interim dividend paid:		
$2.49 (2007: $1.79) per share	**2,676,436**	1,914,499
Less: Dividend for shares held by HKEx Employee Share Trust	**(3,061)**	(2,306)
	2,673,375	1,912,193
Final dividend proposed (notes a and b):		
$1.80 (2007: $3.40) per share based on issued share capital as at the year end	**1,934,795**	3,638,970
Less: Dividend for shares held by HKEx Employee Share Trust as at the year end	**(1,704)**	(3,592)
	1,933,091	3,635,378
	4,606,466	5,547,571

(a) Actual 2007 final dividend paid was $3,646,159,000 (after eliminating $4,120,000 paid for shares held by HKEx Employee Share Trust, of which $528,000 relates to shares acquired by the HKEx Employee Share Trust after 31 December 2007), of which $11,309,000 was paid for shares issued for employee share options exercised after 31 December 2007.

(b) The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

18. Earnings Per Share

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

(a) Basic earnings per share

	2008	2007
Profit attributable to shareholders ($'000)	**5,128,924**	6,169,278
Weighted average number of shares in issue less shares held for Share Award Scheme	**1,072,223,011**	1,067,236,673
Basic earnings per share	**$4.78**	$5.78

(b) Diluted earnings per share

	2008	2007
Profit attributable to shareholders ($'000)	**5,128,924**	6,169,278
Weighted average number of shares in issue less shares held for Share Award Scheme	**1,072,223,011**	1,067,236,673
Effect of employee share options	**5,325,004**	10,126,864
Effect of Awarded Shares	**1,146,735**	1,227,308
Weighted average number of shares for the purpose of calculating diluted earnings per share	**1,078,694,750**	1,078,590,845
Diluted earnings per share	**$4.75**	$5.72

19. Fixed Assets

(a) Group

	Leasehold buildings $'000	Computer trading and clearing systems $'000	Other computer hardware and software $'000	Leasehold improvements, furniture, equipment and motor vehicles $'000	Total $'000
Net book value at 1 Jan 2007 (note i)	16,000	126,903	22,866	44,392	210,161
Additions	–	167,169	18,186	8,335	193,690
Transfer to non-current assets held for sale (note iii)	(7,524)	–	–	–	(7,524)
Revaluation (note iv)	(118)	–	–	–	(118)
Depreciation	(558)	(55,424)	(11,087)	(12,075)	(79,144)
Net book value at 31 Dec 2007	7,800	238,648	29,965	40,652	317,065
At 31 Dec 2007					
At cost	–	1,389,856	366,805	274,095	2,030,756
At valuation	7,800	–	–	–	7,800
Accumulated depreciation	–	(1,151,208)	(336,840)	(233,443)	(1,721,491)
Net book value	7,800	238,648	29,965	40,652	317,065
Net book value at 1 Jan 2008	7,800	238,648	29,965	40,652	317,065
Additions	–	48,371	8,810	45,802	102,983
Disposals (note ii)	–	(52)	–	(16)	(68)
Revaluation (note iv)	12	–	–	–	12
Depreciation	(312)	(75,368)	(13,763)	(19,370)	(108,813)
Net book value at 31 Dec 2008	7,500	211,599	25,012	67,068	311,179
At 31 Dec 2008					
At cost	–	1,388,172	363,636	310,295	2,062,103
At valuation	7,500	–	–	–	7,500
Accumulated depreciation	–	(1,176,573)	(338,624)	(243,227)	(1,758,424)
Net book value	7,500	211,599	25,012	67,068	311,179

(i) The analysis of net book value as at 1 January 2007 is as follows:

At cost	–	1,275,800	352,662	268,171	1,896,633
At valuation	16,000	–	–	–	16,000
Accumulated depreciation	–	(1,148,897)	(329,796)	(223,779)	(1,702,472)
Net book value	16,000	126,903	22,866	44,392	210,161

(ii) The total cost of fixed assets disposed of or written off and their total net book value during 2008 were $71,636,000 and $68,000 respectively (2007: $59,567,000 and $Nil respectively).

(iii) On 19 September 2007, the Board approved the disposal of one of the leasehold buildings used by the Group and the carrying value of the leasehold building of $7,524,000 was reclassified as a non-current asset held for sale during the year ended 31 December 2007 (note 27(b)).

19. Fixed Assets (continued)

(a) Group (continued)

(iv) The remaining leasehold building was revalued as at 31 December 2008 on the basis of the depreciated replacement costs calculated by Jones Lang LaSalle, an independent firm of qualified property valuers. During the year ended 31 December 2008, the total revaluation gain of the leasehold building amounted to $12,000, and was credited to other operating expenses in the consolidated income statement (note 11(b)) to offset the amount previously charged to profit or loss. For the year ended 31 December 2007, the total revaluation deficit of the two leasehold buildings amounted to $118,000, of which $44,000 was charged to other comprehensive income and leasehold buildings revaluation reserve (note 36) to set off against previous valuation surpluses and $74,000 was charged to other operating expenses in the consolidated income statement (note 11(b)).

(v) The cost of the remaining leasehold building was $15,900,000 (2007: $15,900,000). The carrying value of the leasehold building as at 31 December 2008 would have been $5,691,000 (2007: $6,327,000) had it been carried at cost less accumulated depreciation.

(b) HKEx

	Other computer hardware and software $'000	Leasehold improvements, furniture, equipment and motor vehicles $'000	Total $'000
Net book value at 1 Jan 2007 (note i)	12,515	4,967	17,482
Additions	4,091	5,754	9,845
Depreciation	(5,850)	(2,271)	(8,121)
Net book value at 31 Dec 2007	10,756	8,450	19,206
At 31 Dec 2007			
At cost	64,111	26,679	90,790
Accumulated depreciation	(53,355)	(18,229)	(71,584)
Net book value	10,756	8,450	19,206
Net book value at 1 Jan 2008	**10,756**	**8,450**	**19,206**
Additions	**2,194**	**11,723**	**13,917**
Disposals (note ii)	**–**	**(12)**	**(12)**
Depreciation	**(5,419)**	**(4,455)**	**(9,874)**
Net book value at 31 Dec 2008	**7,531**	**15,706**	**23,237**
At 31 Dec 2008			
At cost	**65,943**	**34,969**	**100,912**
Accumulated depreciation	**(58,412)**	**(19,263)**	**(77,675)**
Net book value	**7,531**	**15,706**	**23,237**

(i) The analysis of net book value as at 1 January 2007 is as follows:

At cost	60,080	22,806	82,886
Accumulated depreciation	(47,565)	(17,839)	(65,404)
Net book value	12,515	4,967	17,482

(ii) The total cost of fixed assets disposed of or written off and their total net book value during 2008 were $3,795,000 and $12,000 respectively (2007: $1,941,000 and $Nil respectively).

20. Investment Property

	Group 2008 $'000	Group 2007 $'000
At 1 Jan	**–**	19,300
Fair value gain	**–**	1,100
Transfer to non-current assets held for sale (note a)	**–**	(20,400)
At 31 Dec	**–**	–

(a) On 19 September 2007, the Board approved the disposal of the investment property and the amount was reclassified as a non-current asset held for sale during the year ended 31 December 2007 (note 27(c)).

(b) Prior to its reclassification as a non-current asset held for sale, the investment property was revalued as at 30 June 2007 on the basis of its open market value by Jones Lang LaSalle, an independent firm of qualified property valuers. The fair value gain during the period up to the date of reclassification amounted to $1,100,000 and was credited to the consolidated income statement under other income during the year ended 31 December 2007 (note 7(b)(i)).

21. Lease Premium for Land

	Group 2008 $'000	Group 2007 $'000
Net book value at 1 Jan	**61,217**	94,123
Amortisation	**(509)**	(538)
Transfer to non-current assets held for sale (note a)	**–**	(32,368)
Net book value at 31 Dec	**60,708**	61,217
Current portion of lease premium for land	**(509)**	(509)
Non-current portion	**60,199**	60,708

(a) On 19 September 2007, the Board approved the disposal of one of the leasehold properties used by the Group and the lease premium for the land of the property was reclassified as a non-current asset held for sale during the year ended 31 December 2007 (note 27(d)).

(b) The remaining leasehold land is held under long-term lease and situated in Hong Kong. The cost of the leasehold land was $69,659,000 (2007: $69,659,000).

22. Margin Funds on Derivatives Contracts

	Group	
	2008 $'000	2007 $'000
The Margin Funds comprised (note a):		
SEOCH Clearing Participants' Margin Funds	**3,735,254**	9,741,149
HKCC Clearing Participants' Margin Funds	**38,104,737**	45,687,739
	41,839,991	55,428,888
The net assets of the Margin Funds comprised:		
Available-for-sale financial assets:		
Debt securities, at market value:		
– listed outside Hong Kong	**324,301**	243,047
– unlisted	**16,116,617**	16,491,959
Time deposits with original maturities over three months	**3,205,408**	2,508,559
Margin receivable from Clearing Participants	**8,835**	3,068
Financial assets of Margin Funds (note b)	**19,655,161**	19,246,633
Cash and cash equivalents	**22,184,833**	36,182,526
	41,839,994	55,429,159
Less: Other financial liabilities of Margin Funds	**(3)**	(271)
	41,839,991	55,428,888
The Group's liabilities in respect of the Margin Funds were as follows:		
Margin deposits from SEOCH and HKCC Participants on derivatives contracts	**41,839,991**	55,428,888

(a) Amounts excluded non-cash collateral received and utilised as alternative to cash margin (note 45).

(b) The maturity profile of the financial assets of Margin Funds was as follows:

	Group	
	2008 $'000	2007 $'000
Amounts maturing after more than twelve months	**–**	456,396
Amounts maturing within twelve months	**19,655,161**	18,790,237
	19,655,161	19,246,633

23. Available-for-sale Financial Assets

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Debt securities, at market value				
– listed outside Hong Kong	**160,601**	–	**–**	–
– unlisted	**2,421,082**	3,067,007	**8,220**	–
	2,581,683	3,067,007	**8,220**	–
Analysis of available-for-sale financial assets:				
Non-current portion maturing after twelve months	**–**	25,270	**–**	–
Current portion maturing within twelve months	**2,581,683**	3,041,737	**8,220**	–
	2,581,683	3,067,007	**8,220**	–

24. Accounts Receivable, Prepayments and Deposits

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Receivable from Exchange and Clearing Participants:				
– CNS money obligations	**7,904,042**	17,301,606	**–**	–
– transaction levy, stamp duty and fees receivable	**341,317**	704,481	**–**	–
– others	**169,215**	92,243	**–**	–
Other fees receivable	**243,511**	239,947	**–**	–
Prepayments	**16,934**	17,364	**16,706**	17,023
Other receivables and deposits	**18,987**	13,096	**728**	113
Less: Provision for impairment losses of trade receivables (note b)	**(167,449)**	(4,608)	**–**	–
	8,526,557	18,364,129	**17,434**	17,136

(a) The carrying amounts of accounts receivable and deposits approximated their fair values.

(b) The movements in provision for impairment losses of trade receivables were as follows:

	Group	
	2008 $'000	2007 $'000
At 1 Jan	**4,608**	4,679
Provision for impairment losses arising from Participants' default on market contracts (note 11(a))	**163,203**	–
Provision for/(reversal of provision for) impairment losses of other trade receivables (note 11(b))	**1,757**	(71)
Trade receivables written off during the year as uncollectible	**(2,119)**	–
At 31 Dec	**167,449**	4,608

(c) CNS money obligations receivable accounted for 93 per cent (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.

25. Clearing House Funds

	Group 2008 $'000	Group 2007 $'000
The Clearing House Funds comprised the following Funds (notes a and b):		
HKSCC Guarantee Fund	**215,573**	362,015
SEOCH Reserve Fund	**208,291**	1,263,056
HKCC Reserve Fund	**578,853**	567,133
	1,002,717	2,192,204
The Clearing House Funds were composed of:		
Available-for-sale financial assets:		
Unlisted debt securities, at market value	**371,494**	361,506
Time deposits with original maturities over three months	**21,708**	–
Financial assets of Clearing House Funds (note c)	**393,202**	361,506
Cash and cash equivalents	**843,109**	1,841,508
	1,236,311	2,203,014
Less: Other financial liabilities of Clearing House Funds	**(72,319)**	(10,810)
	1,163,992	2,192,204
Provision for loss arising from closing-out losses of defaulting Participants (note d)	**(161,275)**	–
	1,002,717	2,192,204
The Clearing House Funds were funded by:		
Clearing Participants' cash contributions due within twelve months	**197,520**	1,252,355
Clearing Participants' cash contributions due after twelve months	**252,000**	244,500
Designated reserves (note 38 and note e):		
At 1 Jan	**694,853**	627,816
Transfer (to)/from retained earnings (note f)	**(142,470)**	67,037
At 31 Dec	**552,383**	694,853
Revaluation reserve (Note 36(b))	**814**	496
	1,002,717	2,192,204

25. Clearing House Funds (continued)

(a) Amounts excluded bank guarantees received and utilised as alternatives to cash contributions (note 45).

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

(c) All financial assets would mature within twelve months.

(d) In December 2008, the Board resolved to recover the closing-out losses caused by defaulting Participants (less any contributions forfeited and recoveries from the liquidation process of the defaulting Participants concerned) from the Clearing House Funds. As at 31 December 2008, the losses to be recovered totalled $161,275,000 (2007: $Nil) and, subject to further recoveries, if any, will be paid to the clearing houses after the completion of the defaulting Participants' liquidation. The provision has been eliminated against the amounts due from the defaulting Participants on consolidation.

(e) The Board has resolved that the closing-out losses caused by defaulting Participants incurred by the Clearing House Funds would not be allocated to any Clearing Participants except for the amounts contributed to the Clearing House Funds by the defaulting Clearing Participants. Consequently, the designated reserves of the Clearing House Funds are reduced by $163,203,000, which is attributable to firstly the forfeited contributions of the defaulting Clearing Participant and the accumulated net investment income net of expenses of the relevant Clearing House Funds recognised in profit or loss of the Group up to 31 December 2008 and then the clearing houses' contributions.

(f) The amount comprises net investment income net of expenses of $20,733,000 (2007: $67,037,000) less provision for closing-out losses of $163,203,000 (2007: $Nil).

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

	Group	
	2008 $'000	2007 $'000
Analysis of financial assets at fair value through profit or loss:		
Held for trading		
Equity securities, at market value		
– listed in Hong Kong	**12,701**	49,559
– listed outside Hong Kong	**94,680**	177,591
	107,381	227,150
Held for trading		
Debt securities, at market value		
– listed in Hong Kong	**79,074**	47,569
– listed outside Hong Kong	**1,386,067**	1,363,356
– unlisted	**1,371,057**	1,258,030
	2,836,198	2,668,955
Held for trading		
Mutual funds, at market value		
– listed outside Hong Kong	**57,707**	96,778
Held for trading		
Derivative financial instruments, at market value		
– equity index futures contracts, listed outside Hong Kong (note a)	**–**	159
– forward foreign exchange contracts (note b)	**18,749**	3,513
	18,749	3,672
	3,020,035	2,996,555
Analysis of financial liabilities at fair value through profit or loss:		
Held for trading		
Derivative financial instruments, at market value		
– equity index futures contracts, listed outside Hong Kong (note a)	**627**	–
– forward foreign exchange contracts (note b)	**25,627**	6,149
	26,254	6,149

(a) The total notional value of the futures contracts outstanding was $26,963,000 (2007: $6,964,000).

(b) The maximum gross nominal value of outstanding forward foreign exchange contracts was $3,219,344,000 (2007: $2,926,473,000) (note 49(b)).

27. Non-current Assets Held for Sale

	Group	
	2008 **$'000**	2007 $'000
Leasehold building (note b)	–	7,524
Investment property (note c)	–	24,200
Lease premium for land of leasehold property (note d)	–	32,368
	–	64,092
Reserves associated with assets held for sale recognised in other comprehensive income (leasehold buildings revaluation reserve (note 36))	–	3,155

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

In January 2008, the Group entered into agreements with two third parties to sell the leasehold property and the investment property for a consideration of $103,380,000 and $30,400,000 respectively. The sale transactions were completed on 18 February 2008. The accounting profit on the disposal of properties, after deducting related selling expenses of $1,047,000, amounted to $68,641,000 ($62,709,000 for the leasehold property and $5,932,000 for the investment property) and was recognised in the consolidated income statement under other income in 2008 (note 7(b)).

(b) Leasehold building

	Group	
	2008 **$'000**	2007 $'000
At 1 Jan	**7,524**	–
Transfer from leasehold building (note 19(a)(iii))	–	7,524
Disposal	**(7,524)**	–
At 31 Dec	–	7,524

The cost of the leasehold building was $11,000,000 as at 31 December 2007. The carrying amount of the leasehold building as at 31 December 2007 would have been $3,598,000 had it been carried at cost less accumulated depreciation.

(c) Investment property

	Group	
	2008 **$'000**	2007 $'000
At 1 Jan	**24,200**	–
Transfer from investment property (note 20(a))	–	20,400
Fair value gain	–	3,800
Disposal	**(24,200)**	–
At 31 Dec	–	24,200

The investment property was held under long-term lease and situated in Hong Kong. The cost of the investment property was $8,229,000 as at 31 December 2007. The investment property was revalued as at 31 December 2007 on the basis of its open market value by Jones Lang LaSalle, an independent firm of qualified property valuers. The fair value gain for the valuation amounted to $3,800,000 and was credited to the consolidated income statement under other income during the year ended 31 December 2007 (note 7(b)(i)).

27. Non-current Assets Held for Sale (continued)

(d) Leasehold premium for land of leasehold property

	Group	
	2008 **$'000**	2007 $'000
At 1 Jan	**32,368**	–
Transfer from lease premium for land (note 21(a))	**–**	32,368
Disposal	**(32,368)**	–
At 31 Dec	**–**	32,368

The leasehold land was held under long-term lease and situated in Hong Kong. The cost of the leasehold land as at 31 December 2007 was $33,111,000.

(e) At 31 December 2007, the liabilities associated with the non-current assets held for sale, being operating expenses payable, were $44,000 and were not included in the sale.

28. Accounts Payable, Accruals and Other Liabilities

	Group		HKEx	
	2008 **$'000**	2007 $'000	**2008** **$'000**	2007 $'000
Payable to Exchange and Clearing Participants:				
– CNS money obligations	**7,904,083**	17,300,191	**–**	–
– cash collateral and marks	**3,599,902**	2,719,588	**–**	–
– others	**184,401**	169,976	**–**	–
Transaction levy payable to the SFC	**84,256**	166,988	**–**	–
Unclaimed dividends (note b)	**264,730**	229,088	**93,028**	57,906
Stamp duty payable	**155,977**	414,202	**–**	–
Deposits received	**36,898**	28,911	**–**	–
Other payables and accruals	**180,607**	346,965	**82,183**	109,138
	12,410,854	21,375,909	**175,211**	167,044

(a) The carrying amounts of accounts payable and other liabilities approximated their fair values.

(b) Unclaimed dividends for the Group represent dividends declared by listed companies which were held by HKSCC Nominees Limited but not yet claimed by shareholders of the companies concerned, and dividends declared by HKEx but not yet claimed by its shareholders. During the year, dividends declared by HKEx which were unclaimed over a period of six years from the date of payment amounting to $2,566,000 (2007: $2,454,000) were forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association (note 40).

(c) CNS money obligations payable accounted for 64 per cent (2007: 81 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations payable mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

29. Participants' Admission Fees Received

Although not strictly obliged to do so, HKSCC aims to refund the admission fee paid by a Participant without interest after a period of seven years from the date of its admission as a Participant or upon the termination of its participation in CCASS, whichever is the later. HKSCC may, at its discretion, grant early refunds of admission fees to terminated Participants within one year from the date of termination of their participation in CCASS and to Participants within one year of the date of sale of their Stock Exchange Trading Rights.

30. Provisions

(a) Group

	Reinstatement costs $'000	Employee benefit costs $'000	Total $'000
At 1 Jan 2008	24,128	29,630	53,758
Provision for the year	2,581	44,634	47,215
Unused amount reversed during the year	(38)	–	(38)
Amount used during the year	–	(37,829)	(37,829)
Amount paid during the year	(2)	(1,331)	(1,333)
At 31 Dec 2008	26,669	35,104	61,773

	2008 $'000	2007 $'000
Analysis of provisions:		
Current	36,290	29,630
Non-current	25,483	24,128
	61,773	53,758

(b) HKEx

	Reinstatement costs $'000	Employee benefit costs $'000	Total $'000
At 1 Jan 2008	575	29,630	30,205
Provision for the year	99	44,634	44,733
Unused amount reversed during the year	(38)	–	(38)
Amount used during the year	–	(37,829)	(37,829)
Amount paid during the year	(2)	(1,331)	(1,333)
At 31 Dec 2008	634	35,104	35,738

	2008 $'000	2007 $'000
Analysis of provisions:		
Current	35,104	29,630
Non-current	634	575
	35,738	30,205

(i) The provision for reinstatement costs represents the estimated costs used to restore the leased office premises to their original state upon the expiry of the leases. The leases are expected to expire within three years.

(ii) The provision for employee benefit costs represents unused annual leave that has been accumulated at the end of the reporting period. It is expected to be fully utilised in the coming twelve months.

31. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5 per cent (2007: 17.5 per cent).

(a) The movements on the deferred tax liabilities/(assets) account were as follows:

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
At 1 Jan	**33,263**	10,673	**(3,610)**	(3,330)
(Credited)/charged to income statement (note 16(a))	**(15,482)**	14,689	**(805)**	(280)
Charged to other comprehensive income (note b)	**8,565**	7,901	**22**	–
At 31 Dec (note e)	**26,346**	33,263	**(4,393)**	(3,610)

(b) The deferred taxation relating to each component of other comprehensive income charged/(credited) to other comprehensive income during the year was as follows:

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Change in valuation of leasehold buildings (note 36)	**–**	(7)	**–**	–
Reclassification of a leasehold building to "Non-current assets held for sale" (note 36)	**–**	(552)	**–**	–
Available-for-sale financial assets (note 36)	**8,565**	8,460	**22**	–
	8,565	7,901	**22**	–

(c) Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of $224,612,000 as at 31 December 2008 (2007: $239,773,000) that may be carried forward for offsetting against future taxable income indefinitely.

31. Deferred Taxation (continued)

(d) The movements on the deferred tax liabilities/(assets) account were as follows:

	Group											
	Accelerated tax depreciation		Revaluation of properties		Tax losses		Revaluation of available-for-sale financial assets		Employee benefits		Total	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
At 1 Jan	**39,843**	17,115	**257**	2,810	**(12,191)**	(6,656)	**10,539**	2,079	**(5,185)**	(4,675)	**33,263**	10,673
(Credited)/charged to income statement	**(7,434)**	22,728	**7**	(1,994)	**(7,448)**	(5,535)	**–**	–	**(607)**	(510)	**(15,482)**	14,689
(Credited)/charged to other comprehensive income	**–**	–	**–**	(559)	**–**	–	**8,565**	8,460	**–**	–	**8,565**	7,901
At 31 Dec	**32,409**	39,843	**264**	257	**(19,639)**	(12,191)	**19,104**	10,539	**(5,792)**	(5,185)	**26,346**	33,263

	HKEx							
	Accelerated tax depreciation		Revaluation of available-for-sale financial assets		Employee benefits		Total	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
At 1 Jan	**1,575**	1,345	**–**	–	**(5,185)**	(4,675)	**(3,610)**	(3,330)
(Credited)/charged to income statement	**(198)**	230	**–**	–	**(607)**	(510)	**(805)**	(280)
Charged to other comprehensive income	**–**	–	**22**	–	**–**	–	**22**	–
At 31 Dec	**1,377**	1,575	**22**	–	**(5,792)**	(5,185)	**(4,393)**	(3,610)

(e) Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to tax levied by the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Net deferred tax assets recognised on the statement of financial position	**(4,429)**	(3,610)	**(4,393)**	(3,610)
Net deferred tax liabilities recognised on the statement of financial position	**30,775**	36,873	**–**	–
	26,346	33,263	**(4,393)**	(3,610)

32. Financial Guarantee Contracts

(a) Group

The Stock Exchange has provided a financial guarantee to the Collector of Stamp Revenue, details of which are disclosed in note 43(a)(ii). The carrying amount of the financial guarantee recognised in the consolidated statement of financial position was $19,909,000 (2007: $19,909,000).

(b) HKEx

HKEx gave an undertaking in favour of HKSCC amounting to $50 million, details of which are disclosed in note 43(b)(i). The carrying amount of the financial guarantee recognised in HKEx's statement of financial position was $11,390,000 (2007: $11,390,000). The financial guarantee was eliminated on consolidation.

33. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity

(a) Investments in subsidiaries

	HKEx	
	2008 **$'000**	2007 $'000
Investments in unlisted shares, at cost	**4,145,198**	4,145,198
Financial guarantee granted to a subsidiary (note 32(b))	**11,390**	11,390
	4,156,588	4,156,588

(b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries are repayable on demand. The amounts due from/(to) subsidiaries are interest-free with the exception of funding provided directly or indirectly to the subsidiaries in connection with the closing-out of market contracts for defaulting Participants, in which case interest is charged for the loss of income for early uplifting fixed deposits. During 2008, the amount charged for such funding was $578,000 (2007: $Nil).

33. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity (continued)

(c) Particulars of subsidiaries

HKEx had direct or indirect interests in the following subsidiaries as at 31 December 2008, all of which are wholly-owned private companies incorporated and operating in Hong Kong. Details of these companies were as follows:

Company	Issued and fully paid up share capital	Principal activities	Interest held
Direct subsidiaries:			
The Stock Exchange of Hong Kong Limited	"A" shares $929	Operates the single, unified stock exchange in Hong Kong for the purposes of the Securities and Futures Ordinance	100%
Hong Kong Futures Exchange Limited	Ordinary $19,600,000 Standard $850,000	Operates a futures and options exchange	100%
Hong Kong Securities Clearing Company Limited	Ordinary $2	Operates a clearing house for securities traded on the unified stock exchange in Hong Kong and the central securities depository and provides custody and nominee services for eligible securities listed in Hong Kong	100%
HKEC Nominees Limited	Ordinary $2	Nominee services	100%
Hong Kong Financial Markets Development Limited	$2	Promotes the securities, futures and financial industry	100%
HKEx (China) Limited	$2	Promotes HKEx products and services	100%
HKEx (Singapore) Limited	$2	Dormant (dissolved on deregistration on 16 January 2009)	100%

33. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity (continued)

(c) Particulars of subsidiaries (continued)

Company	Issued and fully paid up share capital	Principal activities	Interest held
Indirect subsidiaries:			
The SEHK Options Clearing House Limited	Ordinary $1,000,000	Operates a clearing house for options contracts traded on the Stock Exchange	100%
HKEx Information Services Limited	$100	Sale of stock market information	100%
Prime View Company Limited	$20	Property holding	100%
The Stock Exchange Club Limited	$8	Property holding	100%
The Stock Exchange Nominee Limited	$2	Nominee services	100%
HKFE Clearing Corporation Limited	Ordinary $1,000,000	Operates a clearing house for derivatives contracts traded on the Futures Exchange	100%
HKFE Clearing Linkage Limited	$2	Dormant (dissolved on deregistration on 16 January 2009)	100%
HKSCC Nominees Limited	$20	Acting as common nominee in respect of securities held in the CCASS depository	100%
Many Profit Limited	$2	Dormant (in the process of deregistration)	100%
Freestar Corporation Limited	$2	Dormant (in the process of deregistration)	100%
Star Prime Limited	$2	Dormant (dissolved on deregistration on 23 January 2009)	100%
HK Conversion Agency Services Limited	$2	Conversion agency services	100%

(d) Controlled special purpose entity

There was one special purpose entity controlled by HKEx which operates in Hong Kong, particulars of which are as follows:

Special purpose entity	Principal activities
The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust")	Administering and holding HKEx shares for the Share Award Scheme for the benefit of eligible HKEx employees (note 35(c))

33. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity (continued)

(d) Controlled special purpose entity (continued)

As HKEx has the power to govern the financial and operating policies of the HKEx Employee Share Trust and can derive benefits from the contributions of the employees who have been awarded the Awarded Shares through their continued employment with the Group, the Group is required to consolidate the HKEx Employee Share Trust.

As at 31 December 2008, HKEx had contributed $56,946,000 (2007: $43,635,000) to the HKEx Employee Share Trust for shares not yet vested and the amount was recorded as "Contributions to HKEx Employee Share Trust" in HKEx's statement of financial position.

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

	HKEx	
	2008 $'000	2007 $'000
Authorised:		
2,000,000,000 shares of $1 each	**2,000,000**	2,000,000

Issued and fully paid:

	Group				
	Number of shares of $1 each	Share capital $'000	Share premium $'000	Shares held for Share Award Scheme $'000	Total $'000
At 1 Jan 2007	1,064,190,346	1,065,448	185,942	(51,297)	1,200,093
Shares issued under employee share option schemes (note a)	4,837,000	4,837	61,215	–	66,052
Transfer from employee share-based compensation reserve (note 35)	–	–	19,013	–	19,013
Shares purchased for Share Award Scheme (note b)	(42,500)	–	–	(4,879)	(4,879)
Vesting of shares of Share Award Scheme (note c)	243,868	–	–	8,373	8,373
At 31 Dec 2007	1,069,228,714	1,070,285	266,170	(47,803)	1,288,652
At 1 Jan 2008	**1,069,228,714**	**1,070,285**	**266,170**	**(47,803)**	**1,288,652**
Shares issued under employee share option schemes (note a)	**4,601,000**	**4,601**	**61,932**	–	**66,533**
Transfer from employee share-based compensation reserve (note 35)	–	–	**18,800**	–	**18,800**
Shares purchased for Share Award Scheme (note b)	**(214,600)**	–	–	**(32,494)**	**(32,494)**
Vesting of shares of Share Award Scheme (note c)	**324,418**	–	–	**15,043**	**15,043**
At 31 Dec 2008	**1,073,939,532**	**1,074,886**	**346,902**	**(65,254)**	**1,356,534**

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

	HKEx			
	Number of shares of $1 each	Share capital $'000	Share premium $'000	Total $'000
At 1 Jan 2007	1,065,448,346	1,065,448	185,942	1,251,390
Shares issued under employee share option schemes (note a)	4,837,000	4,837	61,215	66,052
Transfer from employee share-based compensation reserve (note 35)	–	–	19,013	19,013
At 31 Dec 2007	1,070,285,346	1,070,285	266,170	1,336,455
At 1 Jan 2008	**1,070,285,346**	**1,070,285**	**266,170**	**1,336,455**
Shares issued under employee share option schemes (note a)	**4,601,000**	**4,601**	**61,932**	**66,533**
Transfer from employee share-based compensation reserve (note 35)	**–**	**–**	**18,800**	**18,800**
At 31 Dec 2008	**1,074,886,346**	**1,074,886**	**346,902**	**1,421,788**

(a) During the year, employee share options granted under the Pre-Listing Scheme and the Post-Listing Scheme were exercised to subscribe for 4,601,000 shares (2007: 4,837,000 shares) in HKEx at an average consideration of $14.46 per share (2007: $13.66 per share), of which $1.00 per share was credited to share capital and the balance was credited to the share premium account.

(b) During the year, the HKEx Employee Share Trust acquired 214,600 HKEx shares (2007: 42,500 shares) through purchases on the open market for the Share Award Scheme (note 35(c)). The total amount paid to acquire the shares during the year was $32,494,000 (2007: $4,879,000) and had been deducted from shareholders' equity.

(c) During the year, the HKEx Employee Share Trust transferred 324,418 HKEx shares (2007: 243,868 shares) to the awardees upon vesting of certain Awarded Shares and the related shares arising from dividends reinvested. The total cost of the related vested shares was $15,043,000 (2007: $8,373,000).

35. Employee Share–based Compensation Reserve

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
At 1 Jan	**49,669**	52,119	**49,669**	51,606
Employee share-based compensation benefits (note a and note 9)	**28,179**	24,362	**28,179**	24,362
Transfer to share premium upon exercise of employee share options (note 34)	**(18,800)**	(19,013)	**(18,800)**	(19,013)
Vesting of shares of Share Award Scheme	**(12,016)**	(7,286)	**(12,016)**	(7,286)
Share of reserve of an associate				
– during the year	**–**	47	**–**	–
– eliminated through disposal of associate	**–**	(560)	**–**	–
At 31 Dec	**47,032**	49,669	**47,032**	49,669

35. Employee Share–based Compensation Reserve (continued)

(a) The Group operates 2 share option schemes and a share award scheme as part of the benefits to its employees.

(b) Share options

(i) Under the terms of the first Share Option Scheme (the Pre-Listing Scheme) and the second Share Option Scheme (the Post-Listing Scheme), share options were granted to employees in June 2000 and during the period from May 2003 to January 2005 respectively. The share options would vest progressively from the 2nd to the 5th year after the grant provided that the relevant employee remained employed by the Group. Share options of the Pre-Listing Scheme are exercisable up to 30 May 2010 and share options for the Post-Listing Scheme are exercisable up to 10 years after the grant date.

The estimated fair value of share options granted is determined at the date of the grant and is charged as an expense over the projected vesting period being the period for which the services from the employees are rendered with a corresponding credit to Employee Share-based Compensation Reserve.

On exercising the share options, the consideration received is credited to Share Capital account in respect of the nominal value of the shares issued with the balance credited to Share Premium account. The original estimated fair value of the relevant share options is then transferred from Employee Share-based Compensation Reserve to Share Premium account.

When share options are not exercised on expiry, the original estimated fair value of such share options is transferred from Employee Share-based Compensation Reserve to retained earnings.

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

	2008		2007	
	Average exercise price per share $	**Number of shares issuable under options granted**	Average exercise price per share $	Number of shares issuable under options granted
Pre-Listing Scheme				
Outstanding at 1 Jan	**6.88**	**379,000**	6.88	788,000
Exercised	**6.88**	**(249,000)**	6.88	(409,000)
Outstanding at 31 Dec	**6.88**	**130,000**	6.88	379,000
Post-Listing Scheme				
Outstanding at 1 Jan	**16.67**	**9,089,500**	15.68	14,593,500
Exercised	**14.89**	**(4,352,000)**	14.28	(4,428,000)
Forfeited	**18.53**	**(182,000)**	13.01	(1,076,000)
Outstanding at 31 Dec	**18.30**	**4,555,500**	16.67	9,089,500
Total	**17.98**	**4,685,500**	16.28	9,468,500

35. Employee Share–based Compensation Reserve (continued)

(b) Share options (continued)

(ii) (continued)

At 31 December 2008, out of the 4,685,500 outstanding options (2007: 9,468,500), 887,000 options (2007: 1,656,500) were vested and exercisable at a weighted average exercise price of $16.22 (2007: $12.92) per share.

During the year, employee share options granted under the Pre-Listing Scheme and the Post-Listing Scheme were exercised to subscribe for 4,601,000 shares (2007: 4,837,000 shares) in HKEx at a weighted average exercise price of $14.46 per share (2007: $13.66 per share). The weighted average closing share price on the dates on which the options were exercised was $139.06 (2007: $110.02) per share.

(iii) Share options outstanding as at 31 December had the following remaining contractual lives and exercise prices:

	2008		2007	
	Remaining contractual life	**Number of shares issuable under options granted**	Remaining contractual life	Number of shares issuable under options granted
Exercise price				
$6.88	**1.41 years**	**130,000**	2.41 years	379,000
$8.28	**N/A**	**–**	5.33 years	1,240,000
$12.45	**N/A**	**–**	5.62 years	273,500
$17.30	**5.04 years**	**273,500**	6.04 years	547,000
$16.96	**5.24 years**	**1,514,500**	6.24 years	2,827,500
$15.91	**5.37 years**	**100,000**	6.37 years	125,000
$19.25	**6.07 years**	**2,667,500**	7.07 years	4,076,500
	5.60 years	**4,685,500**	6.30 years	9,468,500

(c) Awarded Shares

(i) From September 2005, a Share Award Scheme ("the Scheme") has been in effect. The terms of the Scheme provide for shares in the Company to be awarded to employees of the Group (including the Executive Director) as part of their compensation package. Such shares would be vested progressively from the 2nd to the 5th year after the awards are granted, provided that the relevant awardee remained employed by the Group or retired on reaching normal retirement age. In the meantime, the Awarded Shares are held in a trust, HKEx Employee Share Trust.

Following the Board's decision to award shares to eligible employees, the Awarded Shares are purchased from the market and the cost debited to Shares held for Share Award Scheme.

The cost of the Awarded Shares is charged to staff costs and related expenses over the projected vesting period being the period for which the services from the employees are rendered with a corresponding credit to Employee Share-based Compensation Reserve.

Dividends payable on the Awarded Shares held in the Trust are applied to acquire further shares ("dividend shares") from the market and the payment is debited to Shares held for Share Award Scheme. The dividend shares are allocated to the awardees on a pro rata basis and have the same vesting periods as the related Awarded Shares.

35. Employee Share–based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

Upon vesting and transfer to the awardees, an amount equivalent to the cost of the Awarded Shares and the dividend applied towards acquisition of any dividend shares is credited to Shares held for Share Award Scheme, with a corresponding debit to Employee Share-based Compensation Reserve and to retained earnings respectively.

For awardees who cease employment with the Group before vesting, the unvested shares are forfeited. The forfeited shares are held by the Trustee who may award such shares to the remaining awardees taking into consideration recommendations of the Board.

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

Date of approval by Board	Date of award	Awarded Sum $'000	Number of shares purchased	Number of Awarded Shares awarded	Average fair value per share $	Vesting period
19 Dec 2005	19 Dec 2005	N/A	960,000	960,000	31.20	19 Dec 2007 – 19 Dec 2010
13 Dec 2006	15 Jan 2007	19,673	272,500	272,465*	72.28	13 Dec 2008 – 13 Dec 2011
14 Feb 2007	7 Jun 2007	600	7,000	7,000	81.33	16 Apr 2009 – 16 Apr 2012
15 May 2007	17 Jul 2007	600	5,500	5,500	102.29	18 Jun 2009 – 18 Jun 2012
12 Dec 2007	4 Feb 2008	26,300	151,000	150,965	163.72	12 Dec 2009 – 12 Dec 2012
18 Feb 2008	7 Apr 2008	612	4,200	4,200Ω	144.18	18 Feb 2010 – 18 Feb 2013
10 Dec 2008	3 Feb 2009	4,900	59,900	59,900	81.96	1 Jan 2011 – 1 Jan 2014

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

Ω Awarded to the Chief Executive of HKEx

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

Date of award	Vesting date	Number of Awarded Shares vested	Average fair value per share $	Cost of related Awarded Shares (including acquisition transaction costs) $'000
19 Dec 2005	19 Dec 2007	232,375	31.20	7,286
19 Dec 2005	30 Apr 2008	8,925	31.20	280
19 Dec 2005	19 Dec 2008	221,550	31.20	6,946
13 Dec 2006	15 Dec 2008	66,281*	72.28	4,790

* 2,882 shares vested were for the Chief Executive of HKEx

During the year ended 31 December 2008, 59,400 HKEx shares (2007: 30,000 shares) were acquired by the Trustee through reinvesting dividends received at a total cost (including related transaction costs) of $7,167,000 (2007: $3,747,000), of which 56,377 shares (2007: 29,132 shares) were subsequently allocated to awardees.

During the year ended 31 December 2008, 27,662 HKEx shares (2007: 11,493 shares) at a cost of $3,027,000 (2007: $1,087,000) acquired from reinvesting dividends received were vested and transferred to the employees (including 212 shares (2007: Nil) for the Chief Executive of HKEx) at nil consideration.

35. Employee Share–based Compensation Reserve (continued)

(c) Awarded Shares (continued)

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

	2008 Number of shares awarded/ allocated	2007 Number of shares awarded/ allocated
Outstanding at 1 Jan	**1,024,262**	955,906
Awarded*	**155,165#**	284,965
Forfeited	**(32,798)**	(1,800)
Vested	**(296,756)**	(232,375)
Dividends reinvested:		
– allocated to awardees	**56,377**	29,132
– allocated to awardees but subsequently forfeited	**(1,775)**	(73)
– vested	**(27,662)**	(11,493)
Outstanding at 31 Dec	**876,813**	1,024,262

* average fair value per share of $163.19 (2007: $73.08)

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

(iii) The remaining vesting periods of the Awarded Shares awarded and shares acquired through reinvesting dividends received outstanding as at 31 December were as follows:

	2008 Remaining vesting period	2008 Number of shares awarded/ allocated outstanding	2007 Remaining vesting period	2007 Number of shares awarded/ allocated outstanding
Fair value				
$31.20	**0.97 year to 1.97 years**	**443,100**	0.97 year to 2.97 years	697,125
$72.28	**0.95 year to 2.95 years**	**198,943**	0.95 year to 3.95 years	272,465
$81.33	**0.29 year to 3.29 years**	**7,000**	1.29 year to 4.29 years	7,000
$102.29	**0.47 year to 3.47 years**	**5,500**	1.47 year to 4.47 years	5,500
$163.72	**0.95 year to 3.95 years**	**148,958**	N/A	–
$144.18	**1.13 year to 4.13 years**	**4,200**	N/A	–
Dividends reinvested	**0.29 year to 4.13 years**	**69,112**	0.95 year to 4.47 years	42,172
		876,813		1,024,262

(iv) As at 31 December 2008, 70,001 forfeited or unallocated shares (2007: 32,370 shares) were held by the HKEx Employee Share Trust and would be allocated to awardees in future.

36. Revaluation Reserves

	Group		
	Leasehold buildings revaluation reserve $'000	Investment revaluation reserve (note b) $'000	Total $'000
At 1 Jan 2007	2,640	7,929	10,569
Change in valuation of leasehold buildings (note 19(a)(iv))	(44)	–	(44)
Change in fair value of available-for-sale financial assets during the year	–	63,421	63,421
Change in fair value of available-for-sale financial assets on maturity	–	(9,951)	(9,951)
Deferred tax arising from change in valuation of leasehold buildings (note 31(b))	7	–	7
Deferred tax arising from reclassification of a leasehold building to "Non-current assets held for sale" (note 31(b))	552	–	552
Deferred tax for available-for-sale financial assets (note 31(b))	–	(8,460)	(8,460)
Elimination of share of reserve of an associate through disposal	–	(58)	(58)
At 31 Dec 2007	3,155	52,881	56,036
At 1 Jan 2008	**3,155**	**52,881**	**56,036**
Change in fair value of available-for-sale financial assets during the year	**–**	**111,494**	**111,494**
Change in fair value of available-for-sale financial assets on maturity	**–**	**(54,451)**	**(54,451)**
Realised gains of available-for-sale financial assets reclassified to profit or loss on disposal	**–**	**(4,678)**	**(4,678)**
Deferred tax for available-for-sale financial assets (note 31(b))	**–**	**(8,565)**	**(8,565)**
Transfer to retained earnings on disposal of a leasehold property (note 40)	**(3,155)**	**–**	**(3,155)**
At 31 Dec 2008	**–**	**96,681**	**96,681**

	HKEx
	Investment revaluation reserve $'000
At 1 Jan 2007 and 1 Jan 2008	**–**
Change in fair value of available-for-sale financial assets during the year	**133**
Deferred tax for available-for-sale financial assets (note 31(b))	**(22)**
At 31 Dec 2008	**111**

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

(b) The Group's investment revaluation reserve included gross investment revaluation surplus of $814,000 (2007: $496,000) which was attributable to investments of the Clearing House Funds.

37. Hedging Reserve

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
At 1 Jan	–	–	–	–
Cash flow hedges:				
– fair value gains of hedging instruments	–	132	–	132
– Gains reclassified to profit or loss as information technology and computer maintenance expenses	–	(70)	–	(70)
– Gains reclassified to profit or loss as net investment income	–	(62)	–	(62)
At 31 Dec	–	–	–	–
Fair value of hedging instruments at 31 Dec	–	–	–	–

In 2007, HKEx designated a bank deposit of SEK10,587,000 as cash flow hedges for hedging the foreign exchange risk of its forecast information technology and computer maintenance expenses of SEK10,587,000 from January to May 2007. As at 31 December 2007, the bank deposit had matured.

In addition to the above, a bank deposit of SEK1,413,000 was designated in January 2007 as a hedging instrument for hedging forecast information technology and computer maintenance expenses of SEK1,413,000 from 30 May 2007 to 31 December 2007. In May 2007, the cash flow hedge was terminated as the forecast transactions for 30 May 2007 to 31 December 2007 were no longer expected to materialise. As a result, the exchange gain of the hedging instrument deferred in the hedging reserve of $62,000 was reclassified from hedging reserve to profit or loss as net investment income during the year ended 31 December 2007. The ineffectiveness of cash flow hedges credited to profit or loss for the Group and HKEx during 2007 amounted to $Nil.

38. Designated Reserves

Clearing House Funds reserves

	Group			
	HKSCC Guarantee Fund reserve $'000	**SEOCH Reserve Fund reserve** $'000	**HKCC Reserve Fund reserve** $'000	**Total** $'000
At 1 Jan 2007	256,514	71,193	300,109	627,816
Surplus of net investment income net of expenses of Clearing House Funds transferred from retained earnings	13,121	31,635	22,281	67,037
At 31 Dec 2007	269,635	102,828	322,390	694,853
At 1 Jan 2008	**269,635**	**102,828**	**322,390**	**694,853**
Surplus of net investment income net of expenses of Clearing House Funds transferred from retained earnings	**6,314**	**3,818**	**10,601**	**20,733**
Deficit of closing-out losses caused by defaulting Clearing Participants transferred to retained earnings	**(156,640)**	**–**	**(6,563)**	**(163,203)**
Transfer (to)/from retained earnings	**(150,326)**	**3,818**	**4,038**	**(142,470)**
At 31 Dec 2008	**119,309**	**106,646**	**326,428**	**552,383**

39. Merger Reserve

The Group has taken advantage of the merger relief available under section 48C of the Hong Kong Companies Ordinance and treated the premium created by the issuance of shares on 6 March 2000, the date HKEx became the holding company of the Stock Exchange and the Futures Exchange and their subsidiaries, as a merger reserve. In the consolidated statement of financial position, the full amount of the merger reserve has been used to offset against the reserve arising on consolidation as explained in note 40(c).

40. Retained Earnings (Including Proposed Dividend)

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
At 1 Jan	**6,288,138**	3,366,989	**355,652**	377,601
Profit attributable to shareholders (notes a and b)	**5,128,924**	6,169,278	**7,507,331**	3,161,859
Deficit/(surplus) of net investment income net of expenses less closing-out losses of Clearing House Funds transferred from/(to) Clearing House Funds reserves (note 38)	**142,470**	(67,037)	**–**	–
Transfer from leasehold buildings revaluation reserve on disposal of a leasehold property (note 36)	**3,155**	–	**–**	–
	145,625	(67,037)	**–**	–
Dividends:				
2007/2006 final dividend	**(3,634,850)**	(1,266,387)	**(3,638,970)**	(1,267,884)
Dividend on shares issued for employee share options exercised after 31 Dec 2007/31 Dec 2006	**(11,309)**	(3,879)	**(11,309)**	(3,879)
	(3,646,159)	(1,270,266)	**(3,650,279)**	(1,271,763)
2008/2007 interim dividend	**(2,670,320)**	(1,911,131)	**(2,673,381)**	(1,913,437)
Dividend on shares issued for employee share options exercised after 30 Jun 2008/30 Jun 2007	**(3,055)**	(1,062)	**(3,055)**	(1,062)
	(2,673,375)	(1,912,193)	**(2,676,436)**	(1,914,499)
Unclaimed dividend forfeited	**2,566**	2,454	**2,566**	2,454
Vesting of shares of Share Award Scheme	**(3,027)**	(1,087)	**–**	–
At 31 Dec	**5,242,692**	6,288,138	**1,538,834**	355,652
Representing:				
Retained earnings	**3,309,601**	2,652,760	**(395,961)**	(3,283,318)
Proposed dividend	**1,933,091**	3,635,378	**1,934,795**	3,638,970
At 31 Dec	**5,242,692**	6,288,138	**1,538,834**	355,652

(a) Profit attributable to shareholders included a profit of $7,507,331,000, of which $7,481,800,000 was dividends from subsidiaries (2007: $3,161,859,000, of which $3,156,100,000 was dividends from subsidiaries), which has been dealt with in the accounts of HKEx, the holding company of the Group.

(b) The Group's profit attributable to shareholders included a net deficit attributable to the net investment income net of expenses less closing-out losses of the Clearing House Funds of $142,470,000 (2007: surplus of $67,037,000).

(c) The negative reserve arising on consolidation of $4,116,436,000, representing the difference between the cost of acquiring the subsidiaries at the time of the merger and their respective issued share capital, was offset against merger reserve of $2,997,115,000 (note 39) and retained earnings of $1,119,321,000.

41. Notes to the Consolidated Statement of Cash Flows

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

	2008 $'000	2007 $'000
Profit before taxation	**5,928,473**	7,190,809
Adjustments for:		
Net interest income	**(1,051,451)**	(1,012,988)
Net realised and unrealised losses/(gains) and interest income on financial assets and financial liabilities at fair value through profit or loss	**57,892**	(208,728)
Realised gains on available-for-sale financial assets of Corporate Funds	**(23)**	–
Dividend income from financial assets at fair value through profit or loss	**(3,769)**	(6,091)
Interest expenses on bank overdrafts	**268**	491
Amortisation of lease premiums for land	**509**	538
Fair value gain of an investment property	**–**	(4,900)
Depreciation	**108,813**	79,144
Employee share-based compensation benefits	**28,179**	24,362
(Reversal of provision for)/provision for impairment losses of leasehold buildings	**(12)**	74
Provision for/(reversal of provision for) impairment losses of trade receivables	**164,960**	(71)
Provision for impairment losses of club debenture	**5**	–
Changes in provisions	**5,474**	2,918
Share of profit of an associate	**–**	(5,587)
Gain on disposal of an associate	**–**	(206,317)
Gain on disposal of properties	**(68,641)**	–
Gain on disposal of fixed assets	**(2,367)**	(262)
Net decrease/(increase) in Margin Fund financial assets	**13,639,237**	(33,527,321)
Net (decrease)/increase in Margin Fund financial liabilities	**(13,589,165)**	33,568,438
Net decrease in Clearing House Fund financial assets	**967,021**	71,703
Net decrease in Clearing House Fund financial liabilities	**(985,826)**	(138,740)
Net increase in financial assets and financial liabilities at fair value through profit or loss	**(201,428)**	(47,084)
Decrease/(increase) in accounts receivable, prepayments and deposits	**9,655,462**	(8,161,024)
(Decrease)/increase in other current liabilities	**(8,856,136)**	10,162,429
Net admission fees (refunded to)/received from Participants	**(2,450)**	4,150
Net cash inflow from operations	**5,795,025**	7,785,943
Interest received from bank deposits	**561,809**	1,030,736
Dividends received from financial assets at fair value through profit or loss	**3,833**	6,276
Interest received from financial assets at fair value through profit or loss	**127,021**	147,772
Interest paid	**(77,127)**	(715,761)
Hong Kong Profits Tax paid	**(1,361,246)**	(606,632)
Net cash inflow from operating activities	**5,049,315**	7,648,334

42. Commitments

(a) Commitments in respect of capital expenditures:

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Contracted but not provided for	**16,908**	33,555	**2,390**	105
Authorised but not contracted for	**66,982**	131,349	**18,935**	29,361
	83,890	164,904	**21,325**	29,466

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

(b) Commitments for total future minimum lease payments under non-cancellable operating leases

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Land and buildings				
– within one year	**73,302**	88,736	**2,738**	1,403
– in the second to fifth years	**98,967**	8,151	**1,447**	1,391
	172,269	96,887	**4,185**	2,794
Computer systems, software and equipment				
– within one year	**9,362**	17,097	**7,057**	14,664
– in the second to fifth years	**369**	1,786	**369**	1,786
	9,731	18,883	**7,426**	16,450
	182,000	115,770	**11,611**	19,244

As at 31 December 2008, in respect of computer systems, software and equipment, the majority of the leases would mature within one year (2007: one year) and the Group did not have any purchase options.

(c) Commitments for computer maintenance contracts

The Group is heavily reliant on the capability and reliability of its computer systems for its business operations, including those required for its electronic trading platforms and post-trading clearing and settlement services. In order to maintain the high standard of performance of the systems, the Group has entered into various maintenance contracts with its vendors. The total commitments under maintenance contracts in respect of computer systems and equipment were as follows:

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Computer systems and equipment				
– within one year	**56,427**	47,839	**53,740**	47,013
– in the second to fifth years	**77,742**	107,611	**77,742**	107,611
	134,169	155,450	**131,482**	154,624

42. Commitments (continued)

(d) Commitment in respect of financial contributions to Financial Reporting Council

In 2006, the Board approved the funding arrangements for the Financial Reporting Council ("FRC"), an independent statutory body established on 1 December 2006 under the Financial Reporting Council Ordinance to receive and investigate complaints concerning irregularities of auditors and reporting accountants of listed companies and non-compliances in the financial reports of listed companies.

Under the arrangement, HKEx has agreed to make an initial contribution of $5 million to a reserve fund in 2007 and recurrent contributions of $2.5 million per annum in the first three financial years to provide funding for the FRC's operations. The final recurrent contribution was paid in January 2009. After the first three financial years, the contributions to the FRC will be subject to a review of its operating experience and other factors.

43. Contingent Liabilities

As at 31 December 2008, the Group and HKEx's material contingent liabilities were as follows:

(a) Group

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

(ii) The Stock Exchange has undertaken to indemnify the Collector of Stamp Revenue against any loss of revenue resulting from any underpayment or default or delay in payment of stamp duty by its Participants, up to $200,000 in respect of the default of any one Participant (note 32(a)).

During the year ended 31 December 2008, LBSA defaulted on its stamp duty payments. The Stock Exchange has accordingly paid $200,000 to the Collector of Stamp Revenue in respect of the guarantee.

In the unlikely event that all of its remaining 448 trading Participants as at 31 December 2008 (2007: 439) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to $89,600,000 (2007: $87,800,000).

(b) HKEx

(i) HKEx gave an undertaking on 6 March 2000 in favour of HKSCC to contribute an amount not exceeding $50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the debts and liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs, charges and expenses of winding up (note 32(b)).

44. Future Operating Lease Arrangements

As at 31 December, the future aggregate minimum lease receipts under non-cancellable operating leases of the Group were as follows:

	Group	
	2008 $'000	2007 $'000
Land and buildings		
– within one year	**1,086**	354
– in the second to fifth years	**1,980**	6
	3,066	360
Trading booths and related facilities		
– within one year	**15,088**	9,610
– in the second to fifth years	**28,171**	387
	43,259	9,997
Total	**46,325**	10,357

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

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

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

	Group			
	2008		2007	
	Amount received $'000	**Amount utilised $'000**	Amount received $'000	Amount utilised $'000
Clearing House Funds				
Bank guarantees	**1,226,940**	**26,940**	1,759,650	519,137
Margin Funds				
Equity securities, listed in Hong Kong, at market value	**2,865,194**	**864,830***	1,847,054	–*
US Treasury Bills, at market value	**3,560,442**	**2,161,732**	8,672,944	5,935,238
Bank guarantees	**770,000**	**179,739**	854,000	607,930
	7,195,636	**3,206,301**	11,373,998	6,543,168
	8,422,576	**3,233,241**	13,133,648	7,062,305

* Certain equity securities received were used to cover call options issued by SEOCH Participants whose underlying stocks were the same as the collateral received. Under the Operational Clearing Procedures for Options Trading Exchange Participants of SEOCH, such call options issued are not marginable positions (ie, no margin requirements). Hence, the amount is not treated as having been utilised for covering Margin Fund obligations. As at 31 December 2008, $512,584,000 (2007: $1,307,776,000) of equity securities received were used for such purpose (including those amounts decovered but not yet released of $588,000 (2007: $23,066,000)).

45. Non-cash Collateral for Clearing House Fund Contributions and Margin Fund Obligations for Derivatives Contracts (continued)

In September 2008, the Group took possession of certain US Treasury Bills of Lehman Brothers Futures Asia Limited ("LBFA") following its default. In accordance with HKEx's default handling procedures and applicable rules, the Treasury Bills were sold for US$119,842,000. Approximately HK$60,700,000 of the proceeds was used to settle the amount due from LBFA and the remaining balance was refunded to the provisional liquidator of LBFA.

In September 2008, the Group also called on the bank guarantee provided by LBSA of $5,000,000. $2,900,000 of the cash received was used to settle LBSA's contribution due to the HKSCC Guarantee Fund and the remaining $2,100,000 was used to settle part of the closing-out losses due from LBSA.

46. Connected Transactions and Material Related Party Transactions

(a) Connected transactions and material related party transactions

Certain Directors of HKEx may be investor participants of HKSCC ("Investor Participants") or directors and/or shareholders of (i) Stock Exchange Participants and Futures Exchange Participants ("Exchange Participants"), Clearing Participants and Investor Participants; (ii) companies listed on the Stock Exchange; and (iii) Exchange Participants for buying shares on behalf of HKSCC. Securities and derivatives contracts traded by, and fees levied on, these Exchange Participants, Clearing Participants and Investor Participants, fees levied on these listed companies and fees paid to these Exchange Participants for buying shares on behalf of HKSCC are all undertaken in the ordinary course of business of the Group on the standard terms and conditions applicable to all other Exchange Participants, Clearing Participants, Investor Participants, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

Certain transactions undertaken during the year were regarded as related party transactions in accordance with HKAS 24 but the amounts were immaterial. Certain transactions fell under the definition of continuing connected transactions under the Main Board Listing Rules are disclosed in the Corporate Governance Report.

(b) Material related party transactions

In addition to the above, the Group or HKEx entered into certain material related party transactions which were not regarded as connected transactions as defined under the Main Board Listing Rules. Details of such transactions are set out below.

46. Connected Transactions and Material Related Party Transactions (continued)

(b) Material related party transactions (continued)

(i) Transactions with an associate, subsidiaries and a controlled special purpose entity

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Income received and receivable from/ (expenses paid and payable to) an associate, CHIS				
– Dividend income	**–**	9,660	**–**	–
– Share registration service fees	**–**	(396)	**–**	(396)
Transactions with subsidiaries and a controlled special purpose entity:				
– Dividend income	**–**	–	**7,481,800**	3,156,100
– Interest income	**–**	–	**578**	–
– Management fee and equipment rental fee charged	**–**	–	**369,236**	333,592
– Expenses recharged	**–**	–	**885,225**	876,137
– Dividend paid	**–**	–	**(7,181)**	(3,803)

On 3 April 2007, the Group disposed of all of its interest in CHIS. The dividend income and share registration service fees for the year ended 31 December 2007 disclosed above represented transactions up to that date.

(ii) Key management personnel compensation

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Salaries and other short-term employee benefits	**79,270**	80,467	**63,005**	65,045
Employee share-based compensation benefits	**10,277**	8,001	**8,018**	6,599
Retirement benefit costs	**6,573**	5,687	**5,214**	4,598
	96,120	94,155	**76,237**	76,242

(iii) Amounts due from/(to) related parties

	HKEx	
	2008 $'000	2007 $'000
Amounts due from subsidiaries	**1,839,066**	1,171,921
Amounts due to subsidiaries	**(32,269)**	(522,218)

(iv) Post-retirement benefit plans

Details of transactions with the Group's post-retirement benefit plans are included in note 9(a).

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

47. Banking Facilities with Assets Pledged

The Group did not have any assets pledged as at 31 December 2008 and 31 December 2007.

48. Capital Management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth; and
- To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group adopts a dividend policy of providing shareholders with regular dividends with a normal target payout ratio of 90 per cent of the profit of the year, while retaining 10 per cent of the profit as capital of the Group for future use. As at 31 December 2008, the Group had set aside $3,100 million of shareholders' funds (2007: $3,100 million) for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

As in prior years, the Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("adjusted capital"). Adjusted capital comprises all components of shareholders' equity other than designated reserves and investment revaluation reserve of the Clearing House Funds net of applicable deferred taxes. The adjusted capital of the Group at 31 December 2008 was $6,742,259,000 (2007: $7,682,086,000). The decrease in adjusted capital during the year was mainly attributable to the decrease in retained earnings as dividends paid during the year (based on the higher profit in the second half of 2007 and first half of 2008) were higher than the 2008 profit attributable to shareholders.

49. Financial Risk Management

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

(a) Market risk management

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

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

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

49. Financial Risk Management (continued)

(a) Market risk management (continued)

Investment and fund management is governed by investment policy and risk management guidelines approved by the Board. Investment restrictions and guidelines form an integral part of risk control. Fund-specific restrictions and guidelines are set according to the investment objectives of each fund. Investments are diversified to minimise risks and no investments are made for speculative purposes. In addition, specific limits are set for each fund to control risks (eg, permissible asset type, asset allocation, liquidity, credit, counterparty concentration, maturity, foreign exchange and interest rate risks) of the investments.

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

(i) Foreign exchange risk management

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

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

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

Hedges undertaken by the Group and HKEx were as follows:

Cash flow hedges

Details of the cash flow hedges of the HKEx and the Group are set out in note 37.

Fair value hedges

In 2005, HKEx designated a bank deposit of SEK11,000,000 as a fair value hedge to hedge against the foreign exchange risk of financial liabilities of the Group of SEK11,000,000 of which SEK1,800,000 related to financial liabilities of one of the subsidiaries. As at 31 December 2007, the amount of the deposits remained unpaid was SEK195,000, and it had been used to settle HKEx's liabilities in 2008.

49. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

In 2006, one of the subsidiaries designated SEK6,690,000 as a fair value hedge to hedge against the foreign exchange risk of HKEx's financial liabilities of SEK6,690,000. On 3 May 2006, the amount was transferred to HKEx and placed as a bank deposit without changing the terms of the fair value hedge. As at 31 December 2007, the amount of the deposits remained unpaid was SEK15,000, and it had been used to settle HKEx's liabilities in 2008.

In 2007, HKEx designated bank deposits of SEK1,340,000 as fair value hedges to hedge against the foreign exchange risk of its financial liabilities of SEK1,340,000. As at 31 December 2007, the deposit had matured.

As at 31 December 2008, the fair value of the bank deposits designated as fair value hedges held by the Group and HKEx was $Nil (2007: $253,000) and $Nil (2007: $253,000) respectively.

The fair value gains on the bank deposits designated as hedging instruments for the Group during 2008 were $18,000 (2007: losses of $12,000) whereas the fair value losses on the financial liabilities being hedged for the Group were $18,000 (2007: gains of $12,000).

The fair value gains on the bank deposits designated as hedging instruments for HKEx during 2008 were $18,000 (2007: $11,000) whereas the fair value losses on the financial liabilities being hedged for HKEx were $18,000 (2007: $11,000).

Details of the Group's and HKEx's financial assets and financial liabilities denominated in foreign currencies and the net open position of the foreign currency risks (ie, gross position less forward foreign exchange contracts and related hedges) as at 31 December in HKD equivalents are set out in the tables below.

49. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

		Group					
		2008			2007		
	Foreign currency	Gross open position $'000	Forward foreign exchange contracts and hedges $'000	Net open position $'000	Gross open position $'000	Forward foreign exchange contracts and hedges $'000	Net open position $'000
Financial assets/(financial liabilities)							
Other financial assets	RMB	609	-	609	342	-	342
	USD	-	-	-	44	-	44
Accounts receivable and deposits	EUR	162	-	162	-	-	-
	GBP	(76)	-	(76)	-	-	-
	SGD	72	-	72	-	-	-
	USD	8,232	-	8,232	1,687	-	1,687
Cash and cash equivalents of Margin Funds	JPY	4,959,317	(4,959,317)	-	7,863,052	(7,863,052)	-
on derivatives contracts*	USD	4,483,600	(23,223)	4,460,377	2,526,813	(39)	2,526,774
Financial assets at fair value through	AUD	101,788	(27,475)	74,313	52,075	(3,413)	48,662
profit or loss @	CAD	-	-	-	6,003	-	6,003
	CHF	5,119	-	5,119	-	-	-
	EUR	353,091	(301,292)	51,799	263,173	(194,821)	68,352
	GBP	143,063	(140,276)	2,787	109,795	(91,384)	18,411
	JPY	25,315	-	25,315	46,418	(23,170)	23,248
	NZD	11,963	-	11,963	-	-	-
	SGD	6,988	-	6,988	11,362	-	11,362
	USD	2,304,350	(413,555)	1,890,795	2,424,810	(537,532)	1,887,278
Time deposits with original maturities over three months	USD	-	-	-	39,070	-	39,070
Cash and cash equivalents	AUD	5,538	-	5,538	240	-	240
	CAD	3	-	3	3	-	3
	CHF	136	-	136	8,932	-	8,932
	EUR	688	-	688	5,825	-	5,825
	GBP	1,081	-	1,081	1,366	-	1,366
	JPY	17,810	-	17,810	8,921	-	8,921
	NZD	1	-	1	1	-	1
	RMB	976	-	976	526	-	526
	SEK#	-	-	-	623	(253)	370
	SGD	7,411	-	7,411	7,458	-	7,458
	USD	51,451	-	51,451	102,643	-	102,643
Margin deposits from Clearing Participants	JPY	(4,959,317)	4,959,317	-	(7,863,052)	7,863,052	-
on derivatives contracts*	USD	(23,223)	23,223	-	(39)	39	-
Accounts payable, accruals and other liabilities	GBP	(49)	-	(49)	(8)	-	(8)
	MYR	(2)	-	(2)	(2)	-	(2)
	RMB	(1,211)	-	(1,211)	(1,602)	-	(1,602)
	SEK#	-	-	-	(257)	253	(4)
	USD	(29,718)	-	(29,718)	(32,294)	-	(32,294)
Financial liabilities at fair value through	EUR	(106)	-	(106)	-	-	-
profit or loss	JPY	(222)	-	(222)	-	-	-
	USD	(299)	-	(299)	-	-	-
Non-financial assets/(non-financial liabilities)							
Net non-financial liabilities	USD	(8,147)	-	(8,147)	(8,138)	-	(8,138)
Total net open position for the Group	AUD			79,851			48,902
	CAD			3			6,006
	CHF			5,255			8,932
	EUR			52,543			74,177
	GBP			3,743			19,769
	JPY			42,903			32,169
	MYR			2			2
	NZD			11,964			1
	RMB			374			734
	SEK			-			366
	SGD			14,471			18,820
	USD			6,372,691			4,517,064
				6,583,800			4,726,942

49. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

HKEx

	Foreign currency	2008 Gross open position $'000	2008 Forward foreign exchange contracts and hedges $'000	2008 Net open position $'000	2007 Gross open position $'000	2007 Forward foreign exchange contracts and hedges $'000	2007 Net open position $'000
Financial assets/(financial liabilities)							
Other financial assets	RMB	609	-	609	342	-	342
	USD	-	-	-	44	-	44
Accounts receivables and deposits	EUR	162	-	162	-	-	-
	USD	44	-	44	-	-	-
Cash and cash equivalents	RMB	969	-	969	520	-	520
	SEK#	-	-	-	623	(253)	370
Accounts payable, accruals and other liabilities	GBP	(1)	-	(1)	-	-	-
	RMB	(1,211)	-	(1,211)	(1,602)	-	(1,602)
	SEK#	-	-	-	(257)	253	(4)
	USD	(16,877)	-	(16,877)	(14,140)	-	(14,140)
Total net open position for HKEx	EUR			162			-
	GBP			1			-
	RMB			367			740
	SEK			-			366
	USD			16,833			14,096
				17,363			15,202

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

@ Forward foreign exchange contracts have been used to hedge the currency exposure of the Group's investments by external fund managers.

\# Foreign currency cash and bank deposits have been used to hedge the currency exposure of the Group's liabilities.

(ii) Equity and commodity price risk management

The Group is exposed to equity price risk as equities and index futures and options contracts may be held as part of the Corporate Fund's investments. Equity price risk is capped by an asset allocation limit. The Group adopts stringent investment strategy to limit investment in equity securities. As a result, equity price risk of the Group is not significant. The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's investment policy.

49. Financial Risk Management (continued)

(a) Market risk management (continued)

(iii) Interest rate risks management

There are two types of interest rate risk:

- Fair value interest rate risk – the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and

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

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

(iv) Risk management techniques

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

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

49. Financial Risk Management (continued)

(a) Market risk management (continued)

(iv) Risk management techniques (continued)

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

	Group					
	2008			2007		
	Average $'000	Highest $'000	Lowest $'000	Average $'000	Highest $'000	Lowest $'000
Foreign exchange risk	7,463	16,487	4,448	5,606	10,944	3,566
Equity price risk	12,972	16,821	9,394	12,665	15,748	7,922
Interest rate risk	35,074	48,699	27,290	19,091	36,958	13,703
Total VaR	33,295	45,653	25,135	23,382	34,797	16,966

	HKEx					
	2008			2007		
	Average $'000	Highest $'000	Lowest $'000	Average $'000	Highest $'000	Lowest $'000
Foreign exchange risk	4	19	–	469	1,032	17
Interest rate risk	114	212	26	32	74	9
Total VaR	114	212	26	471	1,029	63

VaR for each risk factor is the independently derived largest potential loss due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors. Moreover, in respect of the highest and lowest VaRs during the year, the highest and lowest VaRs in each market did not necessarily occur on the same day.

(b) Liquidity risk management

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. Investments of the Group are kept sufficiently liquid to meet the operating needs and possible liquid requirements of the Clearing House Funds and Margin Funds. The Group also sets a limit on the minimum level of cash or bank deposits held for the Corporate Funds, and the minimum level of investments to be held that would mature the same day and the next day for the Clearing House Funds and Margin Funds.

49. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

The non-derivative financial liabilities and net-settled derivative financial liabilities of the Group and HKEx as at 31 December are analysed into relevant maturity buckets based on their contractual maturity dates in the table below:

	Group				
	2008				
	Up to 1 month $'000	>1 month to 3 months $'000	>3 months to 1 year $'000	>1 year to 5 years $'000	Total $'000
Current liabilities					
Participants' contributions to Clearing House Funds	52,570	101,500	43,450	–	197,520
Other financial liabilities of Clearing House Funds	64,778	150	7,391	–	72,319
Margin deposits from Clearing Participants on derivatives contracts	41,839,991	–	–	–	41,839,991
Other financial liabilities of Margin Funds on derivatives contracts	3	–	–	–	3
Accounts payable, accruals and other liabilities	12,379,407	4,299	26,608	540	12,410,854
Financial liabilities at fair value through profit or loss	627	–	–	–	627
Participants' admission fees received	2,050	200	80,900	–	83,150
	54,339,426	106,149	158,349	540	54,604,464
Non-current liabilities					
Participants' contributions to Clearing House Funds	–	–	–	252,000	252,000
Total	54,339,426	106,149	158,349	252,540	54,856,464

	Group			
	2007			
	Up to 1 month $'000	>1 month to 3 months $'000	>3 months to 1 year $'000	Total $'000
Current liabilities				
Participants' contributions to Clearing House Funds	1,116,555	93,500	42,300	1,252,355
Other financial liabilities of Clearing House Funds	9,700	–	1,110	10,810
Margin deposits from Clearing Participants on derivatives contracts	55,428,888	–	–	55,428,888
Other financial liabilities of Margin Funds on derivatives contracts	271	–	–	271
Accounts payable, accruals and other liabilities	21,350,599	3,254	22,056	21,375,909
Participants' admission fees received	2,350	100	83,150	85,600
	77,908,363	96,854	148,616	78,153,833
Non-current liabilities				
Participants' contributions to Clearing House Funds	–	–	244,500	244,500
Total	77,908,363	96,854	393,116	78,398,333

49. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	HKEx 2008			
	Up to 1 month $'000	>1 month to 3 months $'000	>3 months to 1 year $'000	Total $'000
Current liabilities				
Accounts payable, accruals and other liabilities	168,765	2,988	3,458	175,211
Amounts due to subsidiaries	32,269	–	–	32,269
Total	201,034	2,988	3,458	207,480

	HKEx 2007			
	Up to 1 month $'000	>1 month to 3 months $'000	>3 months to 1 year $'000	Total $'000
Current liabilities				
Accounts payable, accruals and other liabilities	165,213	1,813	18	167,044
Amounts due to subsidiaries	522,218	–	–	522,218
Total	687,431	1,813	18	689,262

As at 31 December 2008, the maximum gross nominal value of outstanding forward foreign exchange contracts held by the Group was $3,219,344,000 (2007: $2,926,473,000). The table below analyses the Group's outstanding forward foreign exchange contracts as at 31 December (which include all contracts regardless of whether they had gains or losses at the year end) that would be settled on a gross basis into relevant maturity buckets based on their remaining contractual maturity dates. The amounts disclosed in the table are contractual undiscounted cash flows, which are different from the carrying amount (ie, market value) in the consolidated statement of financial position.

	2008			2007		
	Up to 1 month $'000	>1 month to 3 months $'000	Total $'000	Up to 1 month $'000	>1 month to 3 months $'000	Total $'000
Forward foreign exchange contracts						
– outflows	2,343,600	875,744	3,219,344	2,078,860	847,613	2,926,473
– inflows	2,336,746	875,720	3,212,466	2,076,152	847,685	2,923,837

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. In addition, banking facilities have been put in place for contingency purposes. As at 31 December 2008, the Group's total available banking facilities amounted to $3,850 million (2007: $3,058 million), of which $3,000 million (2007: $3,000 million) were repurchase facilities to augment the liquidity of the Margin Funds and $800 million (2007: $Nil) was a facility to draw down against certain bank deposits.

49. Financial Risk Management (continued)

(c) Credit risk management

(i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's investments and trade receivables. Impairment provisions are made for losses that have been incurred at the end of the reporting period. The Group limits its exposure to credit risk by rigorously selecting the counterparties (ie, deposit-takers, bond issuers and debtors) and by diversification. As at 31 December 2008, the investment in debt securities for Margin Funds, Clearing House Funds and Corporate Funds held were of investment grade and had a weighted average credit rating of Aa2 (2007: Aa1), and there were no financial assets whose terms were renegotiated (2007: $Nil). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time. All investments are subject to a maximum concentration limit approved by the Board and there was no significant concentration risk to a single counterparty. The Group mitigates its exposure to risks relating to accounts receivable from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

(ii) Clearing and settlement-related risk management

In the normal course of business, the clearing houses of the Group, HKSCC, SEOCH and HKCC, act as the counterparties to eligible trades concluded on the Stock Exchange and the Futures Exchange through the novation of the obligations of the buyers and sellers. HKSCC is also responsible for the good title to the securities deposited and accepted in the CCASS depository. As a result, the Group has considerable market risk and credit risk since the Participants' ability to honour their obligations in respect of their trades and securities deposited may be adversely impacted by economic conditions affecting the Cash and Derivatives Markets. If the Participants default on their obligations on settlement or there are defects in the title of securities deposited and accepted in the CCASS depository, the Group could be exposed to potential risks not otherwise accounted for in these accounts.

The Group mitigates its exposure to risks described above by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants, monitoring compliance with risk management measures such as position limits established by the Group and requiring Clearing Participants to deposit margins and cash marks and contribute to the Clearing House Funds set up by HKSCC, SEOCH and HKCC. After the LBSA default, HKSCC has implemented measures permitted under the CCASS Rules to require additional cash collateral from its Clearing Participants to increase the level of protection not just for HKSCC but also for the HKSCC Guarantee Fund from the risk of material loss in the event of another sizeable default. HKSCC also retains recourse against those Participants whose securities are deposited and accepted in the CCASS depository.

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. As of 31 December 2008, bank guarantees of $4,534,000,000 (2007: $5,509,200,000) were accepted for such purpose.

In addition to the above, the Group had set aside $3,100 million of shareholders' funds (2007: $3,100 million) for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

49. Financial Risk Management (continued)

(c) Credit risk management (continued)

(iii) Exposure to credit risk

As at 31 December, the financial assets and financial liabilities of the Group and HKEx that were exposed to credit risk and their maximum exposure were as follows:

	Group			
	2008		2007	
	Carrying amount in statement of financial position $'000	**Maximum exposure to credit risk $'000**	Carrying amount in statement of financial position $'000	Maximum exposure to credit risk $'000
Financial assets				
Financial assets of Margin Funds on derivatives contracts:				
Available-for-sale financial assets	**16,440,918**	**16,440,918**	16,735,006	16,735,006
Time deposits with original maturities over three months	**3,205,408**	**3,205,408**	2,508,559	2,508,559
Margin receivable from Clearing Participants	**8,835**	**8,835**	3,068	3,068
Cash and cash equivalents of Margin Funds on derivatives contracts	**22,184,833**	**22,184,833**	36,182,526	36,182,526
Other financial assets	**47,172**	**47,172**	19,177	19,177
Accounts receivable and deposits #	**8,509,623**	**8,509,623**	18,346,765	18,346,765
Financial assets of Clearing House Funds:				
Available-for-sale financial assets	**371,494**	**371,494**	361,506	361,506
Time deposits with original maturities over three months	**21,708**	**21,708**	–	–
Cash and cash equivalents of Clearing House Funds	**843,109**	**843,109**	1,841,508	1,841,508
Financial assets at fair value through profit or loss (excluding equity securities and mutual funds)	**2,854,947**	**2,854,947**	2,672,627	2,672,627
Available-for-sale financial assets (including non-current and current portions)	**2,581,683**	**2,581,683**	3,067,007	3,067,007
Time deposits with original maturities over three months	**436,896**	**436,896**	682,174	682,174
Cash and cash equivalents	**4,755,750**	**4,755,750**	4,744,711	4,744,711
Financial guarantee contract				
Undertaking to indemnify the Collector of Stamp Revenue (note 32(a))	**(19,909)**	**89,600**	(19,909)	87,800

Certain debtors were required to place cash deposits with the Group to mitigate the maximum exposure to credit risk.

49. Financial Risk Management (continued)

(c) Credit risk management (continued)

(iii) Exposure to credit risk (continued)

	HKEx			
	2008		2007	
	Carrying amount in statement of financial position $'000	**Maximum exposure to credit risk $'000**	Carrying amount in statement of financial position $'000	Maximum exposure to credit risk $'000
Financial assets				
Other financial assets	**720**	**720**	481	481
Accounts receivable and deposits	**728**	**728**	113	113
Amounts due from subsidiaries	**1,839,066**	**1,839,066**	1,171,921	1,171,921
Available-for-sale financial assets	**8,220**	**8,220**	–	–
Time deposits with original maturities over three months	**142,167**	**142,167**	46,880	46,880
Cash and cash equivalents	**31,680**	**31,680**	20,184	20,184
Financial guarantee contract				
Financial guarantee granted to HKSCC (note 32(b))	**(11,390)**	**50,000**	(11,390)	50,000

(iv) Financial assets that were past due but not impaired

As at 31 December, the age analysis of the financial assets (which only relate to trade receivables) of the Group that were past due but not determined to be impaired according to the period past due was as follows:

	Group	
	2008 $'000	2007 $'000
Up to 6 months	**206,847**	271,196
Over 6 months to 1 year	**–**	1
Over 1 year to 3 years	**–**	2
Over 3 years	**141**	8,651
Total	**206,988**	279,850

The fair value of cash deposits placed by the related trade debtors with the Group was $10,117,000 (2007: $12,643,000).

No financial assets of HKEx were past due as at 31 December 2008 and 31 December 2007.

49. Financial Risk Management (continued)

(c) Credit risk management (continued)

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

As at 31 December 2008, trade receivables of the Group amounting to $167,449,000 (2007: $4,608,000) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days as at the end of the reporting period or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired are disclosed in note 2(s)(vi). No cash deposits had been received in relation to the impaired trade receivables (2007: $Nil).

No financial assets of HKEx were impaired as at 31 December 2008 and 31 December 2007.

(vi) Outstanding balances from debtors which were not recognised as income

As soon as a loan or receivable becomes impaired, the Group may continue to allow the debtors concerned to participate in our markets but no further accounts receivable will be recognised on consolidated statement of financial position as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when cash is received. As at 31 December 2008, the amount of doubtful deferred revenue amounted to $49,455,000 (2007: $48,955,000).

(d) Fair values of financial assets and financial liabilities not reported at fair values

Summarised in the following table are the carrying amounts and fair values of financial assets and financial liabilities not presented in the Group's and HKEx's statements of financial position at their fair values. The carrying amounts of short-term receivables (ie, accounts receivable, deposits and cash and cash equivalents) and short-term payables (ie, accounts payable and other liabilities) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

	Group			
	Carrying amount in statement of financial position		**Fair value**	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Financial assets				
Other financial assets (note i)	**47,172**	19,177	**42,465**	18,076
Financial liabilities				
Participants' contributions to Clearing House Funds included in non-current liabilities (note i)	**252,000**	244,500	**247,544**	236,575
Financial guarantee contract (note ii)	**19,909**	19,909	**89,600**	25,412

49. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities not reported at fair values (continued)

	HKEx			
	Carrying amount in statement of financial position		Fair value	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Financial assets				
Other financial assets (note i)	**720**	481	**700**	455
Financial liabilities				
Financial guarantee contract (note ii)	**11,390**	11,390	**50,000**	14,472

(i) The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets/liabilities, adjusted by an estimated credit spread. Assets/liabilities without a contractual maturity date are assumed to mature exactly one year after the end of the reporting period. The discount rates used ranged from 1.80 per cent to 2.72 per cent as at 31 December 2008 (2007: 3.35 per cent to 3.76 per cent).

(ii) The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate was 1.18 per cent as at 31 December 2008 (2007: 3.46 per cent).

50. Comparative Figures

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

GLOSSARY

2008 AGM	Annual general meeting held on 24 April 2008
2009 AGM	Annual general meeting to be held on 23 April 2009
AGM	Annual general meeting of HKEx
AMS/3	The Third Generation Automatic Order Matching and Execution System
Awarded Shares	Shares awarded under the Share Award Scheme
Board	Board of HKEx
CAS	The Closing Auction Session
CBBC(s)	Callable Bull/Bear Contract(s)
CCASS	The Central Clearing and Settlement System
CCASS/3	The Latest Generation of Central Clearing and Settlement System
CCASS Rules	General Rules of CCASS
CG Code	Code on Corporate Governance Practices
CHIS	Computershare Hong Kong Investor Services Limited
CNS	Continuous Net Settlement
CSR	Corporate Social Responsibility
CSRC	China Securities Regulatory Commission
DCASS	The Derivatives Clearing and Settlement System
Director(s)	Director(s) of HKEx
DI	Disclosure of Interests
DW(s)	Derivative Warrant(s)
eIPO	Electronic IPO
EDP	Electronic Disclosure Project
EDS	Electronic Disclosure System
Elected Directors	Directors elected by the Shareholders at general meetings
ELI	Equity Linked Instrument
EP(s) or Participant(s)	Exchange Participant(s)
ETF(s)	Exchange Traded Fund(s)
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of the Government
FRC	Financial Reporting Council
FSTB	Financial Services and the Treasury Bureau
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
GEM Listing Rules	Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Government Appointed Directors	Directors appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HDR(s)	Hong Kong Depositary Receipt(s)
HFI	Hang Seng China H-Financials Index
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKEx's Articles	Articles of Association of HKEx
HKFRS(s)	Hong Kong Financial Reporting Standard(s)
HKFE or Futures Exchange	Hong Kong Futures Exchange Limited
HKICPA	Hong Kong Institute of Certified Public Accountants
HKICS	The Hong Kong Institute of Chartered Secretaries
HKMA	The Hong Kong Management Association
HKSCC	Hong Kong Securities Clearing Company Limited
HKSI	The Hong Kong Securities Institute
Hong Kong or HKSAR	Hong Kong Special Administrative Region of the People's Republic of China

Hong Kong Government or Government	The Government of the Hong Kong Special Administrative Region of the People's Republic of China
H-shares Index	Hang Seng China Enterprises Index
HSI	Hang Seng Index
ICAC	Independent Commission Against Corruption
IIS	Issuer Information Feed System
INED(s)	Independent Non-executive Director(s) of HKEx
IP(s)	Investor Participant(s)
IPO(s)	Initial Public Offering(s)
ISI(s)	Investor SI(s)
IT	Information Technology
JP	Justice of the Peace
Listing Committees	Listing Committee and the GEM Listing Committee
Listing Rules	Main Board Listing Rules and GEM Listing Rules
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDF	Market Datafeed
MAPs	Market Access Products
MH	Medal of Honour
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
Post-Listing Scheme	Post-Listing Share Option Scheme approved by the Shareholders on 31 May 2000 which was subsequently amended by the Shareholders on 17 April 2002
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by the Shareholders on 31 May 2000
OTC	Over-the-counter
OTEP(s)	Options Trading Exchange Participant(s)
OTFS	The Order and Trade Files Service
PIS	The Participants Information System
PFRSS	The Participant Financial Resources Surveillance System
PRS	The Price Reporting System
REIT(s)	Real Estate Investment Trust(s)
ROM	Register of Members
Senior Management	Senior executives of HKEx as referred to on pages 30 to 32 of this Annual Report
SBS	Silver Bauhinia Star
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
SI(s)	Settlement Instruction(s)
Shareholders	Shareholders of HKEx
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended by the Board on 16 August 2006
SMARTS	Securities Markets Automated Research Training & Surveillance
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
SSA(s)	Stock Segregated Account(s)
WFE	World Federation of Exchanges
WPIP	Web Proof Information Pack
XBRL	eXtensible Business Reporting Language
$/HKD	Hong Kong Dollar

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