



2009 Annual Report





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)



Overview

Financial Highlights	2
Highlights of the Year	4
Chairman's Statement	6
Chief Executive's Review	10

The HKEx Strategic Plan 2010-2012	14
--	-----------

Organisation Structure

Board and Committees	18
Board of Directors and Senior Management	20
Organisation Chart	34

Management Discussion and Analysis

Business Review	36
Major Achievements and Key Initiatives	61
Financial Review	64
Financial Statistics since the Year of Merger	79

Corporate Governance

Corporate Governance Report	81
Audit Committee Report	97
Remuneration Committee Report	99
Corporate Social Responsibility Committee Report	108

Stakeholders Information

Shareholding Analysis	110
Information for Stakeholders	111

Directors' Report and Accounts

Directors' Report	113
Auditor's Report	116
Consolidated Financial Statements	
Consolidated Income Statement	117
Consolidated Statement of Comprehensive Income	118
Consolidated Statement of Changes in Equity	119
Consolidated Statement of Financial Position	120
Statement of Financial Position	122
Consolidated Statement of Cash Flows	124
Notes to the Consolidated Accounts	125

Glossary	223
-----------------	------------

FINANCIAL HIGHLIGHTS

	2009	2008	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	\$62.3 billion	\$72.1 billion	(14%)
Average daily number of derivatives contracts traded on the Futures Exchange	206,458	207,052	(0%)
Average daily number of stock options contracts traded on the Stock Exchange	191,676	225,074	(15%)

	2009 \$'000	As restated ¹ 2008 \$'000	Change
RESULTS			
Revenue and other income	7,035,040	7,549,090	(7%)
Operating expenses	1,492,949	1,620,953	(8%)
Profit before taxation	5,542,091	5,928,137	(7%)
Taxation	(838,047)	(799,506)	5%
Profit attributable to shareholders	4,704,044	5,128,631	(8%)
Basic earnings per share	\$4.38	\$4.78	(8%)
Diluted earnings per share	\$4.36	\$4.75	(8%)
Interim dividend per share	\$1.84	\$2.49	(26%)
Final dividend per share	\$2.09	\$1.80	16%
	\$3.93	\$4.29	(8%)
Dividend payout ratio	90%	90%	N/A

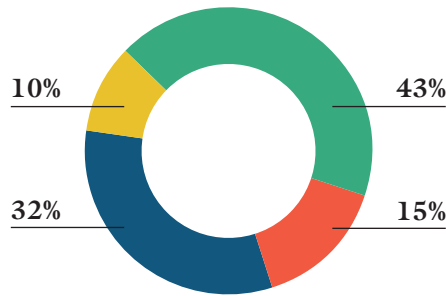
	2009	As restated ¹ 2008	Change
KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds (\$'000)	8,027,326	7,293,614	10%
Total assets ² (\$'000)	45,332,002	62,822,112	(28%)
Net assets per share ³	\$7.46	\$6.79	10%

Notes:

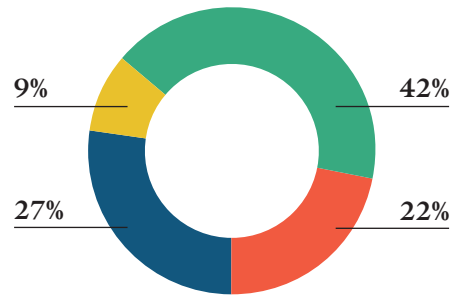
- 1 Certain figures previously reported have been restated due to changes in accounting policies.
- 2 The Group's total assets include the Margin Funds received from Participants on futures and options contracts.
- 3 Based on 1,075,514,581 shares as at 31 December 2009, being 1,076,190,346 shares issued and fully paid less 675,765 shares held for the Share Award Scheme (2008: 1,073,939,532 shares, being 1,074,886,346 shares issued and fully paid less 946,814 shares held for the Share Award Scheme)

BY BUSINESS SEGMENT*

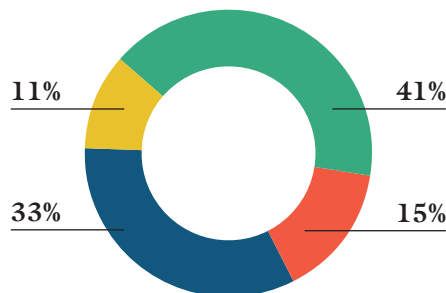
2009 Revenue and Other Income
(Before Inter-segment Elimination)



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



2009 Reportable Segment
Profit before Taxation



2008 Reportable Segment
Profit before Taxation



● Cash Market
 ● Derivatives Market
 ● Clearing Business
 ● Information Services

* Details are set out in note 4 to the consolidated accounts of this Annual Report.

HIGHLIGHTS OF THE YEAR

Regulatory Framework

1 April

Implemented the revised black out period under the Listing Rules

28 August

Published a consultation paper on acceptance of Mainland accounting and auditing standards and Mainland audit firms for Mainland incorporated companies listed in Hong Kong

11 September

Published a consultation paper on proposed Listing Rules for mineral and exploration companies

2 October

Published a consultation paper on connected transactions

30 October

Announced amendments to the Listing Rules to cease pre-vetting issuers' announcements for major transactions and connected transactions effective 1 January 2010 as commencement of Phase 2 of the new post-vetting regime

27 November

Published a consultation paper on T+2 Finality

18 December

Published consultation conclusions on proposals to accelerate rights issues and open offers

30 December

Published a consultation paper on a proposed operational model for scripless securities jointly with the SFC and the Federation of Share Registrars Limited

Market Infrastructure

23 March

Suspended the closing auction session in the securities market

15 June

Completed consolidation of 2 data centres and the related IT offices

Service Enhancements

1 January

Commenced a Mainland market data collaboration programme with the Shanghai Stock Exchange

16 January

Received no-action relief from the Commodity Futures Trading Commission which enables HKFE Participants to offer and sell the mini futures contracts based on the HSI and HSCEI in the US

9 February

Introduced HKSCC's Clearing Agency Participantship to overseas clearing houses and central depositories

5 October

Soft-launched a Free Real-time Basic Market Prices Website Service via 6 designated websites with the official launch on 1 January 2010

17 November

Announced the enriched content of PRS, the system HKEx uses to transmit real-time derivatives market data to end-users through authorised IVs

Products and Markets

8 July

Listed 5 ETFs comprising funds covering stock markets in Hong Kong, India, Korea, the US and Vietnam

19 August

Listed the first Taiwan ETF under the agreement on mutual recognition reached between the Hong Kong and Taiwan regulators



22 September

Published an information paper on the proposed introduction of flexible index options

18 November

Listed a series of 4 Mainland A-share industry sector ETFs and HKEx became the first exchange with Mainland A-share industry sector ETFs

29 December

Published consultation conclusions on Certified Emission Reduction Futures

Corporate News

21 January

Signed a closer cooperation agreement with the Shanghai Stock Exchange, which focuses on meeting the domestic and international fund-raising needs of Chinese enterprises

**8 April**

Signed a closer cooperation agreement with the Shenzhen Stock Exchange, which focuses on information sharing, product development and personnel training

**3 June**

Announced the appointment of Mr Charles Xiaojia Li as the successor to the Chief Executive

**17 September**

Signed an MOU on cooperation and the exchange of information with The National Depository Center, which is part of the MICEX Group, an exchange operator based in Russia



CHAIRMAN'S STATEMENT



“While our markets were not immune from the impact of the global financial crisis, we remained focused on our businesses and maintained an orderly, informed and fair market amid turbulence, and delivered solid returns to our shareholders in 2009.”

HKEx's Performance

In 2009, the average daily turnover value on the Stock Exchange decreased about 14 per cent to \$62.3 billion, and the average daily turnover of derivatives contracts and stock options contracts dropped marginally to 206,458 contracts and 15 per cent to 191,676 contracts respectively. Against this backdrop, our revenue and other income fell by 7 per cent to about \$7 billion and the profit attributable to shareholders declined by 8 per cent to \$4.7 billion as compared to that for 2008. The Board is proposing a final dividend of \$2.09 per share, which brings the full-year dividend to a total of \$3.93 per share, a payout ratio of 90 per cent.

Uncertainties Ahead

The world economy is creeping out of the woods with recovery expected to be slow. Although Asia is rebounding from the depths of the global crisis, countries in the region face the potential risk of sharp asset price increases, which may be disconnected from the fundamentals. Governments are working hard to strike the right balance between maintaining the economic recovery momentum and containing inflated asset values in an environment of abundant liquidity. Investors should be cautious about investment risks and the possibility of reverse capital flows.

As the Vice Chairman of the World Federation of Exchanges, I am working with other member exchanges to promote standards for fair, transparent and efficient markets. Amid market uncertainties, we will continue to be vigilant about global financial development trends, study recommendations from international financial institutions (including the G-20 and the Financial Stability Forum), and be responsive to market views. HKEx is on a firm foundation to face mounting challenges and will continue to explore opportunities under a well-structured strategic plan.

Mainland Opportunities Abound

China has been the engine of economic growth in Asia, and its influence in the global arena is increasing. The International Monetary Fund forecast that the Mainland's gross domestic product will continue growing between 9.5 per cent and 10 per cent annually in the coming 5 years. The Central Government has expressed its intentions to adhere to the overall macroeconomic policy of keeping fiscal policy "proactive" and monetary policy "moderately loose". Despite these positive statements, investors should nevertheless not be surprised should there be "adjustments" during this year.

Our continuous Mainland focus resulted in the majority of listing applicants coming from the Mainland to raise capital funds for their development and growth. In 2009, funds raised by Mainland enterprises accounted for over 82 per cent of IPO funds raised. Although there is no certainty regarding the timing of new issues, the pipeline of new IPO applicants appears promising for 2010. Under the closer cooperation agreement with the Shanghai Stock Exchange in January this year, HKEx is committed to fostering closer links with the Shanghai Stock Exchange over the listing of enterprises, development and collaboration of products as well as sharing of information.

Given the Central Government's measures to enhance the role of the RMB in international trade and finance, our cultural affinities, strong risk management systems and close economic ties with the Mainland are key contributing factors that can position Hong Kong as a robust and reliable testing ground for the development of RMB business outside the Mainland. We are fully supportive of the Hong Kong Government's effort to elaborate on the current choices of RMB-related investment product in alignment with the progressing liberalisation of the RMB.



Pursuing Organic Growth

Focusing on our core business and pursuing organic growth have been the Group's persistent strategy adopted to compete with other established exchanges and alternative trading platforms. The launch of Callable Bull/Bear Contracts and development of the Exchange Traded Fund market illustrate the success of our organic growth strategy. We will increase our efforts to expand asset coverage and issuer participation in the Callable Bull/Bear Contract market, and to introduce innovative products such as flexible index options and volatility indices, and more stock option classes to provide more choice for investors. More information is set out in the Business Review of this Annual Report.

HKEx is also committed to broadening the source of listed issuers. In recent years, HKEx has been working closely with the SFC in implementing a series of measures to facilitate listing of overseas issuers and streamlining the listing process for overseas issuers. Some consider the first listing by a Russian enterprise, United Company RUSAL Plc (formerly known as United Company RUSAL Limited), in Hong Kong on 27 January 2010 another watershed event in the Hong Kong securities market. I am cautiously optimistic that we will see more interest from Russian companies and we will continue to attract more listing of overseas companies, especially those with business interests in China and Asia.

Quality Market

HKEx continued to receive rigorous annual performance assessments from our regulator on our role as the frontline regulator. It is our objective to further refine our listing regime without compromising market quality. Efforts were made to streamline procedures, lower costs and enhance disclosure, aiming at making our market more appealing to both local and overseas issuers and investors. We will continue working with our regulator to improve our regulatory regime, taking into account global financial developments and home market needs.

The other aspect instrumental to market quality is corporate governance. As the role in the development and enforcement of corporate governance regulation in Hong Kong rests primarily with HKEx, we appreciate and will stress the importance of the international best practices. In 2010, we will continue with our corporate governance initiatives and fully support the electronic submission of Disclosure of Interests notices and statutory backing for disclosure requirements. With the support of issuers and market practitioners, I am confident that corporate governance practices in Hong Kong will continue to be on a par with international standards.

An efficient and reliable market infrastructure is indispensable to a quality market. We will continue with our best efforts to ensure our market systems operate at the top levels. In recognition of our efforts in the development of the securities trading infrastructure, HKEx was named the "best venue in Asia-Pacific for algorithmic/electronic trading" by *AsianInvestor* magazine in 2009. Our commitment to technological robustness continues despite the economic downturn and we have embarked on an initiative to further upgrade our AMS/3 and data dissemination system during 2010.

Sustainable Development

Having the dual role of a frontline regulator and a listed company, our attraction and growth depend on the sustainable development of our marketplace and community. Notwithstanding the market volatility that we experienced last year, we remained mindful of our stakeholders' interests to secure their confidence. In 2009, we received *The Asset's* Platinum Award for All-Round Excellence in Financial Performance, Management, Corporate Governance, Social Responsibility, Environmental Responsibility and Investor Relations.

We have also broadened our social responsibility efforts and became a participant in the 2009 Information Request of the Carbon Disclosure Project which provides primary climate change data to the global market place. A host of programmes continue to be developed to meet the different and ongoing needs of our stakeholders. More relevant information will be set out in our 2009 CSR Report which will be published in mid-March 2010.

Acknowledgments

In April 2009, Messrs Henry Fan and Fong Hup and Dr Christine Loh retired from the Board and on behalf of the Board, I would like to extend our thanks to them for their considerable contributions to the Group. At the same time, I was pleased to welcome Messrs Ignatius Chan, Stephen Hui and Michael Lee who were newly appointed as our Directors. I thank all my fellow Board members for their support and contributions throughout 2009.

A key task for the Board in 2009 was to appoint and achieve a seamless transition to a new Chief Executive. In June 2009, the Board announced the appointment of Mr Charles Li as Chief Executive to succeed Mr Paul Chow who retired in January 2010. Mr Chow had been the Chief Executive since May 2003 and led the development of the organisation into today's high-performing international exchange. His achievements at HKEx were enormous and nothing short of remarkable. I am sure our Shareholders and other stakeholders join all of us from the Group in thanking Mr Chow for his outstanding contribution to HKEx's success and continued development of the Hong Kong financial market. Personally, it has been a pleasure and a privilege being his colleague, a sentiment, I have no doubt, shared by many.

We also welcome Mr Charles Li who assumed the role of Chief Executive on 16 January 2010. HKEx will benefit from Mr Li's extensive experience and knowledge in international securities and investment markets, his in-depth understanding and insight of China's capital markets and his broad-based network in China.

I would like to offer the Board's sincere gratitude to the management team and all other employees for their hard work and dedication. Their excellence and commitment are of vital importance in enhancing HKEx's sustainability.

Finally, we thank our Shareholders and all other stakeholders for their continued support and confidence in us, and wish to assure them that the whole team at HKEx will continue to work hard in their interest.

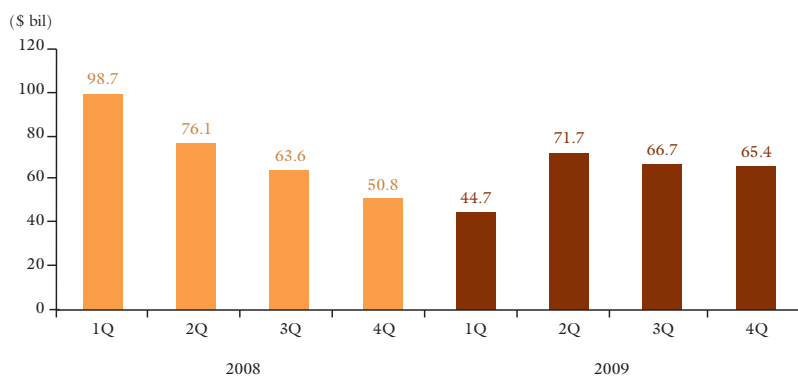
Ronald Joseph ARCULLI
Chairman

Hong Kong, 4 March 2010

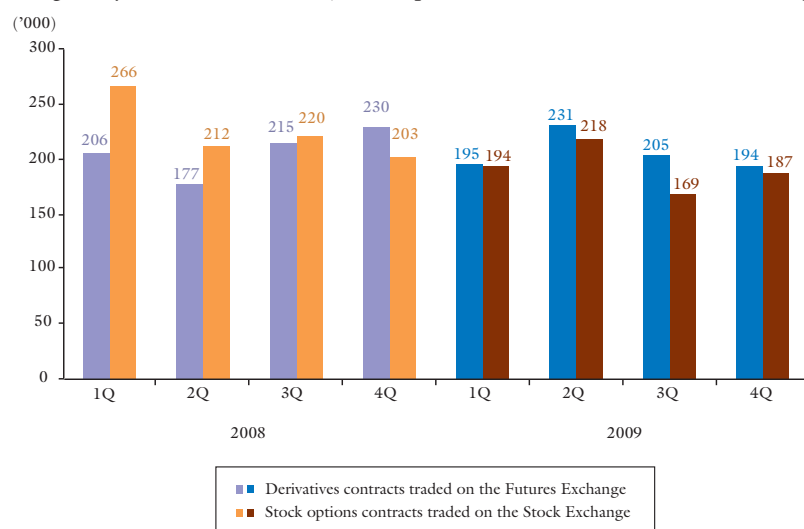
Market Performance

Fuelled by the abundant capital inflow, the Hong Kong securities market has regained resilience since the second quarter of 2009. Our Cash Market capitalisation has grown 74 per cent from end of 2008 to \$17.9 trillion at year-end 2009. Trading value on the Stock Exchange has rebounded from its trough in early 2009 to arrive at an average daily turnover of \$62.3 billion for the whole year. The total capital raised in 2009 reached \$642.1 billion, an all-time high in HKEx's record. The total IPO funds raised of \$248 billion has crowned HKEx the largest IPO market in the world in 2009. We listed 73 companies during the year, a 49 per cent increase from that of 2008.

Average Daily Turnover Value on Stock Exchange



Average Daily Number of Derivatives/Stock Options Contracts Traded on Futures Exchange/Stock Exchange



As for the secondary market, interests in individual financial instruments in both Cash and Derivatives Markets, such as CBBCs, ETFs, Mini HSI futures and options and H-shares Index options, continued to grow in 2009 with turnover reaching new highs. We were the largest derivatives warrant market in the world and the second largest ETF market in Asia Pacific. We also ranked top 3 among Asia Pacific exchanges in stock options and index options and futures trading.

HKEx's Markets Among World Exchanges

	Value/Volume	Ranking	
	2009	2009	2008
Securitised Derivatives Turnover	USD 429.7 billion	1 st	1 st
IPO Funds Raised	USD 32.0 billion	1 st	5 th
Stock Options Market	47,439,896 contracts	1 st in Asia Pacific	1 st in Asia Pacific
ETF Market Turnover	USD 64.5 billion	2 nd in Asia Pacific	1 st in Asia Pacific
Capital Funds Raised	USD 82.8 billion	4 th	4 th
Market Capitalisation	USD 2,305.1 billion	7 th	7 th
Derivatives Market Turnover	98,538,258 contracts	9 th in Asia Pacific	8 th in Asia Pacific
Share Trading Value	USD 1,501.7 billion	11 th	10 th

Source of information: WFE and Futures Industry Association

Note: Figures have been rounded.



Business Review

Our success in the past year has been achieved by a relentless focus on strengthening our position as China's international financial centre, improving the quality and efficiency of our core operations and expanding our business offerings that meet market needs.

Mainland Positioning

Our objective of making Hong Kong the preferred choice for Mainland enterprises IPO and post-IPO fund-raising needs continues to be fruitful. As mentioned above, 2009 was a record year for us in terms of capital raised. Mainland issuers accounted for 55 per cent of capital raised and 83 per cent of IPO funds raised in HKEx in 2009. At year-end 2009, Mainland-related enterprises comprised 58 per cent of our total market capitalisation. In terms of trading activities, Mainland-related stocks and derivatives in 2009 accounted for over 70 per cent of equity turnover and 45 per cent of derivatives contracts traded in our cash and derivatives markets.

Business Expansion

During a year of market stress, we continued to advance a wide range of initiatives to meet the requirements of different stakeholders and expand our business. Apart from increasing the position limits of 6 option classes and adding 6 new stock option classes, we also embarked on initiatives to introduce options with flexible features and a Hong Kong market volatility index. We have expanded our ETF offerings and also expect that more ETFs will be able to benefit from the mutual recognition agreement established with Taiwan on cross-listing of ETFs and those expected to be completed in the near future with Mainland exchanges and other regional bourses.

As the exchange controller and frontline regulator, we periodically review our Listing Rules to ensure that high corporate governance standards are maintained. Pursuant to a strategic review of the listing regime in 2008, we implemented a series of measures in 2009 to rationalise the listing and ongoing compliance process and align our regulatory regime and practices with world standard. These changes included revising the Listing Rules applicable to mining and natural resources companies and rights issues, and expanding the number of acceptable jurisdictions for listed issuers to be incorporated.

Service Improvement

As we are firmly committed to upholding our system reliability, availability and stability, we have never been hesitant about implementing necessary system upgrades and pursuing improvements in our core market systems. We have just implemented a technical revamp of the AMS/3 to double order rate to 3,000 orders per second and reduce latency to 0.15 second. Further upgrades of AMS/3 and other systems have been planned for the next 2 years. We are also working on a plan to build our own production data centre in Tseung Kwan O. This is expected to generate synergy through consolidation of data centres and IT offices.

On the market infrastructure side, we are working actively with the HKICL on a plan to implement T+2 Finality to bring forward money settlement from T+3 to T+2 so that securities and money will be settled on the same day. We are also supporting the proposed development of a scripless securities market for Hong Kong.

Throughout 2009, we streamlined the provision of certain information by EPs and worked on the elimination of a number of fees charged for our services that took effect on 1 January 2010. Various initiatives aimed at enhancing efficiency of the listing function were also introduced during the year.

Outlook

As we look ahead to the future, we see 2 major forces of opportunity and competition at play – opportunities resulting from the further opening of the Mainland market and more intense competition from exchanges and trading venues around the world and in the region. The increasing internationalisation of the RMB will further advance these 2 forces: it will significantly expand the Mainland opportunities for HKEx as well as intensify the competitive pressures facing HKEx as these Mainland opportunities will make our market more attractive to our competitors as well.

Our twin tasks will therefore be to capture the new Mainland opportunities and position ourselves competitively against the emerging international competition. On the opportunities front, we will proactively manage our strategic relationships with the Mainland and play an even more active role as Mainland's international market of choice for capital formation. At the same time, we are preparing to become the destination of choice for Mainland's capital outflow accelerated by the internationalisation of the RMB.

On the competition front, we believe that the advancement of financial technology is rapidly changing the competitive landscape. We must ensure that the capabilities and functionalities of our own trading platforms well equip us to compete with other global players. Further, we need to provide a full suite of products that meets the growing expectations of our current and future customer base, as well as continue to enhance the cost and operational efficiency for parties trading with us.

We will take a prudent approach in evaluating and implementing the initiatives identified in our new Strategic Plan, recognising the inherent uncertain nature of our long-term opportunities as well as the challenges in keeping up with international competitive pressures. However, we must recognise we need to invest in the future growth of HKEx and preserve our strong competitive position.

The HKEx Strategic Plan 2010-2012 is developed in the context of these challenges and opportunities. I am pleased to present the full Strategic Plan under the next section of this Annual Report.

In order for us to devote dedicated resources in evaluating opportunities critical to the long term growth of our market, a Market Development division has recently been created and our corporate organisation has accordingly been restructured. The division's main roles are to formulate strategic initiatives aimed at capturing future China opportunities, broadening our issuer base, assessing new product development concepts and enhancing competitiveness of our IT platforms.

Vote of Thanks

I would like to thank Board members for their encouragement and advice and look forward to their continued support and guidance. I am inspired by the dedication and commitment of all my colleagues and I am grateful for their support and assistance. I look forward to working more closely with them and our stakeholders in the further development and success of HKEx under our newly adopted Strategic Plan.

Mr Paul Chow has made his mark at HKEx and on the Hong Kong financial market during his many years of service. In the past 6 years, he was instrumental in leading HKEx's executive management in implementing the previous 2 Strategic Plans. I would like to take this opportunity to acknowledge his invaluable contribution, and to thank him for his generosity and stewardship during the transition period.

LI Xiaojia, Charles
Director and Chief Executive

Hong Kong, 4 March 2010

THE HKEX STRATEGIC PLAN 2010-2012

Background

Our Strategic Plan for 2010-2012 is launched following a 3-year period during which HKEx consolidated and strengthened its market position amidst significant market volatility. HKEx successfully navigated a challenging market environment which included both record high levels of market turnover and valuations in 2007 as well as some of the most difficult economic conditions internationally seen in generations over the past 2 years. By maintaining our focus on improving the quality and efficiency of our core operations while expanding our business offerings selectively, we believe HKEx has been a positive stabilising force of continuity in the marketplace.

In our 2007-2009 Strategic Plan, the mission of HKEx was expressed through 3 strategic themes:

- **Mainland Positioning**

In this area we have made considerable progress through capturing a healthy share of Mainland-related listings, trading more Mainland-related products, including stocks, derivatives and ETFs, and engaging and cooperating further with Mainland-related participants.

- **Business Expansion**

We have sought to expand our business through broadening our range of products and services to meet our stakeholders' evolving needs, reducing market barriers and strengthening our trading infrastructure. Our efforts to enhance market quality, which in turn drives business expansion, include a continued focus on superior regulatory standards, greater transparency and robust risk management.

- **Service Improvements**

Despite volatile market conditions, we have improved the quality of our services to issuers, EPs and investors, rationalised the listing regulation and related processes, and strengthened the reliability and capabilities of our IT infrastructure.

Outlook

As we look ahead to the future, we believe our established track record of focus and discipline places HKEx in an excellent position to face both the business challenges and opportunities on the horizon. A distinguishing factor of this strategic plan from prior ones is the recognition that the opportunities available to us within our core market of Greater China are global, not just regional, in scale and scope. Geopolitical factors across economies, commodities and currencies present expansion prospects straddling international issuers, new asset classes and access to larger pools of investor capital.

Going forward, we see 2 major forces of opportunity and competition at play – opportunities resulting from the further opening of the Mainland market and more intense competition from exchanges and trading platforms around the world and in the region. The increasing internationalisation of the RMB will further advance these 2 forces: it will significantly expand the Mainland opportunities for HKEx as well as intensify the competitive pressures facing HKEx as these Mainland opportunities will make our market more attractive to our competitors as well. Our dual tasks will therefore be to capture the new Mainland opportunities and position ourselves competitively against emerging international competition.

With respect to the Mainland, we remain convinced that a cooperative and complementary relationship with the Mainland is fundamentally important to our business in the future. However, the increasing ability of Mainland markets in both Shanghai and Shenzhen to provide capital formation services makes it more important than ever for HKEx to define and deliver a unique value proposition for companies choosing to list in Hong Kong and for investors trading in our markets. Preparing for the internationalisation of the RMB by developing new products, platforms and infrastructure is a critical component of our Strategic Plan.

On the competition front, the importance of financial technology has increased significantly due to investments made by both incumbents and various new players entering the exchange and electronic trading marketplace in Europe and North America, making it increasingly important for us to ensure our own trading platform meets the growing expectations of our customer base. Although alternative trading systems have not yet gained significant market share in Asia, we need to protect our current position and prepare for such competition by investing in IT infrastructure.

While there is no doubt that we will continue to develop and benefit from our core businesses, we will at the same time leverage on our capabilities to extend and expand across functions, products and geographies. We must continue to strengthen and enhance our market structure, specially our 3 clearing houses, which have played a critical role in acting as stabilising forces in the market during the recent turbulent period. We also believe our current suite of derivative products can be considerably enlarged over time, in particular through the introduction of RMB-based products.

We are pleased to present our 2010-2012 Strategic Plan, which has been developed against the backdrop of these challenges and opportunities.

Mission

Our mission is to create and operate active international public financial markets in Hong Kong.

Vision

Our vision is to make HKEx the leading global financial exchange by combining the best characteristics of Chinese and international markets, including:

- trusted legal, governance and market standards;
- advanced trading and clearing technologies and infrastructure; and
- products and services that position HKEx as the China exchange of choice for our global investors and issuers and the international exchange of choice for our Greater China issuers and investors.

Strategies

We intend to achieve our vision by pursuing 3 basic strategies:

- **Core Strategy** to generate organic growth in our current businesses.
- **Extension Strategy** to preserve our current position and prepare for future opportunities we foresee.
- **Expansion Strategy** to expand our product platform, investor base and geographic coverage over time.

Core Strategy

We aim to generate organic growth by:

1. **Attracting New Listings.** We will strive to attract new listings from Greater China or with a China orientation, as well as from other strategically important international markets. We expect to continue to attract new international listings from emerging markets, in particular companies operating in the metals and mining and traditional and alternative energy sectors. Our proactive approach to issuer marketing in today's increasingly geopolitical landscape will encompass working with regulators and other stakeholders to continually streamline the listing process and improve market standards and practices, while maintaining our quality standards.
2. **Growing Cash and Derivatives Market Volumes.** We will work to enhance trading dynamics and widen product and service offerings to promote organic market growth. Our efforts will include new features and products in cash and derivatives; supporting a scripless market and other improvements to market structure; introducing a single license for securities and derivatives market data products; upgrading the capacity and technology of our derivatives trading system; and further strengthening our risk management function.

Extension Strategy

We intend to extend our existing business into new areas by **preserving** our leadership positions in core markets with new investment and by **preparing** to capture new growth opportunities associated with emerging trends.

1. We intend to **preserve** our leadership position by investing in our IT infrastructure to maintain its competitive edge regionally, meet emerging expectations of our most demanding customers and

position ourselves effectively to capture longer term growth opportunities in Greater China. These programmes are presented in greater detail in the following section under IT initiatives.

2. We intend to **prepare** for the strategic expansion of our business by advocating regulatory and market reforms necessary to support our introduction of multi-currency products, new asset classes and geographies and the entry of new investors from the Mainland into our markets. These plans are identified in the following section as new initiatives under the areas of Primary Market, RMB Product Development, Trading and Clearing.

Expansion Strategy

We expect to expand our product platform, investor base and geographic coverage over time by:

1. **Adding New Asset Classes and Geographies.** We will endeavor to expand the breadth of our business by working closely with market participants, establishing new relationships and making investments in selected additional asset classes. Our efforts will include:
 - Considering opportunities to pursue alliances, partnerships and other relationships internationally that present strategically compelling benefits consistent with our focus on markets in Greater China.
 - Positioning HKEx as an aggregator of significant product categories, asset classes and financial market services that contribute to market development in Hong Kong.
2. **Introducing RMB Products.** We will work to use Hong Kong's unique position as a gateway to China and our established position as an international financial marketplace to encourage internationalisation of the RMB by:
 - Creating a platform designed to raise and manage funds using multi-currency products.
 - Ultimately becoming the exchange of choice for international investors to access RMB-based products outside of Mainland China.
3. **Accommodating Mainland Investors.** We will work to facilitate Mainland investors access to international markets by:
 - Working with regulators, exchanges and other institutions in Hong Kong and the Mainland to design and introduce properly approved systems and market practices appropriate for the growing participation of Mainland investors in offshore markets.
 - Positioning HKEx as the market of choice for Chinese investors to invest in securities and derivative products offshore.

Conclusion

In conclusion, we would like to highlight the prudent structure of our new plan. Not all the initiatives identified below can be implemented immediately; several require careful and detailed studies; others are dependent on the continued development of the markets in which we operate and required regulatory changes. We recognise also that in order to achieve our plan, in some instances we will have to overcome the divergent interests of our constituents and align parties towards common goals. Hence, our strategic and growth plans are staged over time and flexible in focus and scope as our markets continue to evolve.

Fundamentally, however, we are prepared to invest in our future to pursue the substantial opportunities we believe are open to us, as well as preserve our existing competitive position. In addition, where appropriate, we may seek strategic alliances with technology providers, industry participants and our regional and global counterparts to expedite our growth initiatives. We believe the implementation of this Strategic Plan will position HKEx well for the future, building on our strong current base of operations, market quality and financial strength.

Key Initiatives

The Strategic Plan will be effected through the evaluation and implementation of initiatives. These initiatives will be confirmed through the annual budget and operating plan exercises to be conducted over the 3-year period. At this stage we have identified the following key initiatives which are likely to play a major part in attaining the objectives of the Strategic Plan.

Market Development

1. Establish a new Market Development group to provide HKEx with a development capability, incorporating existing business units and adding new teams to drive the implementation of the Strategic Plan and its initiatives
2. Through a dedicated Mainland Development team, build greater collaboration and partnership with our counterparts and other Mainland constituents to steer the next phase of our Mainland-related strategy

Primary Markets

3. Work towards mutual recognition of listing rules and standards between HKEx and Hong Kong regulators and Mainland exchanges and regulators
4. Continue to streamline listing process and implement governance-related post-listing initiatives to increase the attractiveness of Hong Kong as a listing venue
5. With respect to international issuers, enhance current listing rules and consider market segmentation

RMB Product Development

6. Facilitate access of Hong Kong market data by Mainland investors and IVs through expansion of service and product offerings
7. Coordinate with Mainland and Hong Kong regulators and authorities to support and facilitate cross-border RMB-related initiatives
8. Identify new products linked to the increasing internationalisation of the RMB, particularly in the areas of fixed income, ETFs and derivatives
9. Evaluate, and as appropriate, commence the development of clearing, infrastructure and IT platforms to support future RMB-related projects

Trading

10. Improve execution efficiency and trading structure through potential initiatives that meet the needs of EPs, including:
 - considering the introduction of new order types in the Cash Market
 - introducing volatility index and expanded continuous quotations in the Derivatives Market
11. Diversify market data products and services to serve specialised trading needs

Clearing

12. Support the introduction of a scripless securities market
13. Consider expanding clearing to OTC clearing for selected products
14. Develop proposals to enhance clearing house capital adequacy and access to liquidity to meet our current and future needs
15. Evaluate the consolidation of HKEx's 3 clearing houses into a unified clearing house

Information Technology

16. Implement a plan for a consolidated data centre to meet our business expansion and long term market development needs
17. Invest in AMS/3.8 to improve latency, capacity and features of existing IT architecture
18. Develop proposal to introduce next generation IT platforms necessary for future expansion
19. Evaluate platforms and systems to facilitate Mainland connectivity

BOARD AND COMMITTEES

Board

Independent Non-executive Chairman

Ronald Joseph ARCULLI * GBS, JP

Executive Director, Chief Executive

CHOW Man Yiu, Paul ¹ SBS, JP

LI Xiaojia, Charles ²

INEDs

CHA May-Lung, Laura * GBS, JP

CHAN Tze Ching, Ignatius ³ BBS, JP

CHENG Mo Chi, Moses * GBS, JP

CHEUNG Kin Tung, Marvin * ⁴ GBS, JP

FAN Hung Ling, Henry * ⁵ SBS, JP

FONG Hup * ⁵ MH

HUI Chiu Chung, Stephen * ⁶ JP

KWOK Chi Piu, Bill JP

LEE Kwan Ho, Vincent Marshall

LEE Tze Hau, Michael * ⁶

LOH Kung Wai, Christine ⁵ JP

John Estmond STRICKLAND GBS, JP

John Mackay McCulloch WILLIAMSON ³

WONG Sai Hung, Oscar

Committees

Audit Committee

CHEUNG Kin Tung, Marvin ⁷ (Chairman)

LEE Kwan Ho, Vincent Marshall ⁸ (Deputy Chairman)

FONG Hup ⁵ (ex-Deputy Chairman)

CHAN Tze Ching, Ignatius ⁸

CHENG Mo Chi, Moses

John Mackay McCulloch WILLIAMSON ⁷

Executive Committee

Ronald Joseph ARCULLI (Chairman)

CHOW Man Yiu, Paul ¹

FONG Hup ⁵

KWOK Chi Piu, Bill

LEE Kwan Ho, Vincent Marshall

LI Xiaojia, Charles ²

John Mackay McCulloch WILLIAMSON ⁸

Investment Advisory Committee

John Estmond STRICKLAND (Chairman)

WONG Sai Hung, Oscar (Deputy Chairman)

CHA May-Lung, Laura ⁹

HUI Chiu Chung, Stephen ⁸

LEE Tze Hau, Michael ⁸

LUI Yin Tat, David ¹⁰

SUN Tak Kei, David ¹¹

John Mackay McCulloch WILLIAMSON ⁵

Notes:

* Government Appointed Directors

** Appointed by the Financial Secretary

Δ Established under Section 65 of the SFO

¹ Retired on 16 January 2010

² Appointment effective 16 January 2010

³ Elected on 23 April 2009

⁴ Re-appointment effective 23 April 2009

⁵ Retired at conclusion of 2009 AGM

⁶ Appointment effective 23 April 2009

⁷ Re-appointment effective 24 April 2009

⁸ Appointment effective 24 April 2009

⁹ Appointment ceased effective 24 April 2009

¹⁰ Appointment effective 17 June 2009

¹¹ Resignation effective 17 June 2009

¹² Re-appointment effective 1 July 2009

¹³ Appointment ceased effective 20 January 2010

¹⁴ Re-appointment effective 28 August 2009

¹⁵ Appointment effective 20 January 2010



Nomination Committee

Ronald Joseph ARCULLI (Chairman)
 CHAN Tze Ching, Ignatius⁸
 CHENG Mo Chi, Moses⁸
 FAN Hung Ling, Henry⁵
 LEE Kwan Ho, Vincent Marshall⁹
 John Estmond STRICKLAND
 WONG Sai Hung, Oscar

Panel Member Nomination Committee

CHA May-Lung, Laura (Chairman)
 FONG Hup⁵
 KWOK Chi Piu, Bill
 LEE Kwan Ho, Vincent Marshall
 LEE Tze Hau, Michael⁸
 WONG Sai Hung, Oscar

Remuneration Committee

Ronald Joseph ARCULLI (Chairman)
 CHA May-Lung, Laura
 CHENG Mo Chi, Moses
 LEE Kwan Ho, Vincent Marshall
 LOH Kung Wai, Christine⁵
 John Mackay McCulloch WILLIAMSON⁸

Risk Management Committee^Δ

Ronald Joseph ARCULLI (Chairman)
 CHAN Ka-lok^{** 12}
 CHEUNG Kin Tung, Marvin⁷
 FONG Hup^{** 12}
 HUNG Pi Cheng, Benjamin^{** 13}
 KWOK Chi Piu, Bill
 LAU Ying Pan, Edmond^{** 12}
 LUI Kei Kwong, Keith^{** 14}
 WONG Tung Shun, Peter^{** 15}

Corporate Social Responsibility Committee

LI Xiaojia, Charles² (Chairman)
 CHOW Man Yiu, Paul¹ (ex-Chairman)
 CHOW Lok Sum, Eddie
 Peter Joseph CURLEY
 MAU Kam Shing, Joseph
 WONG Kwok Kuen, Alfred
 YEN Tai Mui, Brenda

Company Secretary

MAU Kam Shing, Joseph



BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Board of Directors



Ronald Joseph ARCULLI
GBS, JP

Independent Non-executive Chairman
Aged 71

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
SEHK¹ – chairman of Listing Appeals Committee and member of Listing Nominating Committee

Other major offices

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~)
King & Wood – partner/senior partner (2005~)
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~)
WFE – vice-chairman and director (2010~)²

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

Executive Council of the Hong Kong Government – non-official member (2005~)
Health and Medical Development Advisory Committee – vice-chairman (2005~)
Honours Committee – member (2010~)²
Non-official Justices of the Peace Selection Committee – member (2007~)
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)
Honorary fellow (HKIoD)
Fellow (HKMA)

1 Appointment as a member of the Disciplinary Appeals Committee ceased effective 16 December 2009.

2 Appointments effective 1 January 2010.



CHOW Man Yiu, Paul
SBS, JP

Executive Director, Chief Executive
(Retired on 16 January 2010)
Aged 63

Chief Executive and ex-officio
member of the Board: 1 May 2003
to 15 January 2010

Other positions held within the Group¹

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 office²

Saudi Stock Exchange Company (Tadawul) – member of International Advisory Board (2009~)³

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)

Qualifications

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)
Distinguished fellow (Hong Kong Computer Society)
Distinguished alumni fellow (HKU SPACE ALUMNI)
Honorary fellowship (The Hong Kong University of Science and Technology)
Honorary university fellowship (The University of Hong Kong)
Honorary fellow (HKSI)
University fellowship (The Hong Kong Polytechnic University)
Fellow (HKMA, HKICS, and The Institute of Chartered Secretaries and Administrators)
Honorary member (Canadian Certified General Accountants Association of Hong Kong)

- 1 Mr Chow retired from all positions within the Group on 16 January 2010.
- 2 Appointments as (i) a director and the vice-chairman of the WFE and (ii) a member of the Standing Committee on Company Law Reform ceased effective 1 January 2010 and 16 January 2010 respectively.
- 3 Appointment effective 1 October 2009.



LI Xiaojia, Charles

Executive Director, Chief Executive
(Effective 16 January 2010)
Aged 48

Joined on 16 October 2009
Ex-officio member of the Board
Term of office: 16 January 2010
to 15 October 2012

Other positions held within the Group¹

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

Shanghai Pudong Development Bank Co Ltd (“SPDB”) (listed on the Shanghai Stock Exchange) – non-executive director (2008~)²
China Vanke Co Ltd (“China Vanke”) (listed on the Shenzhen Stock Exchange) – non-executive director (2008~)²
China Entrepreneurs Forum – director (2005~)

Past offices

J.P. Morgan China – chairman (2003-2009)
Merrill Lynch China (1994-2003: president (1999-2003))
Brown & Wood, New York – associate (1993-1994)
Davis Polk & Wardwell, New York – associate (1991-1993)

Qualifications

Bachelor of Arts in English Literature (Xiamen University, China)
Master of Arts in Journalism (University of Alabama, US)
Juris Doctor (Columbia University, US)

- 1 Appointments to these positions effective 16 January 2010.
- 2 In December 2009, Mr Li tendered his resignation from his office as an independent non-executive director of SPDB and China Vanke and as a convener of the Investment and Decision-making Committee of China Vanke. Pursuant to the “Guidelines for Establishing the Independent Directors System for Listed Companies” (《關於在上市公司建立獨立董事制度的指導意見》) issued by the CSRC and the relevant provisions of the respective articles of association of the two companies, his resignation as an independent non-executive director will take effect upon election at a shareholders’ meeting of a replacement to fill the casual vacancy arising therefrom. His resignation as a convener of the Investment and Decision-making Committee of China Vanke took effect on 29 December 2009.



CHA May-Lung, Laura
GBS, JP

INED
Aged 60

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 Remuneration Committee
SEHK – member of Listing Nominating Committee

Other major offices¹

Bank of Communications Co Ltd – non-executive director (2006~)
China Telecom Corporation Limited – non-executive director (2008~)
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

Baoshan Iron & Steel Co Ltd (listed on the Shanghai Stock Exchange) – non-executive director (2006-2009)
Johnson Electric Holdings Limited – non-executive director (2004-2009)²
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~)
Non-official Justices of the Peace Selection Committee – member (2008~)
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, US)
Juris Doctor (Santa Clara University, US)
State Bar of California (US)

- 1 Appointment as a member of the International Advisory Board of Marsh & McLennan Companies, Inc (listed on the New York, Chicago and London stock exchanges) ceased effective 5 November 2009.
- 2 Appointment ceased effective 24 August 2009.



CHAN Tze Ching, Ignatius
BBS, JP

INED
Aged 53

Director since 23 April 2009
Term of office: 23 April 2009
(elected) to 2012 AGM

Other positions held within the Group	HKEx – member of Audit Committee and Nomination Committee, and deputy chairman of Clearing Consultative Panel HKSCC – member of Disciplinary Appeals Committee ¹
Other major office	The Bank of East Asia, Limited – senior adviser (2009~) ²
Past offices	Bank of China (Hong Kong) Limited – deputy chief executive (2008) Citigroup (1980-2007: Citigroup country officer for Hong Kong and head of corporate and investment banking business for Greater China (2005-2007), chief operating officer for Greater China (2004-2005), and Citigroup country officer for Taiwan (2003-2005))
Public service	Advisory Committee on Bond Market Development – member (2010~) ³ Advisory Committee on Human Resources Development in the Financial Services Sector – chairman (2005~) Greater Pearl River Delta Business Council – member (2008~) Travel Industry Compensation Fund Management Board – chairman (2007~)
Qualifications	Bachelor of Business Administration and Master of Business Administration (University of Hawaii, US) Certified Public Accountant (American Institute of Certified Public Accountants)

1 Appointment effective 11 December 2009.

2 The office has been changed from consultant to senior adviser effective 31 December 2009.

3 Appointment effective 1 February 2010.



CHENG Mo Chi, Moses
GBS, 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 – member of Audit Committee, Nomination 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~)
Guangdong Investment Limited – non-executive director (1999~)
K. Wah International Holdings Limited – non-executive director (2009~)
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)
Galaxy Entertainment Group Limited – non-executive director (1996-2009)
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 ¹

Advisory Committee on Post-office Employment for Former Chief Executives and Politically Appointed Officials – chairman (2009~)
Advisory Committee on Post-service Employment of Civil Servants – chairman (2009~)
Education Commission – chairman (2009~)
FRC – member (2006~)

Qualifications

Solicitor (Hong Kong, England, Victoria of Australia and Singapore)
Notary Public
China-Appointed Attesting Officer
Fellow (CPA Australia, and HKIoD)

¹ Appointments to the ICAC as the chairman of the Citizens Advisory Committee on Community Relations, and a member of the Advisory Committee on Corruption ceased effective 1 January 2010.



CHEUNG Kin Tung, Marvin
GBS, JP

INED
Aged 62

Director since 12 April 2005
Term of office: 23 April 2009
(re-appointed) to 2011 AGM

Other positions held within the Group	HKEx – chairman of Audit Committee and member of Risk Management Committee
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~) Tracker Fund of Hong Kong – chairman of Supervisory Committee (2000~)
Past offices	KPMG Hong Kong (1969-2003: chairman and chief executive officer (1996-2003), and partner (1974-2003)) SEHK – chairman of Listing Committee and GEM Listing Committee (2003-2005) Sun Hung Kai Properties Limited – non-executive director (2007-2009) ¹
Public service ²	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~) Honours Committee – member (2008~)
Qualifications	Honorary Doctorate in Business Administration (Hong Kong Baptist University) Fellow (HKICPA, and Institute of Chartered Accountants in England & Wales)

¹ Appointment ceased effective 3 December 2009.

² Appointments as a member of the ICAC's Operations Review Committee, and a member of the Panel of the Witness Protection Review Board ceased effective 1 January 2010.



HUI Chiu Chung, Stephen
JP

INED
Aged 62

Director since 23 April 2009
Term of office: 23 April 2009
(appointed) to 2011 AGM

Other positions held within the Group	HKEx – member of Investment Advisory Committee and deputy chairman of Cash Market Consultative Panel SEHK – member of Disciplinary Appeals Committee
Other major offices	Chun Wo Development Holdings Limited – non-executive director (2006~) Fraser's Property (China) Limited – non-executive director (2004~) Jiuzhou Development Company Limited – non-executive director (1998~) Lifestyle International Holdings Limited – non-executive director (2005~) Luk Fook Holdings (International) Limited – non-executive director (1997~) OSK Holdings Hong Kong Limited – chief executive officer (2005~)
Past offices	HKSCC – director (1992-1996 and 1997-2000) New World Mobile Holdings Limited – non-executive director (2005-2007) SEHK – member of Listing Committee and GEM Listing Committee (2003-2009), and second vice-chairman (1995-1996 and 1997-2000) and member (1991-1996) of Council UOB Kay Hian (Asia) Limited – managing director (2002-2005)
Public service ¹	SFC – member of Committee on Real Estate Investment Trusts (2005~) Travel Industry Council of Hong Kong – member of Appeal Board (2007~) Zhuhai Municipal Committee of the Chinese People's Political Consultative Conference – member (2006~)
Qualifications	Fellow (HKIoD) Ordinary member (HKSI)

¹ Appointment as a member of the Standing Committee on Company Law Reform ceased effective 1 February 2010.



KWOK Chi Piu, Bill
JP

INED
Aged 57

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 – chairman of Disciplinary Appeals Committee ¹

Other major offices

Bloomberg L.P. – member of Asia Pacific Advisory Board (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

SFC – member of Takeovers and Mergers Panel and Takeovers Appeal Committee (2005~)

Qualifications

Bachelor of Science (Chemistry) and **Bachelor of Arts (Economics)** (Stanford University, US)
Doctor of Philosophy (Biochemistry) (University of Chicago, US)
Fellow (HKSI)

¹ In addition to being a member, Dr Kwok was appointed as the chairman of the Disciplinary Appeals Committee on 16 December 2009.



LEE Kwan Ho, Vincent Marshall

Officer of the Order of the Crown (Belgium)

INED
Aged 54

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

Other positions held within the Group

HKEx – deputy chairman of Audit Committee, member of Executive Committee, Panel Member Nomination Committee and Remuneration Committee, and chairman of Cash Market Consultative Panel
SEHK ¹ – chairman of Disciplinary Appeals Committee ²

Other major offices

Kingway Brewery Holdings Limited – non-executive director (2009~)
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)

Public service

Brewin Trust Fund Committee – member (2006~)
Correctional Services Children's Education Trust Investment Advisory Board – member (2006~)

Qualifications

Graduated Magna Cum Laude in Accounting and International Finance (University of Southern California, US)
Master of Economics (London School of Economics and Political Science, UK)
Certified Public Accountant (State of California, US)
Fellow (HKICPA, and HKIoD)

¹ Appointment as a member of the Disciplinary Committee ceased effective 16 December 2009.

² Appointment effective 16 December 2009.



LEE Tze Hau, Michael

INED
Aged 48

Director since 23 April 2009
Term of office: 23 April 2009
(appointed) to 2011 AGM

Other positions held within the Group	<p>HKEx – member of Investment Advisory Committee and Panel Member Nomination Committee, and deputy chairman of Derivatives Market Consultative Panel</p> <p>HKFE – member of Disciplinary Appeals Committee ¹</p>
Other major offices	<p>Chen Hsong Holdings Limited – non-executive director (2008~)</p> <p>Hysan Development Company Limited – non-executive director (2010~) ²</p> <p>MAP Capital Limited – managing director (2007~)</p> <p>Tai Ping Carpets International Limited – non-executive director (1998~)</p> <p>The Hong Kong Jockey Club – steward (2006~)</p> <p>Trinity Limited – non-executive director (2008~) ³</p>
Past offices	<p>Asia Strategic Investment Management Limited – managing director (1995-2002)</p> <p>Hysan Development Company Limited – managing director (2003-2007), chief operating officer (2002-2003) and non-executive director (1990-2002)</p> <p>Lloyd George Management – executive director (1992-1995)</p> <p>SEHK – member of Listing Committee (2004-2007) and GEM Listing Committee (2006-2007)</p>
Public service	<p>Beat Drugs Fund Association – member of Investment Sub-committee (2008~)</p> <p>Council of the Queen Elizabeth Foundation for the Mentally Handicapped – member (2009~) ⁴</p> <p>Hong Kong Committee for Pacific Economic Cooperation – member (2008~)</p> <p>Police Children’s Education Trust Management Committee – member (2008~)</p> <p>Police Education and Welfare Trust Management Committee – member (2008~)</p> <p>Standing Committee on Disciplined Services Salaries and Conditions of Service – member (2007~)</p>
Qualifications	<p>Bachelor of Arts (Bowdoin College, US)</p> <p>Master of Business Administration (Boston University, US)</p>

1 Appointment effective 16 December 2009.

2 Appointment effective 11 January 2010.

3 Trinity Limited became a listed company on the Main Board of the Stock Exchange effective 3 November 2009.

4 Appointment effective 15 August 2009.



John Estmond STRICKLAND
GBS, JP

INED
Aged 70

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~)
Integrated Distribution Services Group Limited – non-executive director (2004~)

Past offices

HSBC, Hong Kong & London (1971-1998 and 1966-1969)
The Hongkong and Shanghai Banking Corporation Limited – chairman (1996-1998)
Yoma Strategic Holdings Ltd (listed on the Singapore Exchange) – non-executive director (2006-2009)

Public service

Hong Kong Cyberport Management Company Limited – chairman (2003~)
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~)

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 from 8 July 1999. Mr Strickland is currently an Elected Director.



**John Mackay McCulloch
WILLIAMSON**

INED
Aged 51

Director since 18 June 2008
Term of office: 23 April 2009
(elected) to 2012 AGM

Other positions held within the Group

HKEx – member of Audit Committee, Executive Committee and Remuneration 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

Bachelor of Arts (Accountancy & Computer Science) (Heriot-Watt University, UK)

Chartered Accountant (The Institute of Chartered Accountants of Scotland)

Fellow (HKSI, and Chartered Institute for Securities and Investment, UK)



WONG Sai Hung, Oscar

INED
Aged 54

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, member of Nomination Committee and Panel Member Nomination Committee, and chairman of Clearing Consultative Panel

HKSCC – chairman of Disciplinary Appeals Committee¹

Other major offices

ARN Asian Enterprise Fund Limited (listed on the Irish Stock Exchange) – non-executive director (2006~)

China Bio-Med Regeneration Technology Limited – non-executive director (2008~) and non-executive vice-chairman (2009~)

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)

¹ In addition to being a member, Mr Wong was appointed as the chairman of the Disciplinary Appeals Committee (formerly known as Disciplinary Appeals Panel) on 11 December 2009.

Senior Management



Gerald Dale GREINER

Chief Operating Officer

Aged 53

Joined in May 2004

Other positions held within the Group

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

Past offices

HKE – 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, US)
Juris Doctor (University of Toledo College of Law, US)



Peter Joseph CURLEY

Executive Vice President,
Advisory Services

Aged 44

Joined in September 2003

Other position held within the Group

HKE – member of Corporate Social Responsibility Committee

Past offices

HKE – senior vice president of Listing Division (2003-2007)
Allen & Overy (Hong Kong) – partner (2000-2003)

Qualifications

Master of Business Administration (Massachusetts Institute of Technology, US)
Juris Doctor (University of Virginia, US)



Mark Francis DICKENS
JP

Head of Listing
(Effective 1 March 2009)

Aged 57

Joined in January 2009

Past offices

Value Partners Limited – chief risk officer (2007-2008)
HT Capital Management Limited – adviser (2007)
HKE – 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)

Public service

SFC – member of advisory committee (2009~)
Standing Committee on Company Law Reform – member (2010~)

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

Chief Marketing Officer
Aged 60

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), and 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, US)
Master of Arts (Economics) and Master of Science (Statistics) (Stanford University, US)



KAO May Loy, Mary

Chief Counsel and
Head of Legal Services
Aged 60

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)



Kevin Thomas KING

Head of Risk Management
Aged 55

Joined in March 2008

Other position held within the Group **HKSCC** – member of Risk Management Committee

Past offices **OMX Nordic Exchange (Stockholm)** – vice president risk management (2000-2008)
Rabobank International – vice president team leader, risk management area – North America (1996-2000)
Roundhill Group Limited – executive consultant (1995-1996)

Qualifications **Masters of Business Administration (Finance)** (Graduate School of Business, Fordham University, US)
Bachelor of Arts in Economics (St Lawrence University, US)
Member (Global Association of Risk Professionals, and Professional Risk Managers' International Association)



Romnesh LAMBA

Head of Market Development
Aged 46

Joined in February 2010

Past offices

J.P. Morgan (Hong Kong) – senior adviser, Asia ex-Japan corporate finance and capital markets business (2008-2010)
Merrill Lynch (Asia Pacific) (2000-2008: managing director, investment banking, and chief operating officer of China origination business (2006-2008), and head of Asia energy and power team (2003-2006))
Indosuez W.I. Carr Securities (Hong Kong) – head of equity capital markets and director, investment banking (1997-2000)

Qualifications

Bachelor of Science in Economics (Magna Cum Laude) and Master of Business Administration (Distinction)
 (The Wharton School, University of Pennsylvania, US)



LAW Man Wai, Henry

Head of Corporate Communications
Aged 55

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)



TSIM Tak Chee, Archie

Chief Financial Officer and
Head of Finance and Administration
Aged 51

Joined in October 2004

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

Bachelor of Science in Management Sciences
 (University of Manchester, UK)
Fellow (HKICPA, and Association of Chartered Certified Accountants)



WONG Kwok Kuen, Alfred

Chief Technology Officer and
Head of Information Technology
Aged 53

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 **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)
Full member (Hong Kong Computer Society)
Ordinary member (HKSI)

Company Secretary



MAU Kam Shing, Joseph

Company Secretary and
Head of Secretarial Services
Aged 51

Joined in June 2000

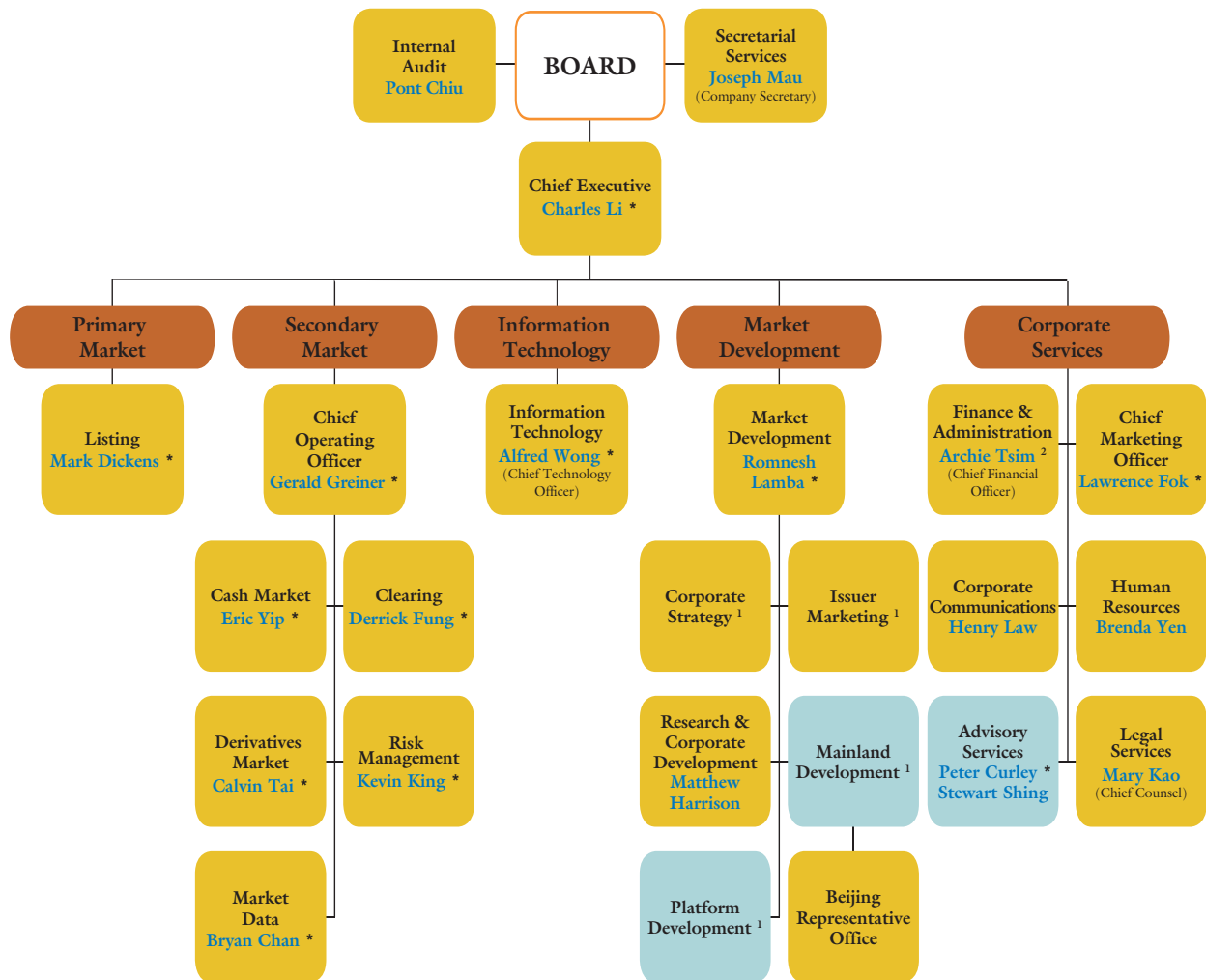
Other position held within the Group **HKEx** – member of Corporate Social Responsibility Committee

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 **Master of Science (Business Administration)** (University of Bath, UK)
Master of Laws in Corporate and Financial Laws (The University of Hong Kong)
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)

Messrs Gerald D Greiner, Lawrence K M Fok and 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



* Members of the HKEx Senior Management Committee

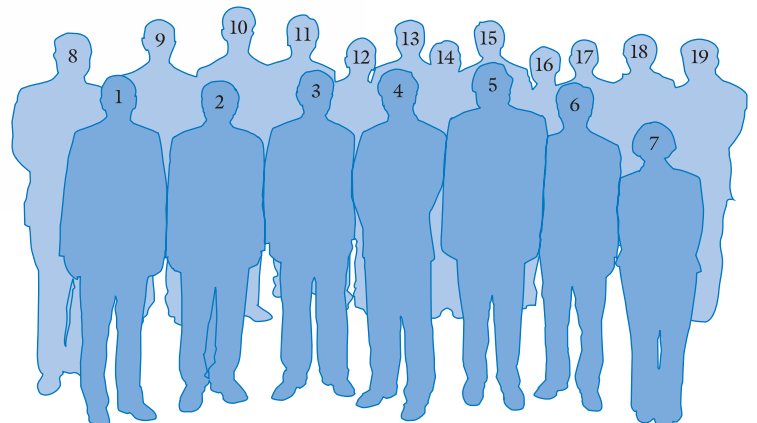
■ New Units

1 Heads of Units to be appointed

2 Mr Tsim will leave HKEx on 31 March 2010 and the search for a new Chief Financial Officer is underway



- | | |
|---------------------|------------------|
| 1. Romnesh Lamba | 11. Joseph Mau |
| 2. Lawrence Fok | 12. Archie Tsim |
| 3. Mark Dickens | 13. Calvin Tai |
| 4. Charles Li | 14. Bryan Chan |
| 5. Gerald Greiner | 15. Derrick Fung |
| 6. Alfred Wong | 16. Eric Yip |
| 7. Mary Kao | 17. Pont Chiu |
| 8. Kevin King | 18. Brenda Yen |
| 9. Matthew Harrison | 19. Henry Law |
| 10. Peter Curley | |



BUSINESS REVIEW

Listing

Combined Consultation on Proposed Changes to the Listing Rules (“2008 Combined Consultation Paper”)

The Listing Rules amendments for 15 of the 18 issues contained in the 2008 Combined Consultation Paper became effective 1 January 2009, except those relating to the extension of the black out period, which were subsequently modified and took effect on 1 April 2009. As a result of the modification, the black out periods applicable to the publication of annual and interim financial results are 60 days and 30 days respectively.

The consultation conclusion on the proposal under Issue 15 (Self-construction of Assets) of the 2008 Combined Consultation Paper was published on 31 July 2009 and the Rule amendments became effective 1 September 2009. The changes will facilitate planning for business development by listed issuers while upholding shareholders’ right to know about and participate in decisions that involve important changes affecting the company.

On 9 October 2009, SEHK published the consultation conclusion on Issue 11 (General Mandates), and concluded that there were no compelling grounds for amending the Listing Rules in this aspect.

Report on CG Code Implementation

On 20 February 2009, SEHK published the findings on its third review of corporate governance practices, as reported by 1,213 issuers in their 2007 annual reports. The findings revealed continued improvements, as listed issuers have chosen not only to comply with the code provisions but also adopt many of the recommended best practices.

Potential Waiver from Profit Test Requirement

On 5 June 2009, SEHK issued a news release setting out the circumstances in which it may consider, on a case-by-case basis, granting waivers to Main Board IPO applicants from strict compliance with the profit test requirements under the Main Board Listing Rule 8.05(1)(a) if their profit over the track record period has been temporarily and adversely affected by the global financial crisis. The Exchange will review the existing profit test and other components of the eligibility requirements at a suitable time.

Report on Review of Listed Issuers’ Financial Reports

For the purpose of promoting higher standards of financial disclosure, the Exchange reviewed 100 financial reports released by listed issuers in 2007 and 2008, which formed part of the Exchange’s Financial Statements Review Programme. On 12 June 2009, the Exchange published the key observations and findings which indicated that some disclosures could be improved and that listed issuers should reassess the adequacy and effectiveness of their existing financial reporting systems periodically and make changes where necessary so they can meet all disclosure requirements in their future financial reports.

Review of IPO Processes and Requirements

On 26 June 2009, SEHK published a consultation paper on streamlining the listing process to help reduce costs and paper burden for both IPO and listing of securities by listed issuers. The relevant amendments to the Listing Rules took effect on 2 November 2009. In response to market views obtained during the consultation process, the Exchange also published a number of guidance materials in July 2009 to enhance the transparency of the IPO application process.

On 4 December 2009, HKEx issued a statement in response to media enquiries regarding dissemination of information concerning companies listed by way of introduction. In view of the large amount of information which may be relevant to investors for making investment decisions and limited space available on the trading screen, HKEx discontinued the practice of displaying on its securities trading screens the latest reported audited net tangible asset value per share on the shares' first trading day effective 7 December 2009. Companies listing by way of introduction are encouraged to issue an announcement to provide intermediaries and investors with the last closing price of their shares on any other markets on or before the first day of trading on the Stock Exchange. Investors are urged to seek advice from brokers or professional advisers if they have any doubt.

Proposals to Accelerate Rights Issues and Open Offers

On 31 July 2009, SEHK published a consultation paper on proposals to accelerate rights issues and open offers. Among the 37 responses received, the responses generally supported the proposals in relation to rights issues. The consultation conclusions were published on 18 December 2009, which concluded that the minimum notice period for book closure for rights issues would be reduced to 6 business days and that the notice period for book closure for open offers would remain unchanged. The relevant amendments to the Listing Rules took effect on 1 February 2010.

Proposal to Accept Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong

On 28 August 2009, SEHK published a consultation paper to seek the public's views regarding a proposed framework to accept the use of Mainland accounting and auditing standards and Mainland audit firms endorsed by the Ministry of Finance People's Republic of China and the CSRC by Mainland incorporated companies listed in Hong Kong. The Exchange received a total of 30 responses. Regulators in the Mainland and Hong Kong are working closely to finalise necessary arrangements for implementation of the proposals.

Consultation Paper on New Listing Rules for Mineral and Exploration Companies

On 11 September 2009, SEHK published a consultation paper proposing a revamp of Chapter 18 of the Main Board Listing Rules. The proposed Rule amendments are intended to ensure that mineral companies provide investors with material, relevant and reliable information, and to align the Listing Rules with globally recognised standards. SEHK plans to publish the consultation conclusions and the proposed new Chapter 18 in 2010.

Proposed Changes to Requirements for Circulars and Listing Documents of Listed Issuers

The Exchange is reviewing the 34 responses received regarding the consultation paper published on 18 September 2009 on proposed changes to streamline requirements for circulars and listing documents of listed issuers to improve the disclosure standards.

Review of Connected Transaction Rules

On 2 October 2009, SEHK published a consultation paper on proposed changes to simplify the Listing Rules in relation to connected transactions. The paper includes proposals to review the definition of a connected person, to provide exemptions for connected transactions which are immaterial or involve persons not in a position to exercise significant influence, and to amend the Listing Rules to address technical issues. The Exchange is reviewing the 70 responses received.

Collective Investment Schemes under Chapter 20 of the Main Board Listing Rules

Following a review of Chapter 20 of the Main Board Listing Rules conducted during 2009, the Listing Committees were of the view that changes to Chapter 20 or the related listing fees were not appropriate. SEHK issued a guidance letter on 23 November 2009 to all authorised collective investment scheme operators to clarify that the equity and debt sections of the Listing Rules do not apply to ETFs listed under Chapter 20. The guidance letter is posted on the HKEx website.

Consultation on Quarterly Financial Reporting

The Listing Committees view quarterly financial reporting as a long-term goal to ensure a regular flow of timely information of issuers' financial performance and position. The Exchange will continue to explore various approaches and undertake consultations with stakeholders on possible alternatives to quarterly financial reporting.

Mixed Media Offer (“MMO”) and Incorporation by Reference Initiatives

The MMO proposal, a joint project of the SFC and HKEx, is designed to reduce the number of printed prospectuses without compromising shareholder protection. In light of the Lehman mini-bond incident which has raised concerns about the preparation and distribution of prospectuses, the SFC decided, in early 2009, to temporarily put the MMO proposal on hold to further examine the shareholder protection impact.

In this connection, the incorporation by reference initiative which follows the policy rationale in the MMO proposal to reduce the size of the prospectus by posting the information online and making it available in printed format to investors upon request, was also put on hold by the SFC.

Corporate Actions Disclosure Guides

HKEx is committed to developing issuer guidelines to improve Hong Kong market practices in corporate action disclosure. Subsequent to the release of the guides on trading arrangements and the disclosure of record date and book closure, which were warmly received by market practitioners, the Exchange further issued a Guide on Distribution of Dividends and Other Entitlements in December 2009. The development of guidelines for other corporate actions will continue in 2010.

IPO Processing

The Exchange has continued to process applications for new equity listings, including transactions by listed companies deemed to be new listings, and handled pre-IPO enquiries. The relevant statistics relating to its IPO work in 2009 are set out in the following table.

Record of IPO Work

	2009	2008
Number of listing applications vetted	150 ¹	179
Number of first comment letters issued to new listing applicants	91 ²	122
Average time (in calendar days) between receipt of application and issuance of first comment letter	19	20
Number of applications brought to the Listing Committees (or their delegates) for decisions	98	113
Number of applications reviewed by Listing Committees (or their delegates) within 120 calendar days	86	83
Number of applications reviewed by Listing Committees (or their delegates) within more than 180 calendar days	7	4
Number of applications to which approval was granted in principle	99 ³	105
Number of requests for guidance from listing applicants or their advisers seeking clarifications of Listing Rules relevant to new listing applications responded	92	74
Average response time (in calendar days)	6	7
Number of listing applications for transfer of listing from GEM to Main Board accepted	4 ⁴	15

Notes:

- 1 123 were new applications and 27 applications were brought forward from 2008.
- 2 The number was less than the total number of new applications accepted because a number of cases (eg, investment vehicles seeking for listing under Chapter 20 and transfer of listing from GEM to Main Board) required no comments from the Listing Division and proceeded to the approval process directly.
- 3 As at the end of the year, 13 approved applications have not yet been listed, and 1 of them lapsed during the year.
- 4 Three applications were reviewed by the Listing Committee within 35 calendar days, and the remaining 1 case was reviewed within 90 calendar days.

Number of IPO Transactions

	2009	2008	2007	2006	2005
New listing applications accepted	123	137	125	88	111
Applications listed	93	57	96	65	76
Companies listed on Main Board pursuant to Chapter 8	64	29	78	54	55
Investment vehicles listed on Main Board	19	7	11	3	6
Transfer of listing from GEM to Main Board	4	18	4	2	2
Companies listed on GEM	5	2	2	6	10
Deemed new listings	1	1	1	0	3
New listing applications rejected	0	1	0	7	5
New listing applications withdrawn	3	8	3	4	5
Applications in process as at year-end	31	27	42	29	32
Active applications with approval granted but not yet listed at year-end	12	24	9	6	6

Number of Listed Companies (as at year-end)

	2009	2008	2007	2006	2005
Main Board	1,145	1,087	1,048	975	934
GEM	174	174	193	198	201
Total	1,319	1,261	1,241	1,173	1,135

Number of Listed Companies by Industry Classification¹ – Main Board and GEM (as at year-end)

	2009	2008	2007	2006	2005
Energy	44	34	28	21	20
Materials	105	93	81	69	62
Industrial Goods	111	113	114	103	92
Consumer Goods	330	327	336	327	317
Services	209	198	188	168	165
Telecommunications	18	17	18	16	17
Utilities	32	24	20	22	22
Financials	102	100	103	103	100
Properties & Construction	191	174	166	158	151
Information Technology	154	158	161	161	162
Conglomerates	23	23	26	25	26
Total	1,319	1,261	1,241	1,173	1,134 ²

Notes:

- 1 According to the Hang Seng Indexes Company Limited
- 2 Excluded 1 listed company which issued participating preference shares only and was delisted in 2006

Compliance and Monitoring

The Exchange has continued to monitor listed issuers' compliance with the Listing Rules by targeting its resources in areas which pose the greatest risks to the maintenance of an orderly, informed and fair market. It conducted a range of activities, including vetting of issuers' documents, monitoring market activities and providing guidance and rules interpretation.

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

	2009	2008	2007	2006	2005
Announcements of listed issuers vetted	27,588	20,784	19,025	11,579	11,092
Pre-vetted	1,589	4,266	5,215	3,915	7,655
Post-vetted ¹	25,999	16,518	13,810	7,664	3,437
Circulars of listed issuers vetted	1,731	2,849	3,048	2,488	2,409
Pre-vetted	1,275	2,761	3,023	2,488	2,409
Post-vetted	456	88	25	0	0
Share price and trading volume monitoring actions undertaken	8,112	8,439	10,083	7,716	6,200
Clarification announcements published by listed issuers in response to share price and trading volume monitoring actions undertaken ²	840	2,627	5,597	3,556	3,172
Press enquiries raised	311	536	495	587	835
Clarification announcements published by listed issuers in response to press enquiries raised	81	43	50	101	N/A
Complaints handled	599	516	512	252	262
Cases (including complaints) referred to Listing Enforcement Department for investigation	54	86	90	141	88

Notes:

- 1 Included clarification announcements published by listed issuers in response to share price and/or trading volume movements in their securities
- 2 398 qualified announcements and 2,229 standard negative announcements in 2008, and 220 qualified announcements and 620 standard negative announcements in 2009.

The Exchange continued its shift in regulatory focus from pre-vetting and clearance of announcements to post-vetting and monitoring. This approach minimises delay in issuers' dissemination of information to the public, and promotes a self-compliant culture among issuers. Phase 1 of post-vetting was implemented in 2009, under which announcements related to fundraisings and smaller notifiable transactions were not pre-vetted. Post-vetted announcements increased from 16,518 in 2008 to 25,999 in 2009. Most issuers were able to comply with the Listing Rules under the new regime. Effective 1 January 2010, the Exchange under Phase 2 ceased to pre-vet issuers' announcement for major transactions and connected transactions. It will take a further 12 months for the final phase to be implemented to cover all categories of announcements.

The post-vetting process was fine-tuned in 2009, under which a high-level review of all announcements and notices was conducted before the commencement of each trading session, and a more detailed review of announcements related to more significant transactions or that posed a high risk to rule compliance was performed. This revised approach accounted for the significant increase in vetted announcements in 2009, of which 11,521 were post vetted in detail (2008: 16,518). Only 5 per cent of all post-vetted announcements required follow-up enquiries, of which 22 per cent resulted in follow-up actions taken by issuers. When issuers are more adapted to the post-vetting regime, the Exchange will further reduce the scope of detailed post-vetting.

In respect of circulars, the implementation of Phase 1 of post-vetting also helped reduce the number of circulars vetted by the Exchange by 39 per cent in 2009, as the requirement of producing a circular for discloseable transactions (there were 531 discloseable transactions in 2009) was removed and circulars regarding routine matters were post-vetted on a selective basis.

While issuers have a positive obligation to disclose price-sensitive information to the market in a timely manner, the Exchange monitors issuers' compliance with their continuing obligations to ensure the trading of their securities is in an orderly, informed and fair market. In 2009, 1,755 enquiries on unusual share price and trading volume movements (2008: 3,675) and 311 press enquiries (2008: 536) were raised by the Exchange resulting in 840 (2008: 2,627) and 81 (2008: 43) clarification announcements published by issuers respectively. There were 110 resumption announcements (2008: 69) published in circumstances where issuers were unable to timely publish announcements regarding price-sensitive information and had therefore requested temporary suspensions. In 2009, 741 waiver applications for particular Listing Rules were processed (including 404 waivers on extension of time for the despatch of circulars) (2008: 759).

During 2009, the Compliance and Monitoring Department referred 54 cases (2008: 86) to the Exchange's Listing Enforcement Department for suspected breaches of the Listing Rules. Meanwhile, the Department continued to provide specific written or verbal guidance to resolve insignificant non-compliance cases. In 2009, the Exchange handled 502 written enquiries on rule interpretation and related matters (2008: 350). Occasionally, the Exchange also issued general guidance to all issuers.

To promote issuers' self-compliance with the Listing Rules, the Exchange encourages issuers to improve their knowledge of the Listing Rules. In 2009, the Exchange implemented a number of initiatives in this regard: (i) organised 2 series of issuer seminars on "Listing Rules Amendments" and "Notifiable Transactions", which attracted an overall attendance of over 3,000 participants; (ii) revamped the Rules and Guidance on Listing Matters section of the HKEx website to facilitate easier search and access to the guidance materials; (iii) commenced an outreach programme with issuers and market practitioners to learn their needs and to facilitate mutual understanding of regulatory issues through continuing dialogue; and (iv) met 171 representatives of issuers and market practitioners through lunch sessions and small group breakfast meetings.

To improve transparency, quality and predictability of service, the Compliance and Monitoring Department has progressively established service standards for itself to measure the timeliness of its monitoring and guidance actions as well as its subsequent responses to issuers' actions, and plans to refine these standards after a review, which is underway. The Department also tracks the overall response time and efficiency in bringing cases to resolution. In 2009, the Department was able to meet the service standards for a majority of cases handled but needed a longer initial response time for those with higher complexity.

Service Standard Set for Initial Responses in 2009

	Service Standard	% of Cases Meeting the Service Standard
Pre-vetting Activities		
Initial response to pre-vetted announcements	Same day	90%
Initial response to pre-vetted circulars	5 business days	99%
Issuer Enquiries		
Initial response to issuer's enquiries	5 business days	85%
Waiver Applications		
Initial response to waiver applications (other than application for delay in despatch of circulars)	5 business days	89%
Post-vetting Activities		
Initial response to post-vetted results announcements	5 business days	92%
Initial response to post-vetted announcements (other than results announcements)	1 business day	92%

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

	Main Board		GEM	
	2009	2008	2009	2008
Resumption of trading of securities during the year	16	12	2	6
Cancellation of listing during the year	1	4	0	3
Companies in the third stage of delisting	2	6	N/A	N/A
Companies notified of Exchange's intention to cancel their listing	1	1	1	2
Companies suspended for 3 months or more	28	32	11	8

Listing Enforcement

The Exchange's strategy for enforcement of the Listing Rules is set out in the *Exchange* Newsletter (October 2004) on the HKEx website. In summary, egregious conduct which may involve a breach of the SFO is referred to the SFC and any serious breaches of the Listing Rules will be subject to disciplinary actions by the Exchange. Other conduct may be disposed of by warning or, if appropriate, no action.

Where the SFC commences an investigation of a case, the Exchange will normally suspend its investigation and give its support to the SFC. Under this arrangement, the Exchange is currently suspending the investigation of 8 cases pending SFC's actions. After the SFC's completion of the investigation of a case, the Exchange will consider if a reactivation of its investigation is required for possible disciplinary action.

The Exchange will also provide technical advice on the application of the Listing Rules in given circumstances and witness statements to support prosecutions by other law enforcement agencies such as the ICAC and the Commercial Crime Bureau of the Hong Kong Police.

In order to further improve the efficiency of investigations, training was offered to staff, and changes were introduced to the internal decision-making structure which are aimed at earlier identification of serious misconduct and breaches of the Listing Rules. The objective of the improvement measures is to facilitate the delivery of regulatory outcomes as quickly as possible while observing the principles of natural justice and due process.

On the other hand, transparency of the disciplinary process has been improved by providing more details in announcements when disciplinary actions are concluded. Another example of increased transparency is the publication of guidance letters on the HKEx website on a redacted and anonymous basis where no action has been taken but the Exchange believes it appropriate to communicate its expectations to listed issuers and their management in certain circumstances. Furthermore, Listing Enforcement Announcements are published on the HKExnews website, if appropriate, with the aim of locating directors who may be in a position to assist enquiries into matters of regulatory concern.

During the year, a number of investigations arising from breaches of the Listing Rules were completed, leading to the imposition of public and private sanctions by the Listing Committees. The relevant information can be found on the HKExnews website. There are currently 6 ongoing disciplinary actions at various stages of the disciplinary process.

Number of Disciplinary Actions (as at year-end)

	2009	2008	2007	2006	2005
Investigations ¹	147	171	167	216	332
Public censures ²	4	10	9	9	10
Public statements/criticisms ²	4	5	7	11	8
Private reprimands	1	0	0	2	3
Warning/caution letters ³	28	68	63	96	109

Notes:

- 1 Included investigations in existence and carried forward from the preceding year but concluded during the year; investigations begun and concluded during the year; and those remained active as at year-end.
- 2 Recorded only the primary regulatory action from a disciplinary matter, and excluded any other actions taken at a lower level, for example, private reprimand in the same case.
- 3 The warning and caution letters were primarily delivered by the Listing Division in circumstances where action before the Listing Committees was not considered appropriate.

In 2009, 4 cases were referred to the Listing Enforcement Department originating from a complaint, which might give rise, after investigation, to disciplinary proceedings. Investigations are in process.

Compliance with the Listing Rules is the collective and individual responsibility of directors whether they hold executive or non-executive roles in the management of listed issuers. The responsibility may arise from the obligation to procure compliance from having specific knowledge of certain events or developments affecting the business affairs of a listed issuer. It may also arise from the obligation to create the conditions by which compliance can be achieved through the creation of compliance systems and controls sufficient to ensure that the directors as a body can discharge that responsibility. Directors may be subject to disciplinary sanctions imposed by the Listing Committees should they be held liable for breaches of Listing Rules.

Number of Directors Subject to Disciplinary Actions as a Result of Contested or Settlement Cases

	2009	2008	2007
Executive Directors	20	67	48
Non-Executive Directors	10	17	20
INEDs	16	26	18
Total	46	110	86

Note: 48 executive and non-executive directors are subject to ongoing disciplinary action whose cases are at various stages of the process or subject to settlement negotiations as at 31 December 2009.

In addition, the Exchange continued to make recommendations to the Listing Committees in appropriate cases to direct remedial action to correct 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 and a requirement for 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 sets out the different types of directions involved.

Number of Contested or Settlement Cases

	2009	2008	2007
Involving "Internal Control Review" Direction	6	4	3
Involving "Retention of Compliance Adviser" Direction	5	5	4
Involving "Training of Directors" Direction	7	4	7

In terms of policy development, the Exchange has been providing input and contributions to the Hong Kong Government in formulating its proposals to give statutory backing to listed issuers' continuing obligation to disclose price-sensitive information.

Listing Operations

During the year, a total of 4,434 DW listing applications were processed (2008: 5,031), of which 4,230 were new issues (2008: 4,822) and 204 further issues (2008: 209). The Listing Operations Department also processed 8,121 CBBC listing applications (2008: 4,281), of which 8,072 were new issues (2008: 4,231) and 49 further issues (2008: 50) during the year. A total of 23 new debt securities, including Exchange Fund Notes, were listed in 2009 (2008: 20).

Number of DWs (as at year-end)

	2009	2008	2007	2006	2005
Newly listed DWs	4,230	4,822	6,312	2,823	1,682
Delisted DWs	3,874	6,294	3,788	2,168	1,241
DWs listed as at year-end	3,367	3,011	4,483	1,959	1,304
Percentage change in number of listed DWs	12%	(33%)	129%	50%	51%

Number of CBBCs * (as at year-end)

	2009	2008	2007
Newly listed CBBCs	8,072	4,231	391
CBBC knockouts	5,899	2,837	250
Delisted CBBCs	1,795	211	34
CBBCs listed as at year-end	1,692	1,314	131
Percentage change in number of listed CBBCs	29%	903%	446%

* 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. 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 2009, the HKEx website housed a total of 895,166 archived issuer documents for public access free of charge. During the year, it recorded over 25 million searches for these issuer documents and 80 per cent of searches were responded to within 0.2 seconds (excluding the Internet transmission time which is beyond HKEx's control). SEHK also administers the filing and publication of DI notices through the HKEx website in accordance with the SFC's requirements and specifications under Part XV of the SFO. Some statistics relating to issuer news and DI are set out in the following table.

Primary Market Information * (as at year-end)

	2009	2008	2007	2006	2005
Number of issuer news filings processed	191,266	143,410	120,622	94,666	81,692
Hit rates for issuer news website (in mil)	176	121	151	94	59
Number of DI filings processed by the Exchange	46,574	54,965	62,211	38,809	32,315
Hit rates for DI filings (in mil)	27	28	31	13	9

* 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 from 2006 to 2009 were about 9 million, 9 million, 5 million and 4 million respectively.

Cash Market

Market Performance

In 2009, 68 companies (including transfers from GEM) were newly listed on the Main Board (5 on GEM), and 10 Main Board companies (1 on GEM) were delisted. Total capital raised, including post-listing funds, reached \$642.1 billion. As of 31 December 2009, 1,145 and 174 companies were listed on the Main Board and GEM respectively with a total market capitalisation of \$17,874.3 billion. In addition, there were 3,367 DWs, 1,692 CBBCs, 7 REITs, 43 ETFs and 157 debt securities listed as at 31 December 2009. The average daily turnover in 2009 was \$62.0 billion on the Main Board and \$304.3 million on GEM.

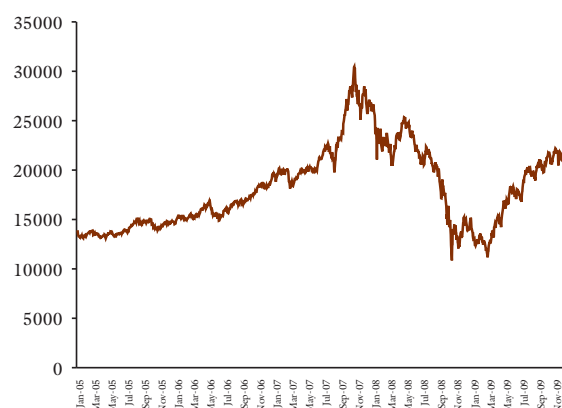
Structured Product Development

HKEx's structured product market, consisting of DWs and CBBCs, has continued to grow. There are 20 active DW issuers and 14 CBBC issuers. During 2009, the average daily turnover of DWs and CBBCs reached \$6.6 billion and \$6.7 billion respectively, accounting for about 22 per cent of total turnover of the Main Board.

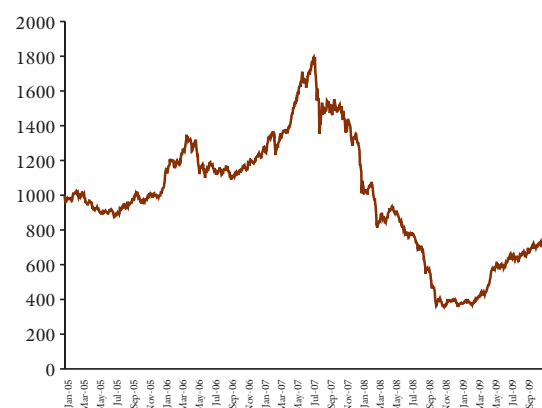
Closing Indices (as at year-end)

	2009	2008	Change
HSI	21872	14387	52%
Hang Seng Composite Index	3052	1982	54%
H-shares Index	12794	7891	62%
Hang Seng China-affiliated Corporations Index	4059	3292	23%
S&P/HKEx LargeCap Index	25564	17891	43%
S&P/HKEx GEM Index	677	385	76%

HSI (01/2005 – 12/2009)



S&P/HKEx GEM Index (01/2005 – 12/2009)

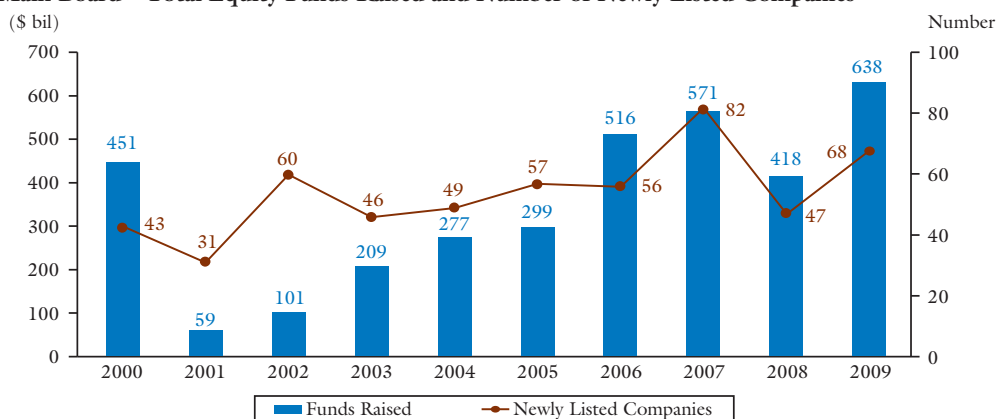


Market Performance of Main Board and GEM (as at year-end)

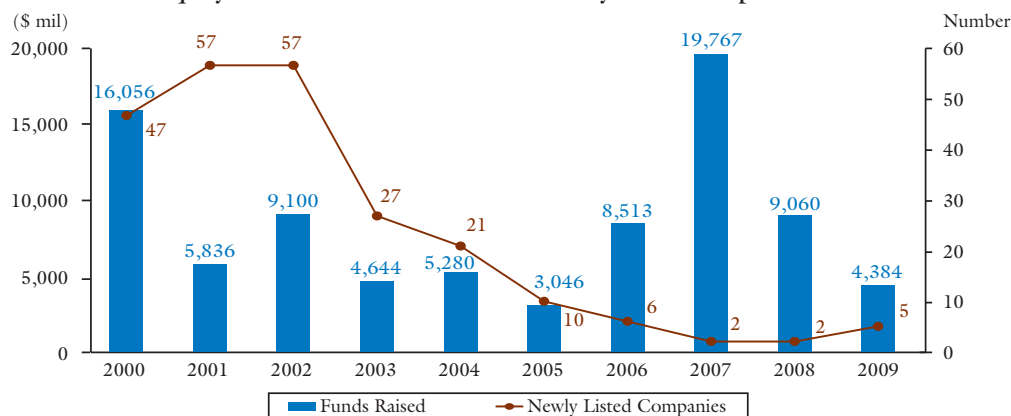
	Main Board			GEM		
	2009	2008	Change	2009	2008	Change
IPO funds raised for the year (\$bil)	248	66	276%	0.4	0.2	100%
Market capitalisation (\$bil)	17,769	10,254	73%	105	45	133%
Number of listed companies	1,145	1,087	5%	174	174	0%
Number of listed securities	6,441	5,654	14%	175	177	(1%)
Total turnover for the year (\$bil)	15,439	17,601	(12%)	76	52	46%
Average daily turnover (\$mil)	62,006	71,840	(14%)	304	213	43%

Note: Figures have been rounded.

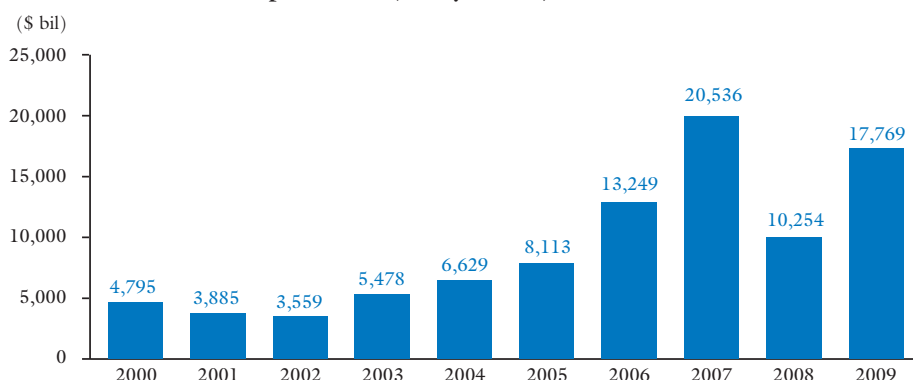
Main Board – Total Equity Funds Raised and Number of Newly Listed Companies



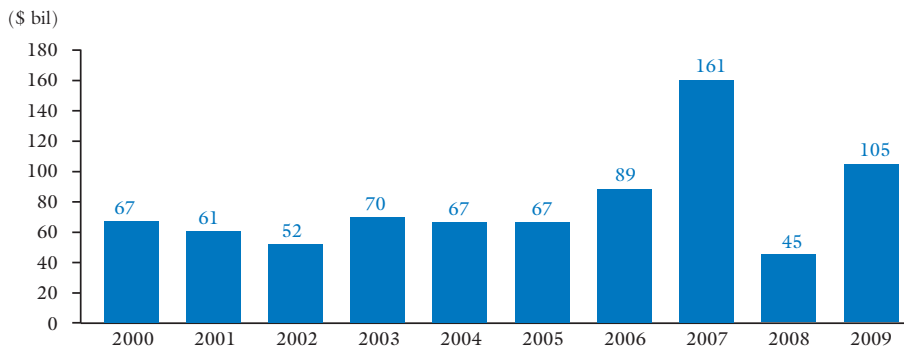
GEM – Total Equity Funds Raised and Number of Newly Listed Companies



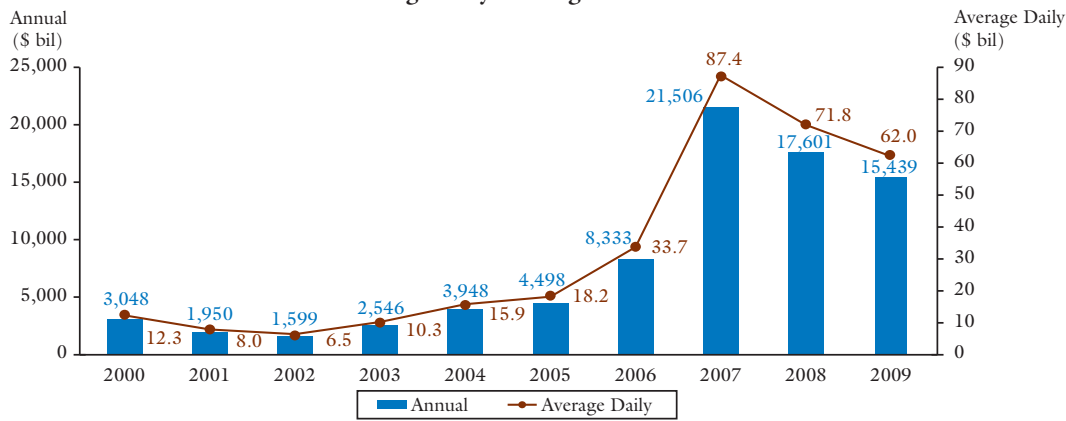
Main Board – Market Capitalisation (as at year-end)



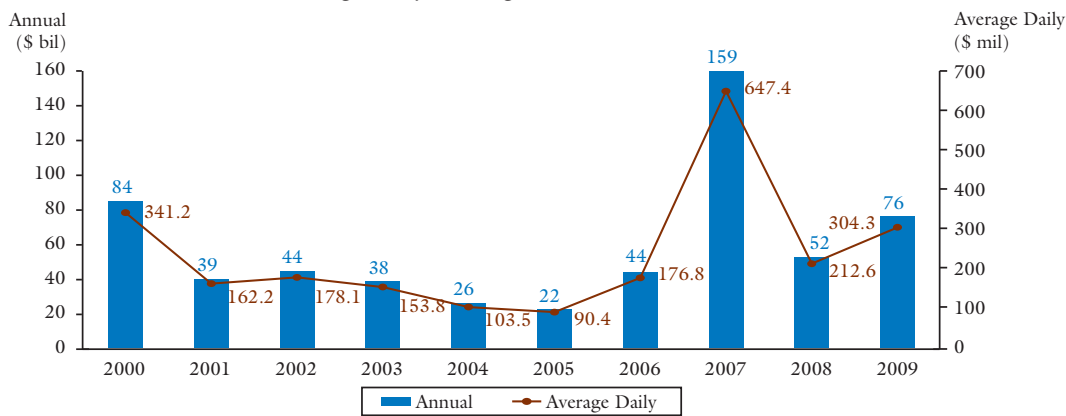
GEM – Market Capitalisation (as at year-end)



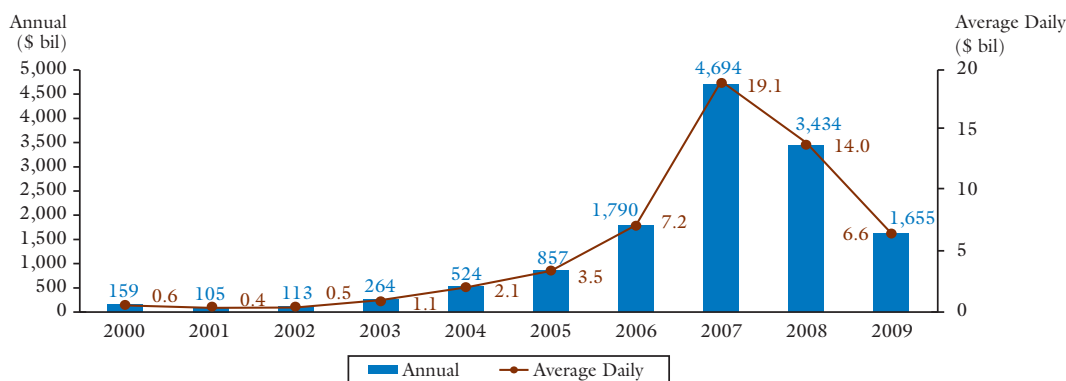
Main Board – Total Annual and Average Daily Trading Value



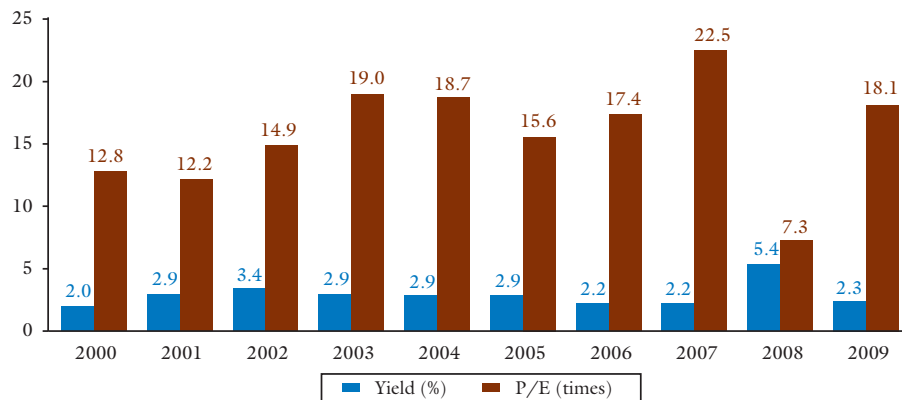
GEM – Total Annual and Average Daily Trading Value



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



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



Note: The above figures have been rounded.

Main Board – New Listings

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Listed Companies ¹	68	47	82	56	57	49	46	60	31	43
Preference Shares	0	0	0	1	0	0	0	0	0	0
Warrants	4,241	4,840	6,329	2,835	1,694	1,273	688	671	212	325
Equity Warrants	11	18	17	12	12	14	10	27	31	46
DWs	4,230	4,822	6,312	2,823	1,682	1,259	678	644	181	279
CBBCs ²	8,072	4,231	391	83	–	–	–	–	–	–
ELI ³	0	0	0	0	0	46	16	25	–	–
Debt Securities	23	20	26	46	32	49	20	18	21	20
Unit Trusts and Mutual Funds	19	7	11	3	6	2	1	1	1	0

Notes:

- 1 Included the number of companies transferred from GEM
- 2 Commenced trading on 12 June 2006
- 3 Commenced trading on 5 August 2002

Suspension of Closing Auction Session (“CAS”)

In light of the price volatility during the CAS since its introduction on 26 May 2008, the CAS in the securities market was suspended effective 23 March 2009 to maintain public confidence in the orderliness, fairness and transparency of the market.

The pre-CAS closing time at 4 pm and the method for calculating closing prices for securities (ie, based on the median of 5 snapshot nominal prices taken during the last minute prior to the end of the market’s afternoon session) were resumed.

HKEx will, in the meantime, continue to explore possible alternative CAS arrangements. Any future proposals concerning the CAS will be put forward for public consultation before implementation.

Expansion of Market Education on Securities Products

More education materials have been posted on the HKEx website to further clarify the potential areas of risk that market participants may face when trading in Hong Kong-listed securities. The risks include price and liquidity risks as well as counterparty risk which can stem from financial intermediaries involved in structuring, managing and providing liquidity. Currently, the ETF product corner provides a list of ETFs classified by their underlying assets and their trading arrangements. There are also individual product corners for different structured products such as DWs and CBBCs which serve as useful resource centres for market participants who are interested in structured products.

ETF Market Development

HKEx's ETF market continued to show strong growth in 2009. As at the end of December 2009, there were 43 ETFs listed on the Exchange, including 19 newly listed in 2009 by 5 different fund managers. The listed ETFs track a wide range of underlying assets including 8 Hong Kong, 8 Mainland, 15 regional and 7 international equity indices as well as 2 bond, 2 commodity and 1 money market benchmarks. In 2009, the average daily turnover of ETFs amounted to \$2 billion, constituting approximately 3 per cent of the total turnover of the Main Board.

On 22 May 2009, the SFC and the Taiwan Financial Supervisory Commission reached an agreement whereby ETFs listed on the Exchange and the Taiwan Stock Exchange ("TWSE") are mutually recognised for cross listing. Upon signing of the agreement, 16 and 11 ETFs listed in Hong Kong and Taiwan respectively became qualified for cross listing. The Taiwan-listed Polaris Taiwan Top 50 Tracker Fund (HK) was cross listed in Hong Kong on 19 August 2009, and 3 Hong Kong-listed ETFs were cross listed on TWSE, which were actively traded by the investors in Taiwan.

HKEx is the first exchange to list Mainland A-share industry sector ETFs. As at the end of December 2009, there were 8 ETFs on Mainland A-share indices, including the 4 Mainland A-share industry sector ETFs listed on the Exchange on 18 November 2009.

To promote greater transparency, HKEx has also posted the obligations of market makers for individual ETFs on its website.

Derivatives Market

Market Performance

In 2009, the total turnover of futures and options recorded a 6 per cent decrease from the previous year. As compared with the performance last year, the turnover of stock options and HSI Futures declined by 13 per cent and 5 per cent respectively, but the turnover of index options and HSI options posted significant increases of 36 per cent and 40 per cent respectively.

In 2009, record high daily volume and open interest were achieved for various products. They are highlighted as follows:

Record High Daily Volume and Open Interest Achieved in 2009

Products	Daily Volume		Open Interest	
	Date	Number of Contracts	Date	Number of Contracts
Mini-HSI Futures	–	–	29 Jul	11,148
Mini H-shares Index Futures	27 Aug	5,326	–	–
Mini-HSI Options	28 Apr	4,584	26 Jun	9,893
H-shares Index Options	11 Dec	41,229	29 Dec	344,647
Gold Futures	–	–	10 Dec	278

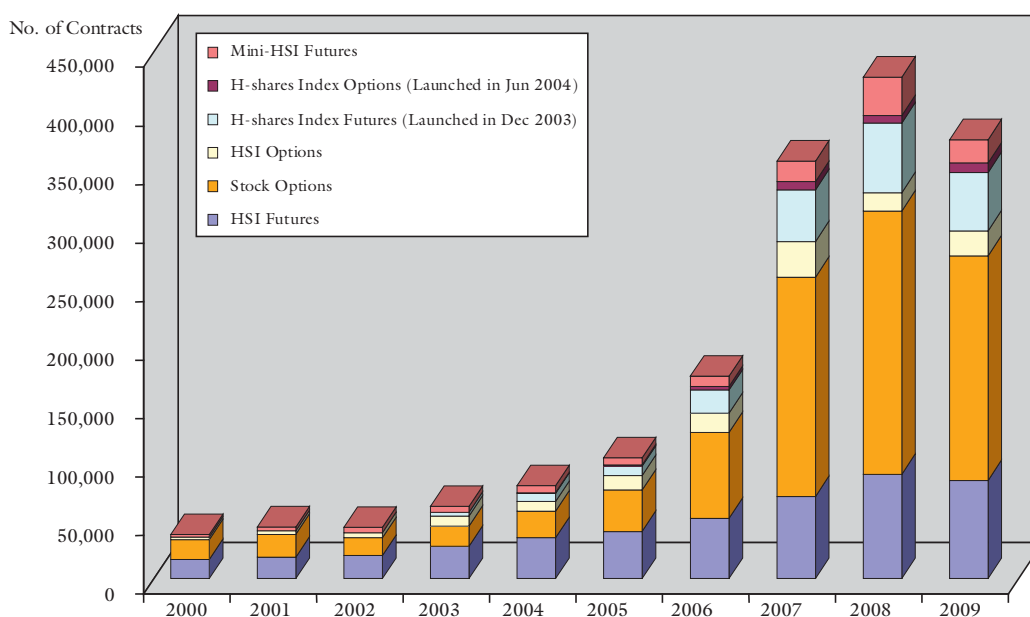
Derivatives Market Statistics (as at year-end)

	2009		2008	
	Volume (Contracts)	Period-end Open Interest (Contracts)	Volume (Contracts)	Period-end Open Interest (Contracts)
Futures				
HSI Futures	20,728,034	68,456	21,716,508	73,034
Mini-HSI Futures	9,279,877	4,447	7,961,028	2,945
H-shares Index Futures	12,394,116	74,324	14,440,965	96,120
Mini H-shares Index Futures ¹	799,894	741	318,395	345
FTSE/Xinhua China 25 Index Futures ²	0	0	39	0
Hang Seng China H-Financials Index Futures ³	0	0	9	0
Stock Futures	271,766	4,407	257,015	9,449
1-Month HIBOR Futures	204	0	891	91
3-Month HIBOR Futures	2,573	103	23,818	2,435
3-Year Exchange Fund Note Futures	0	0	0	0
Gold Futures ⁴	6,773	119	3,075	132
Total	43,483,237	152,597	44,721,743	184,551
Options				
HSI Options	5,367,403	175,720	3,820,797	75,829
Mini-HSI Options	286,591	3,551	156,957	1,796
H-shares Index Options	1,961,131	124,030	1,613,988	59,592
FTSE/Xinhua China 25 Index Options ³	0	0	386	0
Stock Options	47,439,896	3,848,117	54,692,865	3,984,346
Total	55,055,021	4,151,418	60,284,993	4,121,563
Total Futures and Options	98,538,258	4,304,015	105,006,736	4,306,114

Notes:

- 1 Launched on 31 March 2008
- 2 Last trading on 30 December 2008
- 3 Last trading on 23 December 2008
- 4 Launched on 20 October 2008

Average Daily Turnover of Major Derivatives Products (2000–2009)



No-action Relief for Mini Futures Contracts

On 16 January 2009, the Commodity Futures Trading Commission (“CFTC”) granted HKFE no-action relief in connection with the offer and sale in the US of mini futures contracts based on the HSI and HSCEI. With the relief, EPs may offer and sell mini futures contracts based on the HSI and HSCEI in the US by observing the relevant CFTC rules. Similar no-action reliefs have been granted to HSI Futures and H-shares Index Futures by the CFTC since June 1994 and September 2006 respectively.

Introduction of New Stock Option Classes and Revision of Position Limit

A total of 6 new stock option classes were introduced for trading in 2009, namely options on China Overseas Land & Investment Limited, Tencent Holdings Limited and Zijin Mining Group Company Limited in July, and options on BYD Company Limited, China COSCO Holdings Company Limited and Guangzhou R&F Properties Co., Ltd. in November.

In order to cope with the growing stock options market, HKEx revised the position limit of 6 option classes to 50,000 open contracts per option class in any direction for all expiry months combined effective 2 July 2009. These 6 option classes are options on CITIC Pacific Limited, Henderson Land Development Company Limited, HKEx, Li & Fung Limited, Swire Pacific Limited ‘A’ and The Wharf (Holdings) Limited.

Additional Products Tradable by Taiwan Investors

In addition to HSI Options, HSI Futures and Mini-HSI Futures, HKEx obtained approval from Taiwan regulatory authorities to allow Taiwan investors to trade in H-shares Index Futures and Options and Mini H-shares Index Futures effective 14 September 2009.

Offering More Choice of Strikes and Maturities for Stock Options Trading

With rule amendments effective on 2 November 2009, the strike intervals for option classes with underlying prices below \$10 were narrowed from 4-10 per cent to 2-5 per cent of the underlying prices so as to allow investors to trade in stock options with strike prices closer to the underlying stock prices. The revised strike intervals are applicable to 21 active option classes, including that on the Tracker Fund of Hong Kong. Moreover, a third calendar quarter expiry month was added to the same group of option classes in order to provide more choice for market participants in terms of longer maturity.

Introduction of Flexible Index Options

HKEx introduced HSI and H-shares Index options contracts with flexible strike prices and expiry months (collectively, “Flexible Index Options”) as of 8 February 2010. The Flexible Index Options will provide OTC market participants with an attractive counterparty risk alternative and help increase market transparency by attracting more OTC deals through HKEx’s block trade facility.

Public Consultation on Certified Emission Reduction (“CER”) Futures

HKEx published its consultation conclusions on CER Futures on 29 December 2009. HKEx received a total of 24 submissions from financial intermediates (carbon trading desks from investment banks and a financial services company), Clean Development Mechanism (“CDM”) project advisory companies, carbon trading companies, industrial and professional associations, utility companies in Hong Kong, an overseas governmental body and 2 individuals. None of the submissions were from EPs, CDM project developers or compliance buyers. Having considered the market responses and based on an analysis of the current facts and circumstances, HKEx considers that there is no imminent need for a CER futures market in Hong Kong. Nevertheless, HKEx reckons the carbon emission markets may become more important in the long run, and it will continue to monitor the development of emission policies in the Mainland and other markets, and revisit the product concept of CER Futures at an appropriate time.

Clearing

CCASS Statistics (up to year-end)

	2009	2008
Average daily Exchange Trades handled by CCASS		
Number of trades	713,412	577,110
Value of trades (\$bil)	62.3	72.1
Share quantity involved (bil)	99.6	110.6
Average daily SIs settled by CCASS		
Number of SIs	69,658	63,433
Value of SIs (\$bil)	164.0	193.1
Share quantity involved (bil)	40.6	50.0
Average daily ISIs settled by CCASS		
Number of ISIs	560	566
Value of ISIs (\$mil)	291.8	220.2
Share quantity involved (mil)	111.7	181.6
Average daily settlement efficiency of CNS stock positions on due day (T+2)		
	99.85%	99.81%
Average daily settlement efficiency of CNS stock positions on the day following the due day (T+3)		
	99.99%	99.98%
Average daily buy-ins executed on T+3		
Number of brokers involved	8	8
Number of buy-ins	9	11
Value of buy-ins (\$mil)	3.4	8.4
Shares deposited in the CCASS depository		
Number of shares (bil)	3,286.6	3,408.3
Percentage of total issued share capital of the admitted securities	70.93%	72.57%
Value of shares (\$bil)	9,245.1	5,040.5
Percentage of the total market capitalisation of the admitted securities	49.19%	44.62%

Participation Opens to Overseas Clearing Houses and Central Depositories

In order to provide an additional and lower cost option to overseas market participants who are holding Hong Kong-listed securities as custodians, and to facilitate more order flow to Hong Kong, overseas clearing houses and central depositories (collectively, “CSDs”) can now apply to become HKSCC’s Clearing Agency Participants (“CAPs”) in respect of those Hong Kong-listed securities. CSDs will manage their accounts in CCASS electronically through CCASS terminals installed in their jurisdictions, and they will be subject to Hong Kong laws and the participant agreement to be executed with HKSCC. For due diligence purposes, HKSCC will follow the international practice to require CSDs to submit independent legal opinion on their eligibility, under the laws of their jurisdictions, to become CAPs.

CCASS Service Enhancement

Effective 25 May 2009, a new intra-day report is provided to the CCASS Clearing and Custodian Participants to facilitate their monitoring of intra-day settlement activities shortly after the completion of the second batch settlement run at around 12:30 pm.

In addition to providing custody services to its Participants for securities listed and/or traded on the Stock Exchange, HKEx is planning to expand the CCASS service scope to unlisted equity linked investments and is working closely with an issuer to admit its new issues into CCASS.

MOU with The National Depository Center

HKSCC and The National Depository Center (Closed Joint Stock Company) of the MICEX Group, an exchange operator based in Russia, signed an MOU on 17 September 2009. The MOU covers cooperation and the exchange of information, and further strengthens HKEx’s ties with its counterparts in Russia.

DCASS Service Enhancement

Effective 5 October 2009, DCASS's capital adjustment processing time for derivatives contracts to conserve the contract value as a result of corporate action of the underlying securities was substantially reduced. The shortened processing time enables the derivatives clearing houses to process capital adjustments more frequently and to meet tighter announcement deadlines. In addition, the time for participants to retrieve DCASS reports has been extended by more than 9 hours from 9:00 am to 6:45 pm (System Input Cutoff Time) on the next business day.

T+2 Finality for Stock Exchange Trades

Securities trades executed on the Stock Exchange are currently settled in CCASS on T+2 while the money settlement is completed in the morning of T+3. HKEx plans to implement T+2 Finality for Stock Exchange Trades to reduce the overnight counterparty risk created by the settlement time gap. With the support of the Hong Kong Monetary Authority and the HKICL, a model has been proposed to effect money settlement at the end of T+2 so as to bring finality of securities and money settlement for Stock Exchange Trades and SIs on the same business day. On 27 November 2009, HKEx published a consultation paper on the proposed T+2 Finality model to seek views and comments from market players. The consultation conclusions are planned to be published in the second quarter of 2010.

Scripless Securities Market

The SFC set up a working group in April 2009 to study the feasibility of a scripless securities market in Hong Kong. The working group, comprising representatives of the SFC, HKEx and the Federation of Share Registrars Limited, published a joint consultation paper on 30 December 2009 on a proposed operational model for implementing a scripless securities market. The consultation will last for 3 months, and the conclusions are planned to be published in the second quarter of 2010.

Development of Debt Market

In September 2009, the first Government Bond targeting institutional investors was admitted into CCASS as one of the eligible securities. As at the end of 2009, 2 issues of the Government Bonds raising a total of \$5.5 billion were admitted into CCASS.

In view of the fast growing debt securities market, an enhancement was made on 18 January 2010 to the tender functions to support debt securities trading in all currencies including RMB and USD.

System Readiness for Clearing RMB Products

All trading and clearing systems of the HKEx markets support multi-currency transactions. At present, only HKD and USD transactions are being processed. As HKSCC is not a member of the HKICL, it now relies on its agent bank and the HKICL to settle CCASS money transactions (fund transfers for the clearing and settlement of securities trades on the Stock Exchange) between Designated Banks of its Participants. To prepare for the processing of RMB transactions when the relevant policies and arrangements are in place, HKEx worked with the Hong Kong Monetary Authority and the HKICL to upgrade the inter-bank clearing system in mid-2009. Both the securities clearing and inter-bank clearing systems are now ready to support clearing of RMB-denominated products.

Participant Services

Non-transferability of Stock Exchange Trading Right (“SETR”)

HKEx issued a circular to EPs on 24 July 2009 reminding them that, pursuant to the merger documents, the SETR conferred on the then SEHK’s shareholders upon merger of the exchanges and their clearing houses on 6 March 2000 can only be transferred once within a period of 10 years from the date of merger and shall become non-transferable after 5 March 2010. SETRs issued by the Exchange subsequent to 6 March 2000 are non-transferable at all times.

Participant Training and Market Education

In 2009, HKEx organised 39 Continuous Professional Training (“CPT”) courses jointly with the HKSI on HKEx’s services and products for about 1,200 market participants. A number of the training courses on AMS/3, HKATS, CCASS and DCASS were also held to familiarise EPs with the operation of the trading and clearing devices, and the relevant rules and procedures.

Knowledge of our products as well as the risks associated with them is critical for market participants. Much of our education material and product information is delivered via the HKEx website. In addition, we held 46 briefing sessions and seminars on our derivatives products for over 2,500 representatives from EPs in 2009. We also organised 28 interactive training courses on Stock Options to EPs’ frontline sales teams and attracted more than 500 attendees. We sponsored 6 EPs with prizes and real-time market data feed for online simulation games of HSI futures during the second half of 2009, which attracted a strong response with over 6,600 participants.

EP Recruitment

In 2009, 19 SEHK Participants and 22 HKFE Participant were newly admitted, including those from France, India, Korea, Switzerland, the Mainland, the Netherlands, the UK and the US, and Taiwan.

Number of Trading Right Holders (as at the end of December 2009)

	SEHK		HKFE	
	Trading Right Holders	Trading Rights Held	Trading Right Holders	Trading Rights Held
EPs	495	910	167	192
Trading	463	873	167	192
Non-trading	32	37	0	0
Non-EPs	30	30	44	46
Total	525	940	211	238

Number of CCASS Participants (as at the end of December 2009)

	HKSCC
Clearing Agency Participant	1
Custodian Participants	35
Direct Clearing Participants	452
General Clearing Participants	7
IPs	22,208
Stock Lender Participant	0
Stock Pledgee Participants	5
Total	22,708

Promotional Activities

Listing Promotional Activities for Mainland Enterprises

In 2009, we continued to organise events and roadshows in the Mainland, with focus on the more strategically important cities and regions, to promote Hong Kong as the most active international capital market for Mainland enterprises to raise capital. Hong Kong Government officials and Hong Kong intermediaries firms were invited to join our promotional activities. The Secretary for Financial Services and the Treasury, Professor K C Chan, participated in our conferences held in Guangzhou and Quanzhou and led the delegation of Hong Kong intermediaries to explain various aspects of listing requirements to potential applicants.

Among the 18 promotional events which included large scale conferences, roundtables and workshops, a seminar mainly for retail and domestic consumption enterprises was held in Guangzhou and another targeted at Guangxi enterprises was held for the first time in Nanning.

Exchange executives also made over 80 trips to different Mainland cities to give speeches and meet with government officials to promote listing in Hong Kong. We also conducted one-on-one visits to interested companies and leading enterprises in various sectors and industries, including those already listed on other exchanges.

Major Events Organised by HKEx in the Mainland during 2009

Date	Place	Event/Joint Organiser(s)	Number of Attendees
19 May	Guangzhou	Financing Strategy under the Financial Crisis – 2009 and Listing Seminar in Guangzhou/FSTB, The Finance Affairs Office of People's Government of Guangdong Province and The Economic & Trade Commission of Guangdong Province	250
23 Sep	Wuhan	Listing in Hong Kong Seminar and Roundtable Meeting/Hubei Provincial Government, Wuhan Municipal Government, The Administration Committee of Wuhan East Lake High-tech Development Zone	390
21 Oct	Nanning	HKEx Seminar on Listing and Fund Raising/The Secretariat of China-Asean Expo and Department of Commerce of Guangxi Investment Promotion Bureau of Guangxi	300
30 Oct	Dongguan	Dongguan-Hong Kong Financing & Merging Forum/Science and Technology Bureau of Dongguan and Hong Kong Productivity Council	250
9 Dec	Quanzhou	Listing and Fund Raising Seminar for Fujian Enterprises/Fujian Hongkong Economic Cooperation Committee, Fujian Development and Reform Commission, Quanzhou Municipal People's Government and FSTB	250

Listing Promotional Activities Targeting Overseas Companies

During 2009, with increased interest in seeking new listings or dual listings to access the ample liquidity in Asia, HKEx organised 3 events in Japan, Korea and Russia to promote listing on the Exchange and the strategic advantages of using Hong Kong as the key fund-raising platform for the China-related business operations of regional companies. The Financial Secretary, Mr John Tsang, and our Chairman were key note speakers at a conference in Moscow.

Mining companies from around the world gathered in Hong Kong in June 2009 to take part in the "Mines and Money Asia" conference which has gained prominence as an important annual event to discuss financing trends of mining companies. Hong Kong was introduced as a key capital market for natural resources companies.

Executives also travelled to Australia, Japan, Korea, Mongolia, Russia, the UK and Vietnam, and Taiwan during the year to discuss with potential listing companies and their market intermediaries.

Major Events Organised by HKEx in Hong Kong and Overseas during 2009

Date	Place	Event/Joint Organiser(s)	Number of Attendees
2 Jun	Moscow	Hong Kong: The Ideal Fund-Raising Centre in Asia/Hong Kong Trade Development Council	200
3 Jun	Hong Kong	Hong Kong as an International Metals and Mining Capital Formation Centre in Asia/The Mining Journal and Beacon Event	200
10 Nov	Tokyo	Capitalising on China's Growth through Hong Kong – China's International Financial Centre/Hong Kong Trade Development Council and InvestHK	254

Training Programmes on Listing in Hong Kong

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 in 2009. The training programmes were targeted at senior accounting and finance officials of Mainland enterprises, and covered corporate governance practices 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 in (i) the "Cross Border ETF Market Forum" organised by the Taiwan Stock Exchange in Taipei to promote the Hong Kong ETF market; (ii) the Investment Expo jointly held with 11 EPs in Hong Kong to promote Stock Options and Gold Futures; and (iii) the Futures Industry Association Asia Derivatives Conference held in Singapore to promote HKEx's Derivatives Market.

Since June 2009, we have commenced the Joint Promotional Programme on Stock Options with 6 OTEPs. Under the programme, 13 seminars were organised by EPs with the objective of increasing retail participation. Market makers were invited as guest speakers at these seminars which attracted over 3,000 participants.

In November 2009, HKEx, as a Financial Information Services Division ("FISD") member, co-hosted the Asia Pacific Financial Information Conference with the FISD in Hong Kong. During the year, HKEx also participated in major market data industry conferences held by the FISD in Athens, Hong Kong and Shanghai to share latest development in the market data industry with market practitioners including global exchanges, market data vendors and international financial institutions.

To promote HKEx market data in the Mainland, we visited Mainland television stations in Beijing and Shanghai in early September 2009, and the Hubei television station and Shenzhen television station in November 2009. In this connection, we also visited IVs in Beijing and Shanghai to explore ways to facilitate direct connection of Mainland IVs to the HKEx market data systems.

Information Services**Market Performance**

As at the end of 2009, there were 124 and 49 real-time IV licences for Cash Market data and Derivatives Market data respectively (2008: 112 and 41). The licensed IVs altogether offered a total of 777 types of real-time market data services to the market (2008: 699). The number of delayed market data vendors increased to 85 as at the end of 2009 (2008: 75).

Provision of Free Real-time Basic Market Prices on Websites

On 1 January 2010, the Free Real-time Basic Market Prices Website Service, or Free Prices Website Service was officially launched on 6 designated websites, namely www.aastocks.com,

www.etnet.com.hk and www.on.cc in Hong Kong, and www.sohu.com, www.jrj.com.cn and www.qq.com in the Mainland. Under this pilot programme, which will last till the end of December 2011, real-time basic securities prices on the Hong Kong market can be accessed by investors at the designated websites free of charge. The main objectives of the Free Prices Website Service are to expand dissemination of Hong Kong securities market information and to raise the Hong Kong securities market's profile in the Mainland. HKEx will review the pilot programme at its later stage to determine whether the service should continue after 2011, and in what form.

Service Enhancement and New Market Data Policies

HKEx has revised some of its information services policies to meet changing business and market needs. To increase market transparency and provide additional information to investors, HKEx, effective 1 November 2009, broadened the scope of the delayed content for its securities and traded options market data service to include the last 4 transactions. HKEx also issued an updated Guideline on Third Party Website Service (previously known as Framing Quotation Service on Third Parties' Websites) to waive the minimum monthly fee of \$6,000 for such services provided by IVs on the websites and in-house systems of EPs in order to further support EPs' on-line trading services.

From September 2009 onwards, all IV notices are posted on the HKEx website to enhance communication with IVs. Other notices since January 2007 are also available on the HKEx website for IVs' reference.

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

HKEx has reviewed the planned fee adjustments announced in September 2008. In view of market development and market feedback, the monthly fees of \$80 (retail clients)/\$120 (corporate clients) for the Mainland China Discount Programme will remain unchanged until the end of 2010. A futures data package without price depth will continue to be offered together with the securities information package free of charge under the discount programme.

Mainland Market Data Collaboration Programme

The Mainland Market Data Collaboration Programme between HKEx and the Shanghai Stock Exchange ("SSE") commenced on 1 January 2009. Under the programme, both HKEx and SSE are allowed to redistribute the other party's basic real-time market data of companies dually listed on the 2 markets to their own authorised IVs for onward transmission to their subscribers for internal display purposes. Up to the end of December 2009, a total of 18 HKEx IVs and 7 SSE IVs had participated in the programme.

Compliance and Unauthorised Dissemination

With the objectives of maintaining a level playing field and promoting fair competition, HKEx delivers presentations on vendor management and selects vendors for annual inspection to ensure compliance with the contractual requirements. In 2009, a total of 55 (2008: 24) IVs were included in the Vendor Inspection Programme, representing 65 per cent (2008: 68 per cent) of our total information income. A total of 17 unauthorised dissemination cases were resolved in 2009 (2008: 20) to better protect investors.

Information Technology

System Reliability, Availability and Stability

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. HKEx remains committed to upholding system reliability, availability and stability.

System Capacity Planning and Upgrade

The AMS/3 technical revamp was implemented on 18 January 2010 as part of HKEx's effort to pursue continuous improvement in its core market systems. The revamp is a software enhancement initiative without additional hardware investments, aiming to double the system throughput from 1,500 to 3,000 orders per second to support new business initiatives and further growth of trading activity in the securities market.

Corresponding design enhancements were also implemented for CCASS/3 and MDF for capacity alignment with AMS/3. New interface architecture for AMS/3 will also be introduced to facilitate higher scalability of the satellite systems.

To cope with anticipated capacity demand of the securities market for the next few years, HKEx plans to further initiate a major software redevelopment and hardware upgrade exercise for AMS/3 and MDF in 2010. The aim is to improve the system capacity and reduce order execution latency by at least 5 times with implementation scheduled for the end of 2011.

To support increased volume of orders and market making activities for the Derivatives Market, the capacity of HKATS was upgraded by 50 per cent in April 2009 to support about 8,100 order book changes per second. The capacity of PRS was also expanded in July 2009 as part of the exercise to cope with the projected increases in the market data volume and number of IV connections. In October 2009, PRS was further enhanced to enrich the real-time market data content, including information on standard combination orders, cumulative volume of block trades, high priority market messages, opening price and net open interest, to raise the transparency of the Derivatives Market.

Obsolete Technology Replacement and Upgrade

As a proactive measure to achieve sustainable high availability and quality vendor support for mission critical systems, the CCASS/3 mainframe and database software as well as the HKATS/DCASS operating system and the associated software were upgraded in September and early October 2009 respectively.

In November 2009, HKEx also upgraded the internal HKATS/DCASS gateway servers which required replacement due to technology obsolescence.

System Consolidation and Operational Efficiency

HKEx implemented a number of initiatives during 2009 to improve operational efficiency and save paper. These included implementation of the e-Securities Declaration and Approval System and e-Performance Management System and production of data centre reports in electronic copies as far as possible. HKEx will explore opportunities to enhance various management information systems and support systems as an ongoing effort to improve the efficiency and environmental friendliness of daily operations.

Independent Review of Derivatives Market Systems

The independent review of the core application systems (including trading, clearing and settlement, and market data dissemination systems) serving the Derivatives Market has been substantially completed and the preliminary findings re-affirmed that the core Derivatives Market systems were well managed and operated at a high standard of compliance with international best practices. The review is expected to be completed by the end of March 2010.

As part of HKEx's ongoing efforts to pursue operational excellence for its mission critical systems, another independent review of the clearing and settlement systems serving the Cash Market will commence in 2010.

HKEx Website Revamp

In 2009, HKEx engaged a consultant to revamp its website, aiming to benchmark its information architecture against local and international best practices. The revamped website, with an enhanced interface design, will be launched in the first quarter of 2010.

HKEx Data Centre and IT Office Consolidation

The relocation of the primary data centre for the Derivatives Market and the related IT staff from Central to an expanded data centre in Quarry Bay was completed in June 2009. This expanded data centre provides additional space and facilities to support growth of Derivatives Market activities.

HKEx plans to build a production data centre (“PDC”) which will be equipped with modernised facilities and infrastructure to host the existing Exchange Square data centre, 2 other secondary data centres as well as IT development and support staff. It will also provide additional space to cope with HKEx’s new business development and expansion. In February 2010, the Board accepted the offer of a land site in Tseung Kwan O Industrial Estate at a land premium of about \$26 million for building the PDC which is scheduled for completion in 2013. Total development costs are estimated at \$700 million over the next 3 years.

Risk Management

Establishment of Enterprise Risk Management (“ERM”) Framework

To assure that risks within HKEx are managed at acceptable levels, we have developed an ERM framework and related methodology and processes to identify, assess, score, report and review significant risks across the organisation. Appropriate decisions and actions will be taken as part of the risk reviews to ensure that our risk control measures are adequate and risks across the organisation are managed in an effective and consistent manner. The ERM framework and processes are supported by ERM software applications which are specifically designed to meet the Company’s ERM requirements.

Buy-in Execution Efficiency Enhancement

To further improve the efficiency of the buy-in execution process and to ensure a competitive commission rate from all authorised brokers, HKSCC invited the participants who met our requirements to become authorised brokers for buy-in transactions. In November 2009, a total of 10 authorised brokers were appointed based on the selection criteria.

Market Surveillance

Under the MOU between the SFC and HKEx on matters relating to market surveillance, HKEx refers to the SFC from time to time suspected violations of Hong Kong laws or the SFC codes, rules and/or regulations relating to HKEx’s Cash and Derivatives Markets. During 2009, 112 cases (40 were Cash Market related and 72 were Derivatives Market related) were referred. The SFC might make criminal prosecutions and/or disciplinary actions against licensed persons in respect of market misconduct matters.

Completion of Liquidation of Tai Wah Securities Limited (“TWSL”)

In respect of the failure of TWSL to meet its obligations to HKSCC in 2003, the liquidation process was completed with a release granted to the liquidators by the High Court of Hong Kong in October 2009. In December 2009, \$1.7 million was recovered from the designated reserves of the HKSCC Guarantee Fund.

Treasury

The Group's funds available for investment comprise Corporate Funds, cash collateral, Margin Funds and Clearing House Funds, totalling \$40.1 billion on average in 2009 (2008: \$62.3 billion).

As compared with 31 December 2008, the overall size of funds available for investment as at 31 December 2009 decreased by 38 per cent or \$20.2 billion to \$33.6 billion (2008: \$53.8 billion). Details of the asset allocation of the investments as at 31 December 2009 against those as at 31 December 2008 are set out below.

	Investment Fund Size \$ billion		Bonds		Cash or Bank Deposits		Global Equities	
	2009	2008	2009	2008	2009	2008	2009	2008
	Corporate Funds	8.2	7.2	69%	76%	28%	22%	3%
Cash collateral	3.4	3.6	0%	0%	100%	100%	0%	0%
Margin Funds	20.2	41.8	34%	39%	66%	61%	0%	0%
Clearing House Funds	1.8	1.2	24%	30%	76%	70%	0%	0%
Total	33.6	53.8	38%	41%	61%	59%	1%	0%

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the cash collateral, Clearing House Funds and Margin Funds. Excluding equities and mutual funds held under the Corporate Funds (\$0.2 billion as at 31 December 2009 and as at 31 December 2008), which have no maturity date, the maturity profiles of the remaining investments as at 31 December 2009 (\$33.4 billion) and 31 December 2008 (\$53.6 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	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	Corporate Funds	8.0	7.0	16%	13%	1%	6%	24%	56%	45%	16%	14%
Cash collateral	3.4	3.6	100%	100%	0%	0%	0%	0%	0%	0%	0%	0%
Margin Funds	20.2	41.8	33%	32%	10%	35%	23%	33%	34%	0%	0%	0%
Clearing House Funds	1.8	1.2	67%	66%	5%	13%	4%	21%	24%	0%	0%	0%
Total	33.4	53.6	37%	35%	7%	28%	20%	34%	33%	2%	3%	1%

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 31 December 2009, had a weighted average credit rating of Aa2 (2008: Aa2) and a weighted average maturity of 2.3 years (2008: 0.6 year). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk ("VaR") and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (1 year is used by the Group). The overall risk, as measured by the VaR methodology, during 2009 and 2008 was as follows:

	Average VaR \$ million		Highest VaR \$ million		Lowest VaR \$ million	
	2009	2008	2009	2008	2009	2008
	Corporate Funds	28.1	17.9	35.3	22.0	20.8
Cash collateral	0.0	0.0	0.2	0.0	0.0	0.0
Margin Funds	31.1	23.8	47.9	31.3	17.9	17.1
Clearing House Funds	2.3	0.6	4.4	0.9	0.3	0.2

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.

Major Achievements and Key Initiatives

2009 Achievements	2010 Initiatives
Listing	
<ul style="list-style-type: none"> • Completed the third review of listed companies' corporate governance practices and a review of 100 financial reports • Held 2 meetings of the Sub-committee of the Listing Committee on proposed consultation on the establishment of the Corporate Governance ("CG") Committee and the role of company secretaries • Further discussed the quarterly financial reporting issue • Published consultation papers on the following topics: <ul style="list-style-type: none"> – Proposed changes to filing and checklist requirements for listing of equity securities; – Proposal to accelerate rights issues and open offers; – Proposal to accept Mainland accounting and auditing standards and Mainland audit firms for Mainland incorporated companies listed in Hong Kong; – Chapter 18 of the Main Board Listing Rules on mining and resources companies; – Streamlining of circular requirements; and – Connected transactions • Published conclusions on the following consultations: <ul style="list-style-type: none"> – Self-constructed fixed assets and general mandates; – Proposed changes to filing and checklist requirements for listing of equity securities; and – Proposals to accelerate rights issues and open offers • Published a guidance letter on Chapter 20 of the Main Board Listing Rules • Issued a Guide on Distribution of Dividends and Other Entitlements • Provided comments on possible proposals for statutory backing for disclosure requirements to the FSTB • Supported the DI e-filing initiative 	<ul style="list-style-type: none"> • Issue consultation paper on the establishment of the CG Committee and the role of company secretaries subject to recommendations of the Sub-committee and direction of the Listing Committee • Explore alternatives to quarterly financial reporting • Publish the conclusions on the following consultations: <ul style="list-style-type: none"> – Proposal to accept Mainland accounting and auditing standards and Mainland audit firms for Mainland incorporated companies listed in Hong Kong; – Chapter 18 of the Main Board Listing Rules on mining and resources companies; – Streamlining of circular requirements; and – Connected transactions • Continue to work closely with the SFC on the Web Proof Information Pack initiative which was put on hold by the SFC • Continue to work closely with the SFC and FSTB on statutory backing for disclosure requirements • Continue supporting the SFC's DI e-filing implementation • Revisit joint policy statement with the SFC regarding listing of overseas companies • Review the initial listing eligibility requirements for the Main Board • Develop a CSR code for listed companies
Cash Market	
<ul style="list-style-type: none"> • Further reviewed the CAS and the price control mechanisms • Worked on the automation of stamp duty reporting and payment process • Organised CPT courses jointly with HKSI on HKEx's services and products 	<ul style="list-style-type: none"> • Automate stamp duty payment • Review the impact of Alternative Liquidity Pools on Hong Kong's securities market • Prepare for AMS/4, the next generation of trading system • Review market making obligations for ETF securities market makers
Derivatives Market	
<ul style="list-style-type: none"> • Obtained no-action relief for mini-futures contracts from CFTC to allow EPs to offer and sell such products in the US • Reviewed HKATS for the proposal of CER Futures, issued a consultation paper and released the consultation conclusions thereon • Conducted feasibility study of introducing gold options, options on gold ETF and silver futures • Raised the position limits of 6 stock option classes • Introduced 6 new stock option classes • Obtained approval from Taiwan regulatory authorities to allow trading of H-shares Index Futures and Options and Mini H-shares Index Futures by Taiwan investors • Benchmarked the trading access to HKEx's Derivatives Market against that of overseas exchanges • Offered more choices of strikes through narrowing of strike intervals and added a third calendar quarter expiry month for stock options trading • Obtained the SFC's approval for the launch of flexible options on HSI Options and H-shares Index Options 	<ul style="list-style-type: none"> • Introduce flexible options for HSI Options and H-shares Index Options • Develop a volatility index and assess market demand for futures and options on the index • Study the feasibility of expanding flexible options to stock options market

2009 Achievements	2010 Initiatives
Clearing	
<ul style="list-style-type: none"> • Opened the HKSCC participants to overseas clearing houses and central depositories • Published a joint consultation paper on a proposed operational model for implementing a scripless securities market in Hong Kong • Published a consultation paper on T+2 finality • Signed an MOU with The National Depository Center to strengthen HKEx's ties with its counterparts in Russia • Admitted Bank of China (Hong Kong) Limited to CCASS as a Settlement Bank • Enhanced DCASS to reduce the capital adjustment processing time for derivatives contracts • Extended DCASS report retrieval time by 9 hours • Admitted 19 new ETFs into CCASS • Admitted Government Bonds as CCASS eligible securities • Worked with the Hong Kong Monetary Authority and the HKICL to ensure that the market infrastructure is ready to support the listing, trading and clearing of RMB-denominated products in Hong Kong 	<ul style="list-style-type: none"> • Continue working on the operational model for a scripless securities market in Hong Kong • Publish the consultation conclusions on T+2 Finality and implement the proposal if acceptable to the market
Participant Services	
<ul style="list-style-type: none"> • Organised 39 CPT courses with HKSI on HKEx's services and products • Organised 26 courses on HKEx's trading systems • Held 46 briefing sessions and seminars on HKEx's derivatives products • Conducted 28 sessions of Interactive Options Training • Sponsored 6 EPs' online simulation games to promote HSI futures • Admitted 19 SEHK and 22 HKFE Participants 	<ul style="list-style-type: none"> • Continue market education and organise training programme for EPs to increase their knowledge of HKEx's systems, services and products and the associated risks • Continue promoting HKEx's market and services to attract more EPs
Promotional Activities	
<ul style="list-style-type: none"> • Organised 16 seminars and conferences in the Mainland, 3 in Japan, Korea and Russia and 4 in Hong Kong to promote listing in Hong Kong • Conducted 81 trips in 43 cities of 15 provinces in the Mainland and 17 trips overseas to promote listing in Hong Kong • Signed closer cooperation agreements with the Shanghai and Shenzhen stock exchanges • Conducted meetings with the governments of 15 provinces, and the governments of Beijing, Chongqing, Shanghai and Tianjin, as well as Central Government regulators and authorities • Maintained close relationships with the Mainland and overseas governments, as well as intermediaries to keep abreast of the latest market development • Organised a listing promotional workshop for mining companies • Collaborated with the Federation of Hong Kong Industries to promote listing to small and medium enterprises in Hong Kong • Visited Australia, Mongolia and Russia to attract mining and energy companies to list in Hong Kong • Organised 2 training programmes on Hong Kong listing requirements for Mainland enterprises • Participated in the "Cross Border ETF Market Forum" to promote the Hong Kong ETF market in Taipei • Organised an Investment Expo to promote stock options and gold futures in Hong Kong • Participated in the Futures Industry Association Asia Derivatives Conference to promote HKEx's Derivatives Market in Singapore • Organised the Joint Promotional Programme on Stock Options with OTEPs, which included seminars for retail investors • Co-organised the Asia Pacific Financial Information Conference to promote HKEx market data • Visited major SSE Level 2 IVs in Beijing and Shanghai to promote HKEx market data, and explore ways to facilitate direct connection of Mainland IVs to HKEx market data systems • Visited Mainland TV stations in Beijing, Hubei, Shanghai and Shenzhen to promote HKEx market data 	<ul style="list-style-type: none"> • Continue promotional activities in Hong Kong, the Mainland and selected overseas markets to attract more quality companies to list in Hong Kong • Strengthen the relationship with the Mainland regulators, ministries and provincial and municipal governments • Establish relationships with regulators and stock exchanges of selected overseas markets • Collect market intelligence about the Mainland and overseas securities market development • Identify industry-specific potential issuers • Identify overseas-listed issuers with business nexus with the Mainland to promote dual or secondary listings in Hong Kong • Continue to promote HKEx's strengths as a listing centre for the Mainland and overseas mining and energy companies with business nexus with the Mainland • Continue promoting HKEx's products and services

2009 Achievements	2010 Initiatives
Information Services	
<ul style="list-style-type: none"> • Soft launched the Free Prices Website Service from October 2009 to December 2009 and officially launched the pilot programme for 2 years from 1 January 2010 • Introduced the Mainland Market Data Collaboration Programme between HKEx and the SSE • Finalised the implementation plan of the single licensing regime for securities and derivatives market data • Rolled out enhanced Derivatives Market data • Broadened the scope of the delayed content for HKEx's securities and traded options market data service to include the last 4 transactions • Extended the Discount Programme of Real-time Market Data for Mainland users • Issued an updated Guideline on Third Party Website Service • Identified the high level functional and technical requirements for the new market data system 	<ul style="list-style-type: none"> • Conduct mid-term review of the Free Prices Website Service • Extend the Market Data Collaboration Programme to include the Shenzhen Stock Exchange from April 2010 to end 2011 and continue the programme with the SSE until end 2011 • Introduce single licences for securities and derivatives market data • Further enrich the PRS' data content to provide more real-time Derivatives Market data for the market • Develop commercial package for new data products, including increased levels of market depth and full order and trade service • Increase information business and visibility of HKEx information in the Mainland and further promote the market data business in the Mainland • Finalise the requirements for the enhanced market data system to support the AMS/3.8 trading system • Develop Listed Company Website Service for Hong Kong-listed companies to display their stock prices on their websites • Develop a PRS Simulator to facilitate IVs' system tests • Provide more real-time market indices via the securities market's MDF
Information Technology	
<ul style="list-style-type: none"> • Completed AMS/3 and MDF technical revamp (referred to as AMS/3.5) • Completed the Request for Proposal and evaluation for AMS/4 solution design and prototyping • Further upgraded the HKATS and PRS capacity to support substantial growth of the Derivatives Market • Upgraded the Derivatives Market tunnel servers and gateway servers for HKEx's internal operations • Completed the CCASS/3 architectural restructuring and system level tuning to align with AMS/3 technical revamp • Consolidated the derivatives data centre and derivatives IT offices • Substantially completed the support and facilitation of independent reviews of core mission critical systems for HKATS, DCASS and PRS • Worked on the HKEx website revamp 	<ul style="list-style-type: none"> • Launch the revamped HKEx website • Design and implement AMS/3.8 to achieve multi-fold improvement in capacity and material reduction in latency as an alternative to the next generation trading system • Design and implement MDF/3.8 to achieve multi-fold improvement in capacity and built-in flexibility of new features as an alternative to the next generation information dissemination system • Upgrade the capacity and technology of HKATS, DCASS, PRS and the relevant satellite systems to achieve multi-fold improvement in capacity • Replace the technology for the to be obsolete CCASS/3 IP internet, electronic Participant Shareholding and related system hardware and software • Commence the PDC construction project • Support and facilitate independent review of CCASS/3
Risk Management	
<ul style="list-style-type: none"> • Completed a report on the due diligence review of HKEx's risk management framework • Conducted preliminary benchmarking analysis of HKEx's capital adequacy against major overseas clearing houses and international standards • Conducted preliminary benchmarking of HKSCC's risk management measures against major overseas cash market clearing house practices and international standards • Reviewed the Risk Management Charter and its supporting documents as part of the HKEx Risk Management Framework Review • Reviewed HKEx's Market Contingency Plan framework as part of the HKEx Risk Management Framework Review • Developed an ERM framework and supporting methodology and commenced implementation • Identified specific areas of HKEx's Counterparty Risk Management Policies which are now targeted for enhancement • Provided risk management support for HKEx's new product and service offerings 	<ul style="list-style-type: none"> • Conduct stakeholder consultations on any material changes to the HKSCC counterparty risk management measures, and obtain approval for the changes • Implement enhancements to HKEx's capital adequacy methodology • Implement enhancements to HKEx's Risk Management Charter • Implement enhancements to HKEx's Market Contingency Plan • Complete the roll out of the ERM framework within HKEx • Implement enhancements to HKEx's Counterparty Risk Management Policies • Deliver appropriate risk management support to facilitate the successful delivery of HKEx's new products and services • Support the scheduled derivatives market systems capacity upgrade • Finalise terms to shorten the time required for provision of market participants' financial return information by the SFC to HKEx

FINANCIAL REVIEW

HKEx Group – Overview of 2009 Results and Financial Position

Key Market Statistics and Business Drivers – Cash Market

	2009
Average daily turnover value on the Stock Exchange	\$62.3 billion
Number of newly listed DWs	4,230
Number of newly listed CBBCs	8,072*
Number of newly listed companies on Main Board	68
Number of newly listed companies on GEM	5
Number of Main Board companies at 31 Dec 2009	1,145
Number of GEM companies at 31 Dec 2009	174
Total equity funds raised on Main Board	\$637.7 billion
Total equity funds raised on GEM	\$4.4 billion
Total equity funds raised	\$642.1 billion*

* New record high in 2009

Consolidated Statement of Financial Position

	As restated 2008
Assets	
Fixed assets	\$'000 370,078
Investments and time deposits	26,078,142
Cash and cash equivalents of Clearing House Funds and Margin Funds ("Funds")	23,027,942
Cash and cash equivalents	4,755,750
Other assets	8,590,200
	<u>62,822,112</u>
Liabilities	
Participants' contributions to Funds	42,289,511
Cash collateral from HKSCC Clearing Participants	3,599,902
Other liabilities	9,639,085
	<u>55,528,498</u>
Net assets	<u>7,293,614</u>
Capital and reserves	
Share capital, share premium and reserves	2,117,884
Shares held for Share Award Scheme	(65,254)
Retained earnings	5,240,984
	<u>7,293,614</u>

	2009					
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Elimination \$'000	Total \$'000
Revenue and other income	3,039,478	1,044,333	2,266,863	695,796	(11,430)	7,035,040
Operating expenses	777,157	208,214	443,550	75,458	(11,430)	1,492,949
Reportable segment profit	1	2	3	4		
before taxation	2,262,321	836,119	1,823,313	620,338	-	5,542,091
Taxation					(838,047)	(838,047)
Profit attributable to shareholders						<u>4,704,044</u>

Cash Flows for the Year

	2009
	\$'000
Net cash inflow from operating activities	4,373,998
Purchases of shares for Share Award Scheme	(8,568)
Capital expenditures	(47,483)
Dividends paid	(3,889,421)
Net increase in financial assets of Corporate Funds	(726,054)
Interest received from financial assets	268,628
Proceeds from issue of shares	23,238
Other net cash inflows	601
Net decrease in cash and cash equivalents	(5,061)
Cash and cash equivalents at 1 Jan 2009	4,755,750
Cash and cash equivalents at 31 Dec 2009	<u>4,750,689</u>

Key Market Statistics and Business Drivers – Derivatives Market

	2009
Average daily number of derivatives contracts traded on the Futures Exchange	206,458
Average daily number of stock options contracts traded on the Stock Exchange	191,676

Consolidated Statement of Financial Position

	2009
Assets	
Fixed assets	\$'000 302,721
Investments and time deposits	18,900,246
Cash and cash equivalents of Funds	9,987,394
Cash and cash equivalents	4,750,689
Other assets	11,390,952
	<u>45,332,002</u>
Liabilities	
Participants' contributions to Funds	21,241,664
Cash collateral from HKSCC Clearing Participants	3,431,725
Other liabilities	12,631,287
	<u>37,304,676</u>
Net assets	<u>8,027,326</u>
Capital and reserves	
Share capital, share premium and reserves	2,058,265
Shares held for Share Award Scheme	(51,701)
Retained earnings	6,020,762
	<u>8,027,326</u>

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

	2009				Total \$'000
	Share capital and share premium \$'000	Employee share-based compensation reserve \$'000	Revaluation reserves \$'000	Designated reserves \$'000	
At 1 Jan 2009	1,421,788	47,032	96,681	552,383	2,117,884
Issue of shares	23,238	-	-	-	23,238
Employee share-based compensation benefits	-	20,583	-	-	20,583
Fair value change of financial assets, net of deferred tax	-	-	(96,681)	-	(96,681)
Transfer from retained earnings	-	-	-	11,018	11,018
Vesting of shares	-	(17,777)	-	-	(17,777)
Transfer	6,759	(6,759)	-	-	-
At 31 Dec 2009	1,451,785	43,079	-	563,401	2,058,265

Notes

Profit attributable to shareholders for 2009 decreased mainly due to lower turnover-related income, lower net investment income, and the one-off gain on disposal of properties in 2008 which was not repeated in 2009, but the decrease was partly offset by lower operating expenses.

The negative market sentiment caused by the financial tsunami persisted in the first quarter of 2009. Although considerable growth in market activity was recorded in the last 3 quarters of 2009 due to improved sentiment driven by ample liquidity, the average daily turnover on the Stock Exchange still dropped by 14 per cent as compared to 2008. As a result, the Group's total turnover-related income fell by \$131 million to \$4,574 million for 2009.

The drop in net investment income was largely attributable to the significant decrease in net interest income resulting from lower interest rates and Margin Fund size, but the drop was partly offset by the increase in fair value gains of Corporate Fund investments.

The performance of the Group by operating segment during 2009 was as follows:

- 1 Profit of the Cash Market decreased by \$160 million mainly due to the lower turnover of the Cash Market.
- 2 Profit of the Derivatives Market dropped by \$607 million mainly as a result of the lower net investment income from Margin Fund investments and the decrease in the level of activity in the Derivatives Market.
- 3 Profit of the Clearing Business rose by \$367 million mainly attributable to the increase in net investment income, clearing and settlement fees and depository, custody and nominee services fees. Moreover, the provision for impairment losses of trade receivables from defaulting Participants (in particular the provision relating to the Lehman Brothers Group of \$157 million) in 2008 was not repeated in 2009.
- 4 Profit of the Information Services Business increased by \$14 million as demand for information increased due to the improved market sentiment in the second to fourth quarter.
- 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, Lehman Brothers Securities Asia Limited.

Movements in Retained Earnings for the Year

	2009 \$'000
Profit attributable to shareholders	4,704,044
Dividends	(3,912,818)
Dividends forfeited	3,914
Vesting of shares of Share Award Scheme	(4,344)
Transfer to reserves	(11,018)
Net increase in retained earnings	779,778
Retained earnings at 1 Jan 2009, as restated	5,240,984
Retained earnings at 31 Dec 2009	6,020,762
Representing:	
Retained earnings	3,772,936
Proposed dividend	2,247,826
	6,020,762

Overall Performance

	Note	2009 \$'000	As restated * 2008 \$'000	Change
RESULTS				
Revenue and other income:				
Income affected by market turnover	(A)	4,573,644	4,704,991	(3%)
Stock Exchange listing fees	(B)	728,477	711,983	2%
Income from sale of information	(C)	694,563	673,445	3%
Other revenue	(D)	417,402	390,855	7%
Net investment income	(E)	620,954	999,175	(38%)
Gain on disposal of properties	(F)	–	68,641	(100%)
		7,035,040	7,549,090	(7%)
Operating expenses		1,492,949	1,620,953	(8%)
		5,542,091	5,928,137	(7%)
Profit before taxation		(838,047)	(799,506)	5%
Taxation				
		4,704,044	5,128,631	(8%)
Profit attributable to shareholders				

* Certain figures previously reported have been restated due to changes in accounting policies.

Profit attributable to shareholders decreased by 8 per cent to \$4,704 million for the year ended 31 December 2009 against \$5,129 million for 2008 mainly due to lower turnover-related income, lower net investment income, and the one-off gain on disposal of properties in 2008 which was not repeated in 2009, but the decrease was partly offset by lower operating expenses.

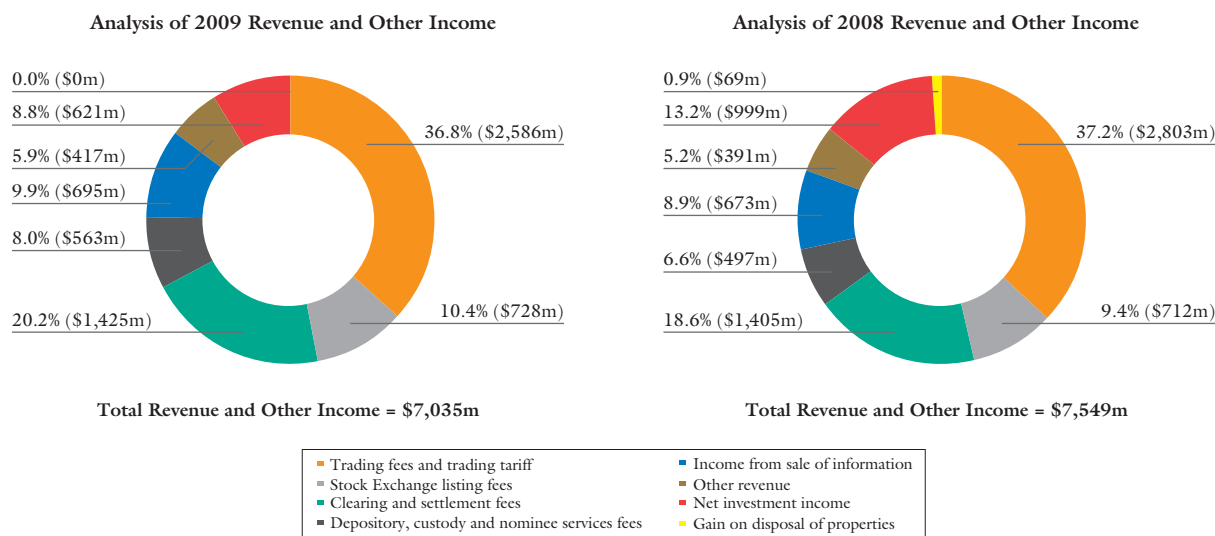
The negative market sentiment caused by the financial tsunami persisted in the first quarter of 2009. Although considerable growth in market activity was recorded in the last 3 quarters of 2009 due to improved sentiment driven by ample liquidity, the average daily turnover value on the Stock Exchange for 2009 still dropped by 14 per cent as compared to 2008. As a result, the Group's total turnover-related income fell by \$131 million to \$4,574 million for 2009.

The drop in net investment income was largely attributable to the significant decrease in net interest income resulting from lower interest rates and Margin Fund size, but the drop was partly offset by the increase in fair value gains of Corporate Fund investments.

Total operating expenses decreased by 8 per cent during the year mainly due to the lower provision for impairment losses of trade receivables from defaulting Participants, as the provision relating to the Lehman Brothers Group of \$157 million made in 2008 was not repeated in 2009 but the savings were partly offset by an increase in premises expenses.

The accounts have been prepared in accordance with the HKFRSs issued by the HKICPA, which are in alignment with the requirements of International Financial Reporting Standards in all material respects as at 31 December 2009.

Revenue and Other Income



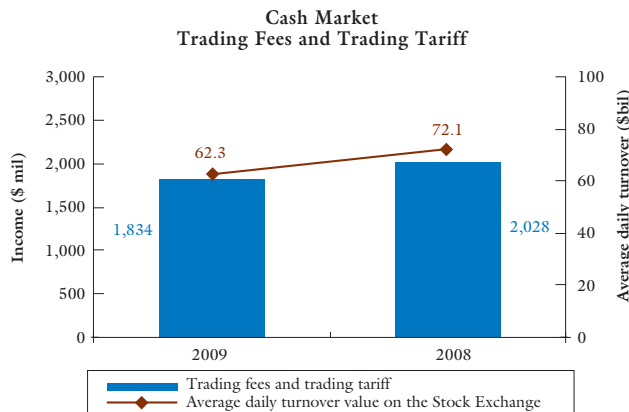
(A) Income affected by Market Turnover

	2009 \$'000	2008 \$'000	Change
Trading fees and trading tariff	2,586,297	2,803,081	(8%)
Clearing and settlement fees	1,424,748	1,405,202	1%
Depository, custody and nominee services fees	562,599	496,708	13%
Total	4,573,644	4,704,991	(3%)

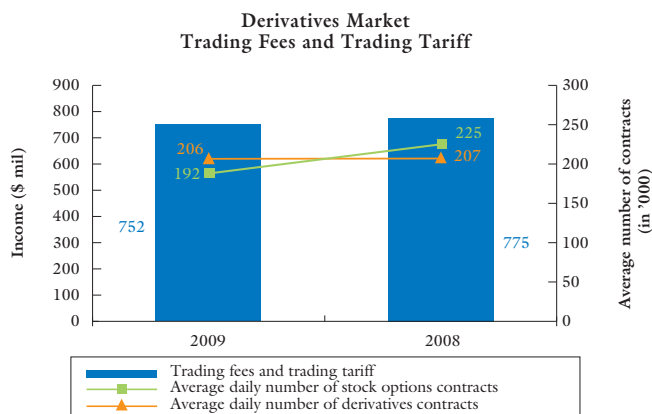
Key Market Indicators

	2009	2008	Change
Average daily turnover value on the Stock Exchange	\$62.3 billion	\$72.1 billion	(14%)
Average daily number of derivatives contracts traded on the Futures Exchange	206,458	207,052	(0%)
Average daily number of stock options contracts traded on the Stock Exchange	191,676	225,074	(15%)

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 decrease in trading fees and trading tariff from the Derivatives Market was mainly driven by the decrease in the number of contracts traded.

Clearing and Settlement Fees

Clearing and settlement fees are derived predominantly from Cash Market transactions. Despite being mostly ad valorem fees, clearing and settlement fees are also affected by the volume of SIs and are subject to a minimum and a maximum fee per transaction and therefore may not always move exactly with the changes in the turnover of the Cash Market. In 2009, clearing and settlement fees increased despite the drop in the turnover of Cash Market since a lower proportion of the value of SIs and exchange-traded transactions settled was subject to the maximum fee and a higher proportion of the value of SIs and exchange-traded transactions settled was subject to the minimum fee.

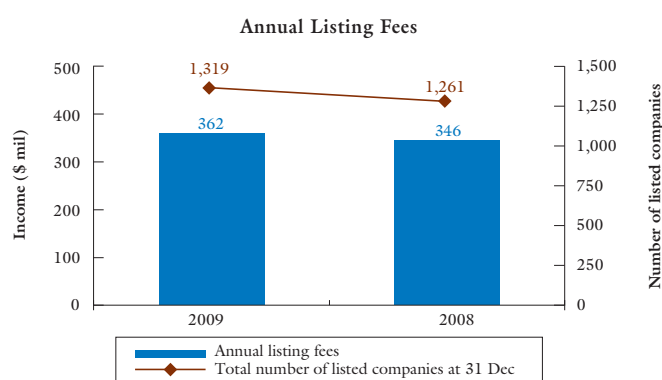
Depository, Custody and Nominee Services Fees

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 rose mainly due to the increase in corporate action fees, scrip fees and eIPO handling fees but the increases were partly offset by the decrease in dividend collection fees. The increase in eIPO handling fees was attributable to the increase in the number of newly listed companies and eIPO allotments. 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 in the Cash Market as they vary mostly with the

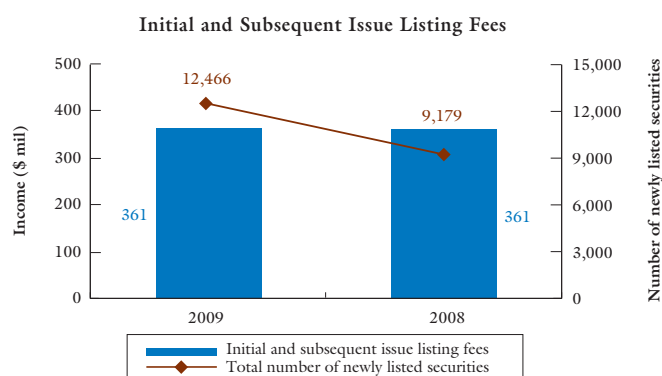
number of board lots rather than the value or turnover of the securities concerned, and many are subject to a maximum fee. Moreover, scrip fees are only chargeable on the net increase in individual Participants' aggregate holdings of the securities between book closing dates, and thus are unusually large on the first book closing date after a new listing.

(B) Stock Exchange Listing Fees

	2009 \$'000	2008 \$'000	Change
Annual listing fees	361,912	346,263	5%
Initial and subsequent issue listing fees	360,985	360,944	0%
Others	5,580	4,776	17%
Total	728,477	711,983	2%



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



Initial and subsequent issue listing fees remained at a similar level to 2008 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 CBBs and newly listed companies was offset by the drop in fees from the lower number of newly listed DWs and a decrease in initial listing fees forfeited due to a lower number of lapsed and withdrawn IPO applications not listed within 6 months of application.

Key Drivers for Annual Listing Fees

	As at 31 Dec 2009	As at 31 Dec 2008	Change
Number of companies listed on Main Board	1,145	1,087	5%
Number of companies listed on GEM	174	174	0%
Total	1,319	1,261	5%

Key Drivers for Initial and Subsequent Issue Listing Fees

	2009	2008	Change
Number of newly listed DWs	4,230	4,822	(12%)
Number of newly listed CBBCs	8,072	4,231	91%
Number of newly listed companies on Main Board	68	47	45%
Number of newly listed companies on GEM	5	2	150%
Number of other newly listed securities on Main Board and GEM	91	77	18%
Total number of newly listed securities	12,466	9,179	36%
	2009	2008	Change
	\$ billion	\$ billion	
Total equity funds raised on Main Board			
– through IPOs	247.9	65.8	277%
– Post-IPO	389.8	352.4	11%
Total equity funds raised on GEM			
– through IPOs	0.4	0.2	100%
– Post-IPO	4.0	8.8	(55%)
Total	642.1	427.2	50%

(C) Income from Sale of Information

	2009	2008	Change
	\$'000	\$'000	
Income from sale of information	694,563	673,445	3%

Income from sale of information rose as demand for information increased due to improved market sentiment and the strong market rebound which started in March 2009 and continued up to the end of the year.

(D) Other Revenue

	2009	2008	Change
	\$'000	\$'000	
Network, terminal user, dataline and software sub-license fees	320,829	289,783	11%
Participants' subscription and application fees	35,037	34,614	1%
Brokerage on direct IPO allotments	16,467	5,313	210%
Trading booth user fees	15,132	9,603	58%
Accommodation income on securities deposited by Participants as alternatives to cash deposits of Margin Funds	4,908	21,844	(78%)
Sales of Trading Rights	9,500	8,335	14%
Miscellaneous revenue	15,529	21,363	(27%)
Total	417,402	390,855	7%

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

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

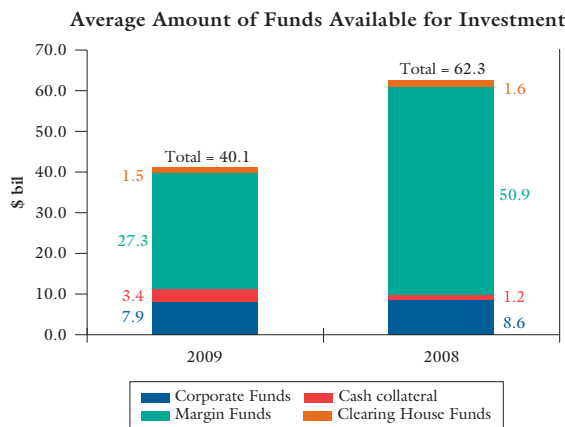
Trading booth user fees rose as the monthly user fees were raised in 2009 as a result of the rise in the Trading Hall rental.

Accommodation income dropped mainly due to the decrease in utilisation of non-cash collateral by Participants to meet their margin obligations, which was caused by the low interest rate environment.

(E) Net Investment Income

	2009 \$'000	2008 \$'000	Change
Gross investment income	624,300	1,075,590	(42%)
Interest rebates to Participants	(3,346)	(76,415)	(96%)
Net investment income	620,954	999,175	(38%)

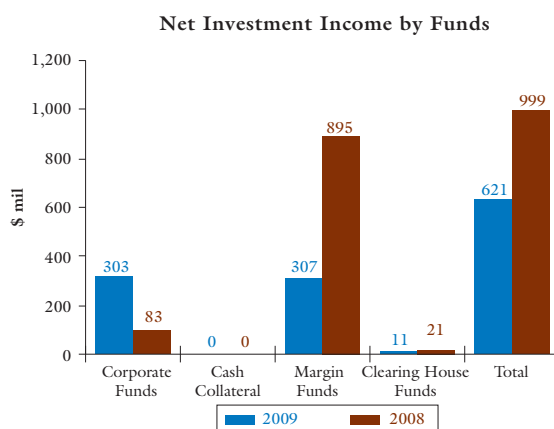
The average amount of funds available for investment was as follows:



The average amount of cash collateral increased significantly as additional cash collateral was collected from HKSCC Clearing Participants to increase the level of protection for the clearing house following the default of Lehman Brothers Securities Asia Limited in September 2008.

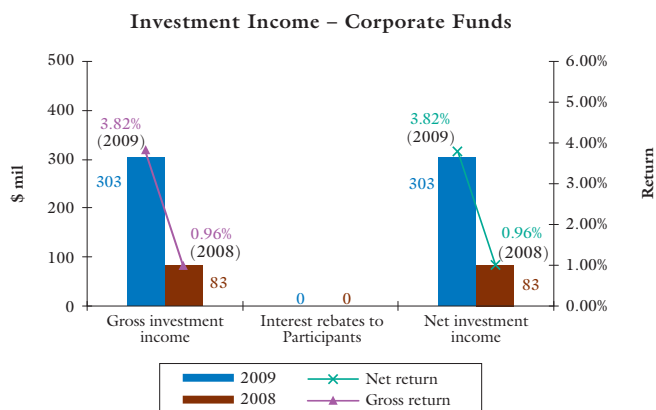
The drop in the average amount of Margin Funds available for investment was primarily caused by the decrease in open interest in futures contracts and the lower margin rate applicable per futures contract.

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

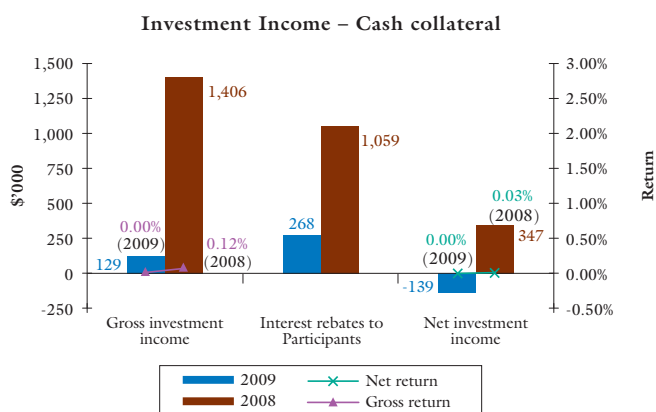


The lower net investment income was mostly due to the drop in net investment income of the Margin Funds, but was partly offset by the increase in net investment income of the Corporate Funds.

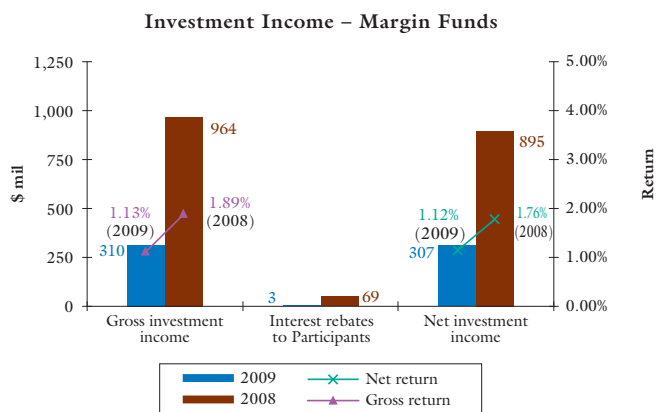
The analysis of investment income by Funds is as follows:



Investment income of Corporate Funds increased mainly due to the fair value gains of investments reflecting market movements during the year, as opposed to the fair value losses of investments in 2008, which led to a significant rise in the income and rate of return in 2009.

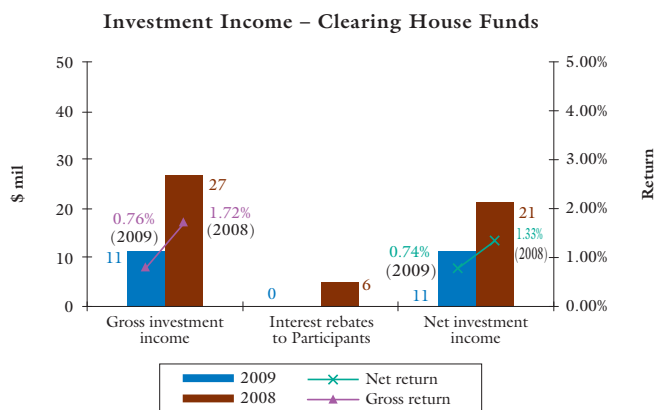


Cash collateral was only placed in savings accounts earning a very low rate of return. Interest rebates were paid to Participants at the average savings rate of 3 major banks.



The net investment income of Margin Funds dropped due to the significant decrease in net interest income arising from lower interest rates and Margin Fund size.

The gross return on Margin Fund investments was brought down by the decrease in interest rates. The net return in 2009 was similar to the gross return as very small amounts of interest rebates were paid to Participants since the rate of interest rebates (savings rate) fell to almost zero.



The investment income of Clearing House Funds fell mainly due to the drop in interest rates.

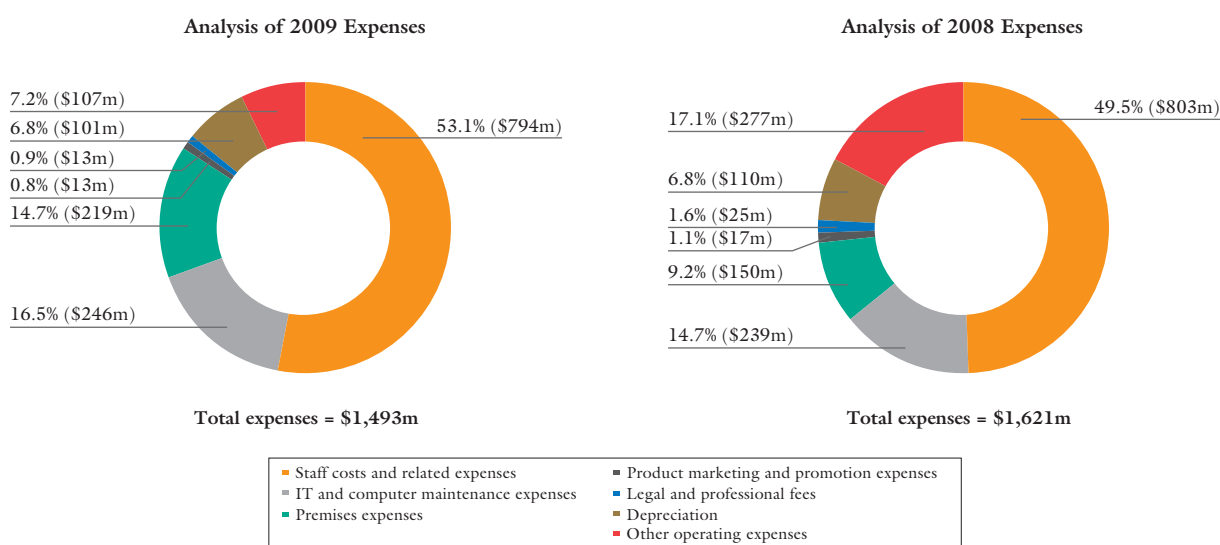
The lower gross return was mainly due to the drop in interest rate for overnight deposits. The net return in 2009 was similar to the gross return as very small amounts of interest rebates were paid to Participants since the rate of interest rebates was very low.

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

(F) Gain on Disposal of Properties

	2009 \$'000	2008 \$'000	Change
Gain on disposal of properties	–	68,641	(100%)

In February 2008, the Group sold an investment property and one of the leasehold properties generating a gain of \$69 million.

Operating Expenses

	2009 \$'000	As restated 2008 \$'000	Change
Staff costs and related expenses	793,503	803,106	(1%)
Information technology and computer maintenance expenses	246,291	238,917	3%
Premises expenses	219,084	149,786	46%
Product marketing and promotion expenses	12,622	16,986	(26%)
Legal and professional fees	13,282	25,128	(47%)
Depreciation	101,173	109,646	(8%)
Other operating expenses	106,994	277,384	(61%)
Total	1,492,949	1,620,953	(8%)

Staff costs and related expenses fell by \$9 million, primarily due to a decrease in share-based compensation expenses as certain share options and Awarded Shares became fully vested.

The Group's information technology and computer maintenance expenses, excluding costs of services and goods directly consumed by the Participants of \$105 million (2008: \$97 million), were \$141 million (2008: \$142 million). The rise in costs of services and goods directly consumed by the Participants was due to the increase in AMS/3 line rentals and HKATS maintenance expenses incurred by the Participants, but was partly offset by the reduction in AMS/3 hardware and software purchased 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.

Legal and professional fees dropped as less was spent on listing-related matters and lower professional fees were incurred for the review of certain information technology systems in 2009.

Other operating expenses dropped mainly due to the one-off provision for impairment losses of trade receivables from defaulting Participants (in particular the provision relating to Lehman Brothers Group of \$157 million) and the one-off donation of \$10 million for the Sichuan earthquake made in 2008.

Taxation

	2009 \$'000	As restated 2008 \$'000	Change
Taxation	838,047	799,506	5%

Taxation increased mainly attributable to a fall in non-taxable investment income and non-taxable gain on disposal of properties, but was partly offset by the lower profit before taxation.

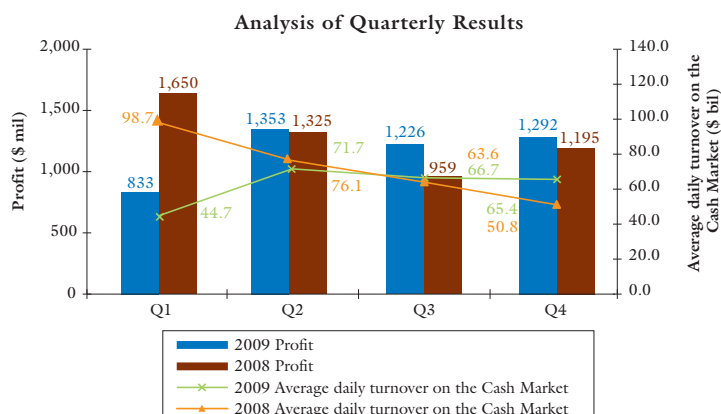
Analysis of Results by Quarter

Quarterly Results

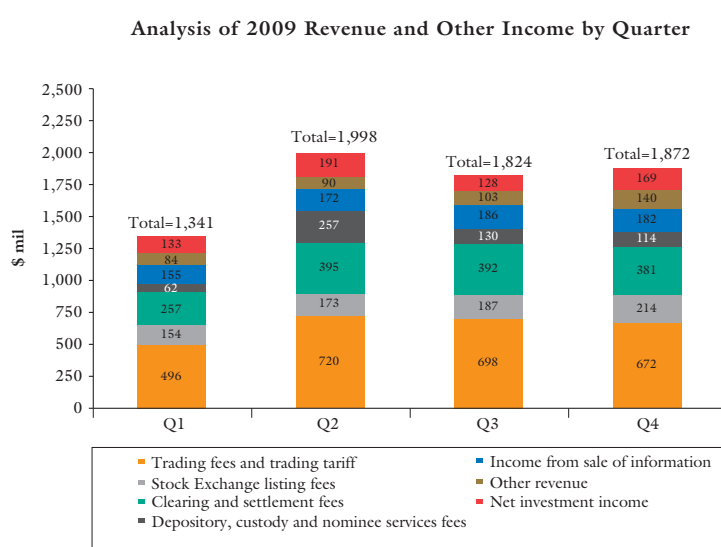
	As restated * Q1 2009 \$'000	As restated * Q2 2009 \$'000	As restated * Q3 2009 \$'000	Q4 2009 \$'000	Total 2009 \$'000
Revenue and other income	1,341,335	1,997,965	1,823,886	1,871,854	7,035,040
Operating expenses	354,491	405,695	380,376	352,387	1,492,949
Profit before taxation	986,844	1,592,270	1,443,510	1,519,467	5,542,091
Taxation	(153,310)	(239,216)	(217,653)	(227,868)	(838,047)
Profit attributable to shareholders	833,534	1,353,054	1,225,857	1,291,599	4,704,044

	As restated * Q1 2008 \$'000	As restated * Q2 2008 \$'000	As restated * Q3 2008 \$'000	As restated * Q4 2008 \$'000	As restated * Total 2008 \$'000
Profit attributable to shareholders	1,649,672	1,324,591	959,577	1,194,791	5,128,631

* Following the adoption of HKFRS 9 and the change in accounting policy for leasehold building in the fourth quarter of 2009, certain figures previously reported have been restated. The adoption of HKFRS 9 did not have any financial impact on the 2008 results as prior year comparative figures need not be restated.



The global economic downturn and financial crisis which started in the fourth quarter of 2008 had a significant negative impact on activity in the Cash Market and the Group's profit in the first quarter of 2009. Thereafter, considerable growth in market activity was recorded in the last 3 quarters of 2009, leading to higher profit for the last 3 quarters than the corresponding periods in 2008.



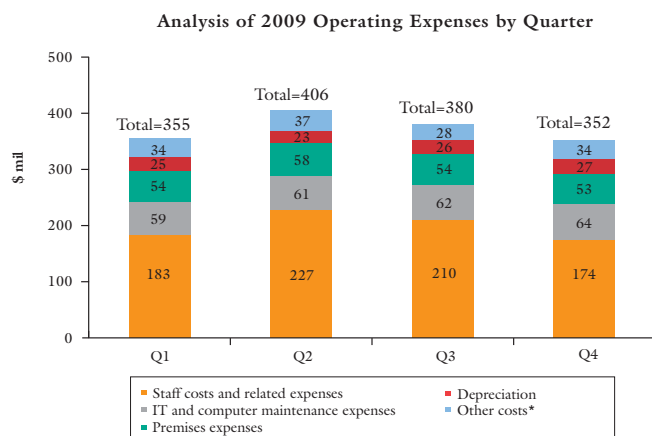
Income affected by market turnover (ie, trading fees and trading tariff, clearing and settlement fees and depository, custody and nominee services fees) generally moved in line with the average daily turnover on the Cash Market. However, depository, custody and nominee services fees were the highest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

Stock Exchange listing fees were the highest in the fourth quarter as more than half of the newly listed companies were listed in that quarter.

The net investment income was the highest in the second quarter due to the fair value gains 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 2009	Q2 2009	Q3 2009	Q4 2009	Total 2009
Average daily turnover value on the Stock Exchange (\$ billion)	44.7	71.7	66.7	65.4	62.3
Average daily number of derivatives contracts traded on the Futures Exchange	195,499	231,464	204,637	194,355	206,458
Average daily number of stock options contracts traded on the Stock Exchange	194,279	217,696	168,876	187,277	191,676
Number of newly listed DWs	569	1,005	1,154	1,502	4,230
Number of newly listed CBBCs	1,628	2,057	2,333	2,054	8,072
Number of newly listed companies on Main Board	7	11	13	37	68
Number of newly listed companies on GEM	-	-	2	3	5



Changes in staff costs moved in line with profit in the first 3 quarters as performance bonus was accrued based on the profit of the quarter. The drop in staff costs in the fourth quarter was due to lower performance bonus accrual after the Board fixed the total amount of bonus for the year in December.

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

Changes to Key Items in Consolidated Statement of Financial Position

(A) Fixed Assets and Capital Commitments

The Group's fixed assets consist of leasehold land and buildings, trading and clearing systems, other computer hardware and software and miscellaneous assets such as leasehold improvements. As at 31 December 2009, the net book value of fixed assets decreased by \$67 million compared with 31 December 2008, which was mainly attributable to depreciation of \$101 million, but was offset by additions of \$35 million during the year.

The Group's capital expenditure commitments as at 31 December 2009 amounted to \$66 million (2008: \$84 million) and mainly related to the upgrade and enhancement of trading and clearing systems, development and purchases of various computer systems. The Group has adequate internal resources to fund its capital expenditure commitments.

(B) Significant Financial Assets and Financial Liabilities by Funds

	2009 \$'000	2008 \$'000	Change
Financial assets			
Financial assets at fair value through profit or loss	–	3,020,035	(100%)
Financial assets measured at fair value through profit or loss	14,024,878	–	N/A
Available-for-sale financial assets	–	19,394,095	(100%)
Financial assets at amortised cost	–	3,711,184	(100%)
Financial assets measured at amortised cost	4,925,180	–	N/A
Cash and cash equivalents	14,738,083	27,783,692	(47%)
	33,688,141	53,909,006	(38%)

The Group's financial assets comprised financial assets of the Corporate Funds, cash collateral, Margin Funds and Clearing House Funds. The amounts attributable to the respective funds were as follows:

	2009 \$'000	2008 \$'000	Change
Corporate Funds	8,281,187	7,241,634	14%
Cash collateral	3,431,725	3,599,902	(5%)
Margin Funds [Ⓐ]	20,233,638	41,831,159	(52%)
Clearing House Funds	1,741,591	1,236,311	41%
Total	33,688,141	53,909,006	(38%)

[Ⓐ] Excluding margin receivable from Clearing Participants

	2009 \$'000	2008 \$'000	Change
Financial liabilities			
Cash collateral from Clearing Participants	3,431,725	3,599,902	(5%)
Margin deposits from Clearing Participants on derivatives contracts	20,242,938	41,839,991	(52%)
Participants' contributions to Clearing House Funds	998,726	449,520	122%
Total	24,673,389	45,889,413	(46%)

Financial assets of Corporate Funds as at 31 December 2009 increased as compared to those as at 31 December 2008 since the profit for 2009 was higher than the dividends paid during the year (which were based on 90 per cent of the profits of the second half of 2008 and first half of 2009).

The fall in financial assets of Margin Funds and margin deposits from Clearing Participants on derivatives contracts as at 31 December 2009 against those as at 31 December 2008 was due to the decrease in open interest in futures contracts at the year end and the lower margin rates applicable per futures contract.

The increase in financial assets of Clearing House Funds and Participants' contributions to Clearing House Funds at 31 December 2009 against those as at 31 December 2008 was mainly due to the increase in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

(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 were there material acquisitions and disposals of subsidiaries during the year. Apart from the plan to develop the PDC in Tseung Kwan O Industrial Estate, there is no other 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

	2009 \$'000	2008 \$'000	Change
CNS money obligations receivable	10,476,438	7,904,042	33%
Other receivables from Participants	705,908	519,367	36%
Other accounts receivable, prepayments and deposits	316,071	279,432	13%
Less: provision for impairment losses of trade receivables	(164,047)	(167,449)	(2%)
Total accounts receivable, prepayments and deposits	11,334,370	8,535,392	33%
CNS money obligations payable	10,476,569	7,904,083	33%
Other payables to Participants	519,280	267,551	94%
Stamp duty payable	205,121	155,977	32%
Other accounts payable, accruals and other liabilities	626,041	566,491	11%
Total accounts payable, accruals and other liabilities	11,827,011	8,894,102	33%

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.

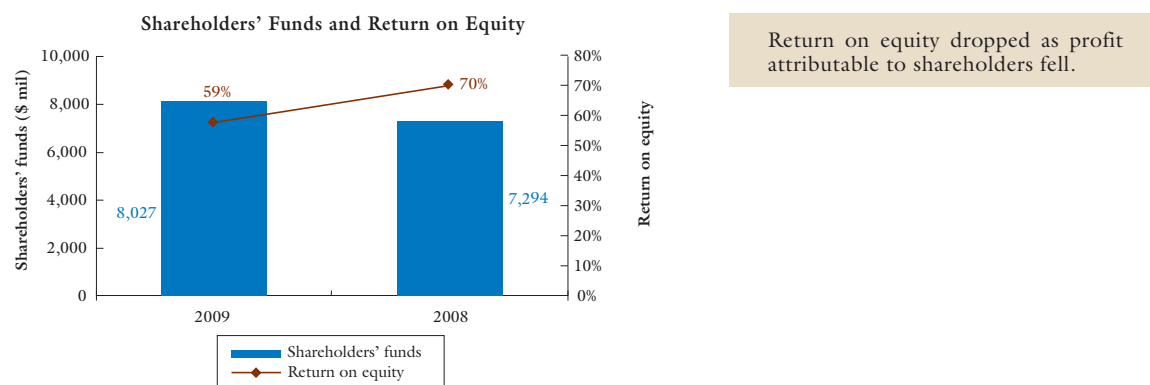
The increase in CNS money obligations receivable and payable was mainly due to the increase in the level of Cash Market activity at the end of 2009 against that at the end of 2008.

Similarly, other receivables from Participants (mainly transaction levy, stamp duty and fees receivable) and stamp duty payable to the Hong Kong Government rose with the Cash Market activity at the end of 2009.

Other accounts payable, accruals and other liabilities also rose in 2009 due to the increase in transaction levy payable to the SFC as a result of the increased activity on the Cash Market and the increase in unclaimed dividends.

(E) Shareholders' Funds and Return on Equity

Shareholders' funds as at 31 December 2009 increased by \$733 million to \$8,027 million (2008: \$7,294 million). The increase was mainly attributable to a \$791 million increase in retained earnings (before transfers to designated reserves) and \$39 million increase in other shareholders' equity arising mainly from employee share options exercised and share-based compensation benefits recognised less the shares purchased for the Share Award Scheme. The increase was partly offset by the decrease in revaluation reserves of \$97 million.



Liquidity, Financial Resources and Gearing

Working capital fell by \$1,467 million to \$5,710 million as at 31 December 2009 (2008: \$7,177 million). The reduction was due to the increase in investments in financial assets and time deposits maturing over 1 year of \$2,278 million for the purpose of enhancing the return of investments, the payment of the 2008 final dividend of \$1,935 million and the 2009 interim dividend of \$1,978 million, which was partly offset by the profit generated during the year of \$4,704 million and the increase in other working capital of \$20 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 2009, the Group's total available banking facilities amounted to \$9,050 million, of which \$9,000 million was repurchase facilities (31 December 2008: \$3,850 million, of which \$3,000 million was repurchase facilities and \$800 million 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 2009 and 31 December 2008, the Group had no bank borrowings and, therefore, maintained a zero gearing.

As at 31 December 2009, more than 99 per cent (2008: 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 2009 and 31 December 2008.

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 50(a)(i) – Foreign exchange risk management to the consolidated accounts of this Annual Report.

Contingent Liabilities

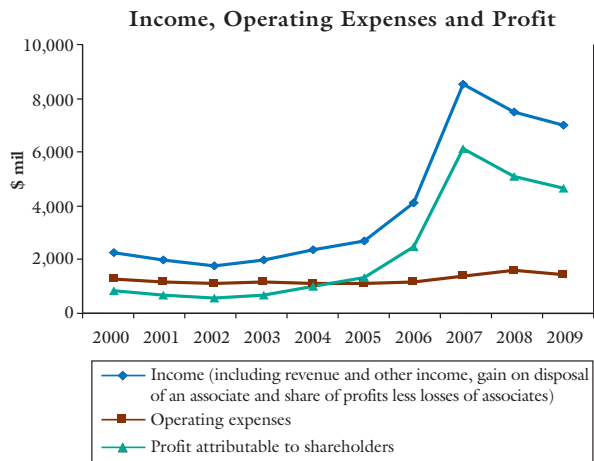
Details of contingent liabilities are included in note 45 to the consolidated accounts of this Annual Report.

FINANCIAL STATISTICS SINCE THE YEAR OF MERGER

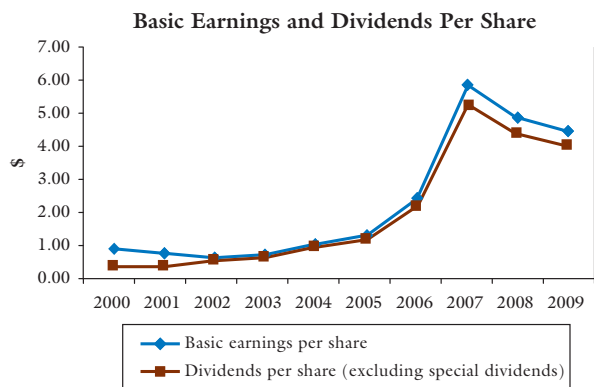
	2009	As restated ¹ 2008	As restated ¹ 2007	As restated ¹ 2006	As restated ¹ 2005	As restated ¹ 2004	As restated ¹ 2003	As restated ¹ 2002	As restated ¹ 2001	As restated ¹ 2000
KEY MARKET STATISTICS										
Average daily turnover value on the Stock Exchange (\$ bil)	62.3	72.1	88.1	33.9	18.3	16.0	10.4	6.7	8.2	12.7
Average daily number of derivatives contracts traded on the Futures Exchange	206,458	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	191,676	225,074	187,686	73,390	35,385	22,720	17,122	15,203	16,567	16,958
CONSOLIDATED INCOME STATEMENT (\$ mil)										
Revenue and other income	7,035	7,549	8,390	4,147	2,694	2,394	2,020	1,808	1,998	2,312
Operating expenses	1,493	1,621	1,412	1,211	1,145	1,156	1,224	1,165	1,179	1,331
	5,542	5,928	6,978	2,936	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	5,542	5,928	7,190	2,963	1,567	1,251	805	648	819	981
Taxation	(838)	(799)	(1,021)	(445)	(227)	(194)	(112)	(59)	(85)	(98)
Profit attributable to shareholders	4,704	5,129	6,169	2,518	1,340	1,057	693	589	734	883
Dividend per share (\$)	3.93	4.29	5.19	2.13	1.13	0.90	0.60	0.51	0.33	0.33
- Interim and final dividends	-	-	-	-	-	-	1.68	-	-	-
- Special dividends	-	-	-	-	-	-	-	-	-	-
	3.93	4.29	5.19	2.13	1.13	0.90	2.28	0.51	0.33	0.33
Basic earnings per share (\$)	4.38	4.78	5.78	2.37	1.26	1.00	0.66	0.56	0.71	0.85
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (\$ mil)										
Non-current assets	2,637	425	884	454	1,710	2,839	3,059	2,250	2,082	1,275
Current assets	42,695	62,397	87,070	40,207	21,236	18,629	16,772	11,802	11,669	12,891
Current liabilities	(36,985)	(55,220)	(79,273)	(35,134)	(18,336)	(17,168)	(13,922)	(8,249)	(8,200)	(8,998)
Net current assets	5,710	7,177	7,797	5,073	2,900	1,461	2,850	3,553	3,469	3,893
Total assets less current liabilities	8,347	7,602	8,681	5,527	4,610	4,300	5,909	5,803	5,551	5,168
Non-current liabilities	(320)	(308)	(305)	(270)	(273)	(269)	(296)	(310)	(331)	(316)
Shareholders' funds	8,027	7,294	8,376	5,257	4,337	4,031	5,613	5,493	5,220	4,852
Net assets per share ² (\$)	7.46	6.79	7.83	4.94	4.08	3.81	5.35	5.26	5.02	4.66
FINANCIAL RATIOS										
Dividend payout ratio ³	90%	90%	90%	90%	90%	90%	91%	91%	46%	39%
Cost to income ratio ⁴	21%	21%	16%	29%	42%	48%	60%	64%	59%	58%
Pre-tax profit margin ⁴	79%	79%	84%	71%	58%	52%	40%	36%	41%	42%
Return on equity ⁵	59%	70%	74%	48%	31%	26%	12%	11%	14%	18%
Current ratio	1.2	1.1	1.1	1.1	1.2	1.1	1.2	1.4	1.4	1.4

Notes:

- 1 Certain comparative figures have been restated to conform with current year's presentation.
- 2 Based on number of shares issued and fully paid less number of shares held for the Share Award Scheme as at 31 December
- 3 The calculation of dividend payout ratio does not take into account special dividends.
- 4 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.
- 5 Based on shareholders' funds as at 31 December

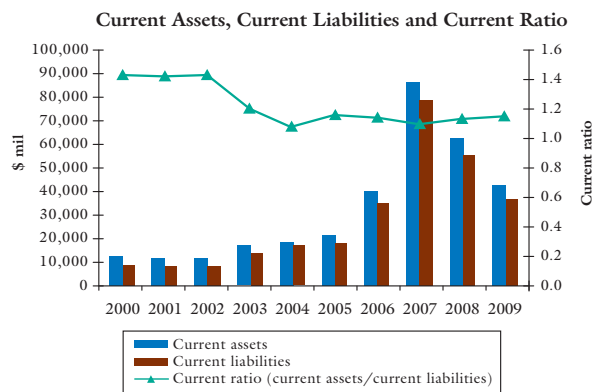


Profit attributable to shareholders declined from 2000 to 2002 as the market sentiment was adversely affected by the weak global economic environment, risk of war against Iraq and accounting scandals in the US. It started to pick up in 2003 following the end of the Severe Acute Respiratory Syndrome threat with increasing hope of a revival in the Hong Kong economy. Thereafter, activity in 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 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 and 2009, the activity in the Cash Market dropped as market sentiment was stricken by the global economic downturn and tumbling stock prices caused by the financial tsunami which started in the fourth quarter of 2008. Operating expenses were kept relatively stable throughout the years due to stringent cost controls. As a result, profit attributable to shareholders was predominantly affected by the level of income.

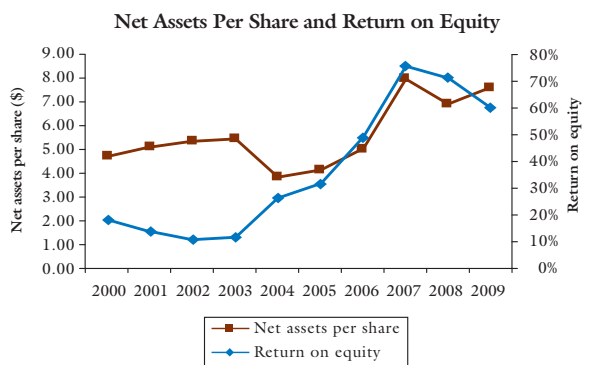


As there were no significant changes in the issued share capital, earnings per share followed the same trend as profit attributable to shareholders.

Since 2002, the Board has adopted a dividend policy of providing shareholders with regular dividends with a target payout ratio of 90 per cent. 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. Conversely, net assets per share in 2009 rose again as the total dividends paid during 2009 were lower 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 and 2009 was due to lower profit caused by the financial tsunami.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

HKEx maintains a set of corporate governance principles and practices to ensure that the Company is managed in Shareholders' best long-term interests, and to promote the sustainable development of the Company. We have participated in a number of international indicators to assess our social responsibility and are pleased to have been acknowledged as one of the leaders in this field.

Given HKEx's role as an exchange controller and its strategic importance to Hong Kong's success as an international financial centre, our corporate governance structure is specifically designed to enable HKEx to discharge its responsibilities in safeguarding the integrity of the market while pursuing its commercial objectives.

As a listed company on the Exchange, we are regulated by the SFC in order to avoid any potential conflict of interest. HKEx and other listed companies are thus on a level playing field in respect of compliance with the Listing Rules. Pursuant to the SFO, the Company has the primary duty of ensuring an orderly, informed and fair market and of ensuring risks are managed prudently. In discharging this statutory obligation, HKEx shall act in the interest of the public, having particular regard to the interest of the investing public, and ensure that the interest of the public prevails where it conflicts with HKEx's interest.

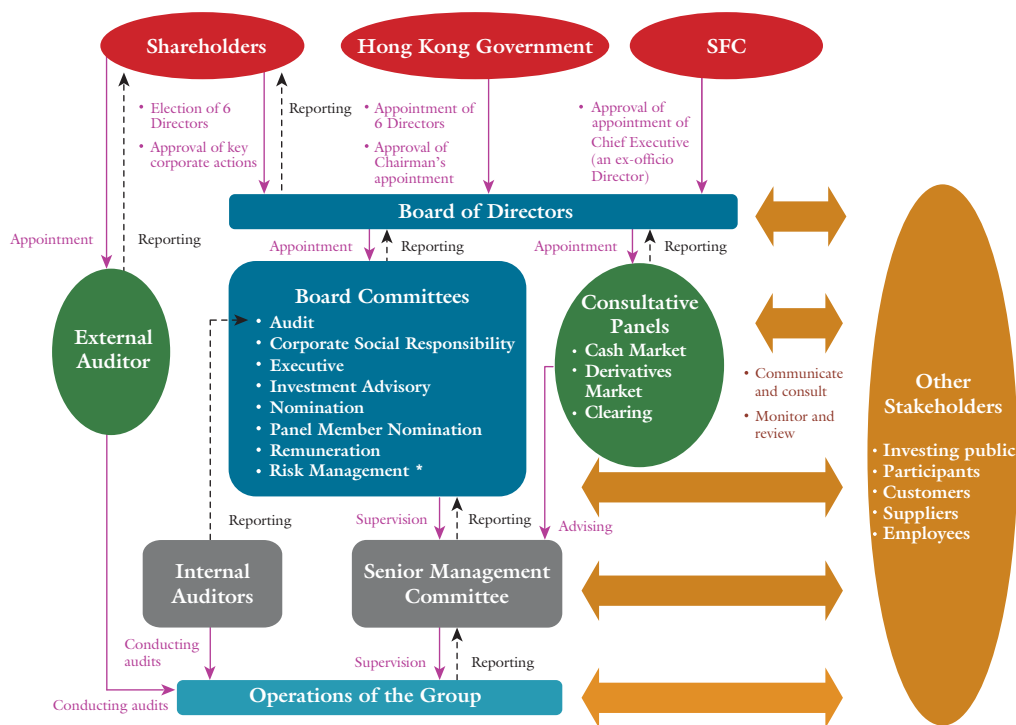
Our Board plays a central supporting role in the Company's corporate governance structure. Accountability, transparency, fairness and integrity are the 4 cornerstones on which the Board has formulated our corporate governance policies to guide the Company in discharging its public and corporate responsibilities. In essence, the principles in the CG Code of the Main Board Listing Rules have been adopted to provide guidance to the Company in handling the relationships and dealings with our stakeholders in a comprehensive and structured way. Shareholders may visit our Corporate Governance section of the HKEx website for our checks and balances measures, and our governance principles and practices.

CG Code Compliance

The Government Appointed Directors and the Chief Executive in his capacity as a Director are not subject to election or re-election by Shareholders as their appointments are governed by Section 77 of the SFO and HKEx's Articles respectively. Save as disclosed in this paragraph, HKEx complied with all the code provisions and, where appropriate, adopted the recommended best practices, as set out in the CG Code (Appendix 14 to the Main Board Listing Rules) throughout the year ended 31 December 2009.

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. 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 HKEx's income-generating business operations.

The Board

Board Process and Effectiveness

The Board provides leadership and guidance to the Group's activities. Every member receives a Director's Handbook upon joining the Group, which includes the Guidelines on Conduct for members of the Board and Committees and other 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 the Board. Periodical updates are also provided to them with the last update in November 2009, which is posted on the HKEx website.

As a key policy of having major decisions made by the Board as a whole, and in order to enable them to make informed decisions, Senior Management will provide an orientation programme for every new Director, including extensive background information of the Group's structure, its businesses and governance practices. In June 2009, an induction programme was arranged for the 3 newly appointed Directors.

Other than in-house programmes, Directors are encouraged to attend relevant external trainings, particularly on corporate ethics and integrity matters, and relevant new laws, regulations and changing commercial risks, from time to time.

To choose a successor to Mr Paul M Y Chow, a Selection Committee, comprising the Chairman and 4 INEDs, was formed to handle the whole selection process, including setting the evaluation criteria and making recommendation to the Board.

Key Features of Board Process

- The meeting schedule for the following year is given to all Directors normally within the last quarter of the current year. In 2009, a total of 12 Board meetings were held. The attendance record of each Director is set out in the Board Committees section of this report. The overall attendance rate of Board meetings in 2009 was 88 per cent (2008: 88 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. Directors shall preserve the privacy of confidential information given or presented to, and the deliberations of, the Board and its Committees.
- 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, key matters in each division/department, and 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 on matters relating to their role and responsibilities.
- 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. In addition, at each financial reporting period, the Company seeks confirmation from Directors in respect of any related party transactions under HKAS 24 and connected transactions under the Main Board Listing Rules. The relevant information is disclosed in note 47 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 2009, no legal actions were made against any of our Directors in relation to their duties performed for HKEx.

Key Matters Considered and/or Resolved by the Board in 2009

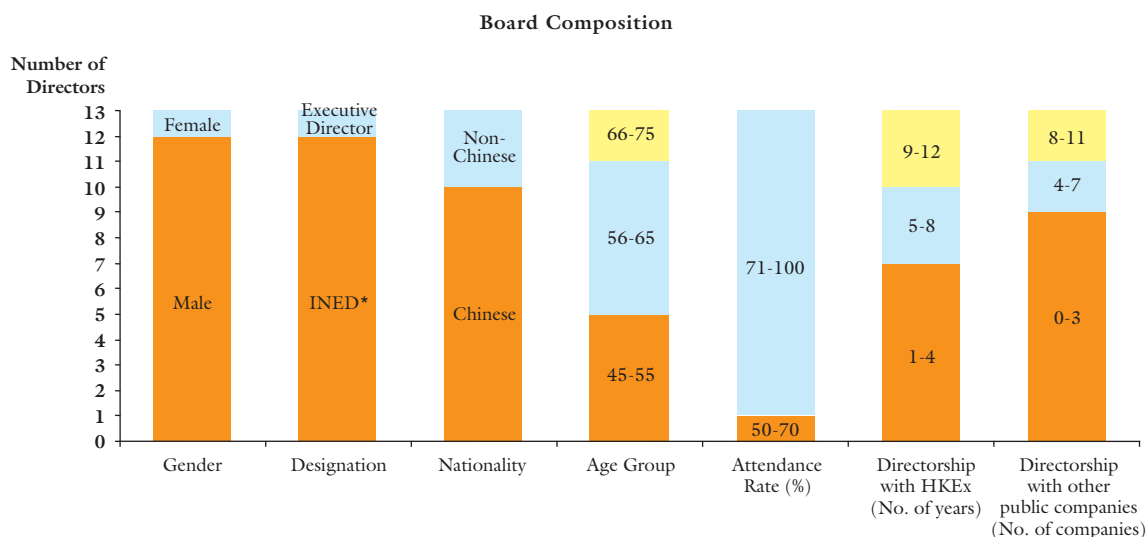
- Publication of financial results
- Recommendation of payment of dividends
- Appointment of the new Chief Executive
- Pay review recommendation for 2010
- The Group's Strategic Plan
- 2010 Annual Operating Plan and Budget
- Raising CSR awareness and standards among listed companies
- The Continuous Disclosure and Communication Policy and Materiality Guidelines
- Appointment of members, including the chairmen and deputy chairmen, to the 3 Consultative Panels
- Appointment of members to various Board Committees
- Strategic review of the listing regime
- Upgrade roadmap for Cash Market trading and market data systems
- Roadmap for the development of HKEx's future production data centre
- Funding arrangement for and nomination to the FRC

Chairman and Chief Executive

The roles of the Chairman and the Chief Executive are separate and assumed by Mr Ronald J Arculli and Mr Paul M Y Chow (who was succeeded by Mr Charles X Li effective 16 January 2010) respectively. Their respective responsibilities are set out in the Corporate Governance section on the HKEx website. HKEx's Articles provides that the Chairman shall be a non-executive Director. The Chairman's primary responsibilities include deciding on the meeting schedule and agenda, formulating Board policy and promoting the Company. In addition, the Chairman takes on the responsibility of ensuring compliance with the Company's guidelines on corporate governance. The Chief Executive has delegated authority from, and is responsible to, the Board for managing the Company's business.

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 Elected Directors, excluding the Chief Executive. Currently, the Board comprises 13 members with professional background and/or extensive expertise in the financial markets. The list of Directors, their biographies and their respective terms of office are set out in the Board of Directors and Senior Management of this Annual Report, and are available on the HKEx website.



* 6 Government Appointed Directors and 6 Elected Directors

Note: The above analysis excludes Mr Charles X Li who joined the Board as Executive Director effective 16 January 2010.

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 has to declare 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 do not have any financial, business, family or other material/relevant relationships with each other, in particular there are none between the Chairman and the Chief Executive.

Appointment 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 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 23 April 2009, the Financial Secretary re-appointed Dr Marvin K T Cheung and appointed Messrs Stephen C C Hui and Michael T H Lee as Government Appointed Directors each for a term of approximately 2 years from 23 April 2009 until the conclusion of the AGM to be held in 2011. On the same day, Messrs Ignatius T C Chan and John M M Williamson were elected by Shareholders as Directors and their service terms are approximately 3 years from 23 April 2009 until the conclusion of the AGM to be held in 2012.

To ensure a smooth transition, the Board appointed Mr Charles X Li as the Chief Executive Designate effective 16 October 2009. Mr Li was appointed the Chief Executive and an ex-officio member of the Board effective 16 January 2010 upon the retirement of Mr Paul M Y Chow who served as the Chief Executive for more than 6 years since 1 May 2003.

Three Government Appointed Directors, namely Mr Ronald J Arculli, Mrs Laura M Cha and Dr Moses M C Cheng, will retire in accordance with their respective terms of service at the conclusion of the 2010 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.

The respective terms of office of 2 Elected Directors, namely Messrs John E Strickland and Oscar S H Wong, will expire at the conclusion of the 2010 AGM. Pursuant to Article 93(5) of HKEx's Articles, both of them are eligible for re-appointment.

Candidates standing for election at general meetings are recommended by either Shareholders or the Board. The Board's recommendations are made in accordance with proposals submitted by the Nomination Committee which is mandated to make nominations of Elected Directors, and to determine annually the independence of INEDs.

Nomination Committee

The Nomination Committee comprises 5 members who are all INEDs. Its member list is set out in the Board and Committees of this Annual Report, which together with the terms of reference are available on the HKEx website. The Nomination Committee shall formulate nomination policy for the Board's consideration and implement the nomination policy laid down by the Board, and assess the independence of non-executive Directors. Criteria such as reputation for integrity, accomplishment and experience in the financial service sector, professional and educational background, and commitment in respect of available time are considered by the Nomination Committee in making a nomination of Director. The factors as set out in Rule 3.13 of the Main Board Listing Rules are taken into account when assessing the independence of a non-executive Director.

During 2009, the Nomination Committee met once and the purpose of which was to (i) nominate Messrs Ignatius T C Chan and John M M Williamson for the Board's recommendation to stand for election by Shareholders at the 2009 AGM; and (ii) review and confirm the independence of the 12 INEDs for the year ended 31 December 2008. The attendance record of its members is set out in the Board Committees section of this report.

On 4 March 2010, the Nomination Committee assessed the annual confirmations of independence received from the INEDs. As a good corporate governance practice, every member of the Nomination Committee abstained from assessing his or her own independence.

Tata Consultancy Services Limited ("TCS"), of which Mrs Laura M Cha is a non-executive director, was appointed (via a tendering exercise) by HKEx in July 2008 to provide consultancy services to the first phase of Project "LISA" (Listing Information Support Application). The consultancy work undertaken by TCS was completed in 2009 and the amount paid was \$4,904,873. Although Mrs Cha is TCS' non-executive director, she does not have any interest in TCS. Taking into account that TCS was selected under a fair and transparent tendering exercise, and that 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 2009.

In addition, after taking into consideration that the Hong Kong Government is a Minority Controller of the Company, the Nomination Committee, by majority, affirmed that all INEDs remained independent for the year ended 31 December 2009 albeit 6 are Government-appointed among which 3 are Executive Councillors and Mr John E Strickland has served on the Board for more than 9 years.

On the same day, the Nomination Committee nominated Messrs John E Strickland and Oscar S H Wong to stand for election by Shareholders at the 2010 AGM. The said recommendations were accepted by the Board on 4 March 2010. Messrs Strickland and Wong abstained from voting at both meetings on recommending them for election by Shareholders. Messrs Strickland and Wong do not have any service contract with any member of the Group that is not determinable by the Group within 1 year without payment of compensation (other than statutory compensation), and their particulars are set out in the Circular to Shareholders to be sent together with this Annual Report.

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 to be carried out under the instruction/supervision of the Chief Executive. The corporate strategy is developed and implemented under the leadership and direction of the Chief Executive by the Senior Management and other employees. All management and staff have defined roles and responsibilities and are subject to a Code of Conduct, as set out in the Human Resources Manual, which imposes on them specific obligations as to the ethics and principles in accordance with which our business is conducted.

Board Committees

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

In 2009, each INED served on one or more committees and actively participated in the meetings. The attendance records of the Board/committees are set out in the following table.

Meetings Held in 2009										
	2009 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	12	5	4	13	4	1	1	2	12
Independent Non-executive Chairman										
Ronald J Arculli	1/1	12/12			12/13		1/1		2/2	12/12
INEDs										
Laura M Cha ¹	0/1	10/12				1/1		1/1	0/2	
Ignatius T C Chan ²	-/-	8/8	3/3						2/2	
Moses M C Cheng	1/1	11/12	4/5							
Marvin K T Cheung	0/1	6/12	5/5							7/12
Henry H L Fan ^{3,4}	0/1	0/4					0/1			
Fong Hup ⁴	1/1	4/4	2/2		3/3			1/1		10/12
Stephen C C Hui ⁵	-/-	8/8				2/3				
Bill C P Kwok	1/1	11/12			11/13			1/1		10/12
Vincent K H Lee	1/1	12/12	5/5		13/13		1/1	1/1	2/2	
Michael T H Lee ⁶	-/-	7/8				3/3				
Christine K W Loh ⁴	1/1	3/4							1/1	
John E Strickland	1/1	12/12				4/4	1/1			
John M M Williamson ⁷	1/1	11/12	5/5		9/10	0/1			1/1	
Oscar S H Wong	1/1	11/12				4/4	1/1	1/1		
Executive Director										
Paul M Y Chow (Chief Executive)	1/1	12/12		4/4	13/13					
Market Professionals										
Chan Ka-lok										11/12
Benjamin P C Hung										9/12
Edmond Y P Lau										8/12
Keith K K Lui										12/12
David Y T Lui ⁸						3/3				
David T K Sun ⁹						0/1				
Executives										
Eddie L S Chow				4/4						
Peter J Curley				4/4						
Joseph K S Mau				4/4						
Alfred K K Wong				4/4						
Brenda T M Yen				4/4						
Average Attendance Rate	77%	88%	96%	100%	94%	85%	80%	100%	80%	82%

Notes:

- Mrs Laura M Cha retired as a member of the Investment Advisory Committee on 24 April 2009.
- Mr Ignatius T C Chan was elected a Director at the 2009 AGM and appointed a member of the Audit Committee on 24 April 2009.
- Mr Henry H L Fan took a leave of absence from meetings of the Board and the Nomination Committee effective 22 October 2008.
- Messrs Henry H L Fan and Fong Hup and Dr Christine K W Loh retired at the conclusion of the 2009 AGM.
- Mr Stephen C C Hui was appointed a Government Appointed Director on 23 April 2009 and a member of the Investment Advisory Committee on 24 April 2009.
- Mr Michael T H Lee was appointed a Government Appointed Director on 23 April 2009 and a member of the Investment Advisory Committee on 24 April 2009.
- Mr John M M Williamson retired from the Investment Advisory Committee on 23 April 2009, and was appointed a member of the Executive Committee and Remuneration Committee on 24 April 2009.
- Mr David Y T Lui was appointed a member of the Investment Advisory Committee on 17 June 2009.
- Mr David T K Sun resigned from the Investment Advisory Committee on 17 June 2009.

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.

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.

Meetings Held in 2009	
Panel	Number of Meetings
Cash Market Consultative Panel	2
Derivatives Market Consultative Panel	4
Clearing Consultative Panel	2

Remuneration of Directors and Senior Management

A formal and transparent procedure for fixing the remuneration packages of individual Directors and Senior Management is in place. Details of remuneration policies and other relevant information are set out in the Remuneration Committee Report 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 2009, the Board:

- (a) adopted all HKFRSs which are in conformity to the International Financial Reporting Standards in all material respects;
- (b) selected suitable accounting policies and applied them consistently;
- (c) made prudent and reasonable judgements and estimates; and
- (d) 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, which 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 on the Corporate Governance section of the HKEx website.

Internal Control Measures

- The risk management and internal control system is an integral part of HKEx's management system. The management and individual divisions/departments are responsible for 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 that appropriate internal control policies and procedures have been established and properly complied with.
- 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 Group.
- The Risk Management Division is responsible for supervising HKEx's risk management functions.
- To ensure the integrity, reliability, availability and stability of the IT services and application systems of HKEx, the Board resolved on 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 1, ie, the independent reviews of the IT Governance and Electronic Disclosure System, was completed on 1 September 2008. Phase 2 which covers HKATS, DCASS and PRS, commenced in the third quarter of 2009 and is expected to be completed in the first quarter of 2010.

Annual Assessment of Internal Control System

The Internal Audit Department ("IAD") conducted independent reviews on the adequacy and effectiveness of the Group's internal control and risk management systems and regularly reported the review results to the Board through the Audit Committee ("AC"). 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 system in the following aspects:

- (a) 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;
- (b) the responses to changes in HKEx's business and external environment;
- (c) the efficiency in rectifying identified internal control deficiencies and implementing recommendations of the IAD, external auditor and/or regulator;
- (d) the promptness in handling operating errors or failures; and
- (e) the control of price-sensitive information in accordance with the Exchange's guidelines as well as HKEx's Continuous Disclosure and Communication Policy which was approved by the Board in June 2009.

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 2009, no suspected frauds, irregularities or infringement of laws, rules and regulations or material control failures were reported. At the meeting on 23 February 2010, 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 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 2009, is set out in the Audit Committee Report 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		
	2009	2008
Audit	\$3,369,500	\$2,876,500
Permissible		
Non-audit Services:		
• Taxation services	\$364,619	\$457,573
• Training	\$4,500	\$1,450
Total	\$3,738,619	\$3,335,523

Pursuant to the 5-year rotation policy which was first adopted by the Group in 2005, the external auditor will assign a new engagement partner in 2010. The Group has also adopted the policy of not hiring 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 policies have been strictly complied with since their adoption.

More information about the external auditor's responsibilities is set out in the Auditor's Report of this Annual Report.

Compliance with Model Code

HKEx has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. In response to the specific enquiry by the Company, all Directors confirmed that they complied with the Model Code throughout the year ended 31 December 2009.

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

As at 31 December 2009, the Directors' and the Chief Executive's interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code are set out below.

Long Positions in Shares and Underlying Shares of HKEx

Name of Director	Number of Shares/Underlying Shares Held				Total	% of the Issued ¹ Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Paul M Y Chow	3,297,194 ²	–	–	–	3,297,194	0.31
John E Strickland	18,000 ³	–	–	–	18,000	0.00

Notes:

- 1 It was based on 1,076,190,346 shares of HKEx in issue as at 31 December 2009.
- 2 It included Mr Chow's interests in 9,964 Awarded Shares and 951 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 38(c) to the consolidated accounts of this Annual Report.
- 3 Mr Strickland was the beneficial owner of those shares.

Save for those disclosed above, as at 31 December 2009, 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.

Apart from the share options and Awarded Shares as disclosed in the Remuneration Committee 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 2009, held any interests in or was granted any right to subscribe for the securities of HKEx and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

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

As at 31 December 2009, other persons' interests and short positions 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 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 ¹ Share Capital
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	62,919,500 ²	62,919,500	5.85

Notes:

1 It was based on 1,076,190,346 shares of HKEx in issue as at 31 December 2009.

2 This was based on a DI filing made by the Hong Kong Government on 10 September 2007 which it stated was voluntary.

Save for those disclosed above, as at 31 December 2009, 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.

Senior Management's Interests 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 2009, the Senior Management's interests 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	Derivatives (Number of Underlying Shares)
Charles X Li	–	–	–	–
Gerald D Greiner	32,129	200,000	24,954	–
Peter J Curley	–	20,000	11,073	–
Mark F Dickens	–	–	61,685	–
Lawrence K M Fok	950,483	50,000	9,656	–
Mary M L Kao	820,657	80,000	11,928	–
Kevin T King	–	–	–	–
Henry M W Law	9,809	65,000	13,139	–
Archie T C Tsim	36,092	123,000	18,258	–
Alfred K K Wong	297,889	75,000	18,483	–

* The number included further shares acquired through reinvesting dividends received.

Continuing Connected Transactions

During the year ended 31 December 2009, 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 2009

- 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:
- 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.
 - 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.
 - 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:
- 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 companies are listed on the Stock Exchange.
 - 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 CCASS Participants for (i) carrying out “buy-in” when a CCASS 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”):
- 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 2009, the total consideration of such transactions was \$25,881,483.92, comprising an aggregate of buy-in cost of \$25,816,806.54 and related brokerage fee of \$64,677.38 earned by BSL.
 - 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 2009, the total consideration of such transactions was \$57,892,479.47, comprising an aggregate of buy-in cost of \$57,822,584.95 and related brokerage fee of \$69,894.52 earned by WSL.
 - 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 2009, the total consideration of such transactions was \$1,016,523.79, comprising an aggregate of buy-in cost of \$1,015,071.47 and related brokerage fee of \$1,452.32 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, the AC deputy chairman, abstained from reviewing transactions in which he had an interest. The AC confirmed that:

- 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;

- (ii) 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;
- (iii) 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 mutually agreed commission rate payable by HKSCC in respect of such Buy-in Transactions generally; and
- (iv) 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:

- (i) the Transactions disclosed above had been approved by the Board;
- (ii) the pricing of the Transactions was in accordance with the pricing policies of the Group; and
- (iii) 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 47 to the consolidated accounts of this Annual Report.

Stakeholder Communications

Continuous Disclosure and Communication Policy

HKEx recognises the significance of transparency and is committed to providing Shareholders and other stakeholders with full and accurate information about HKEx’s activities and its financial conditions on a fair and timely basis. The Group’s Continuous Disclosure and Communication Policy provides guiding principles, practices and procedures to assist employees in (i) relaying potential price-sensitive information to the Board to enable it to make timely decisions on disclosure, if necessary; and (ii) communicating with our stakeholders, in ways which are in strict compliance with the Main Board Listing Rules and best practices. Details of the Continuous Disclosure and Communication Policy are set out in the Human Resources Manual which is available on the HKEx website.

Communication Channels

The Board believes openness and transparency are essential in maintaining good relations with our broader stakeholder group, including the investment community, from the largest institution to the retail investor. To this end, a comprehensive investor relations programme has been in place for many years. Regular and publicly available disclosures about important issues, including performance, fundamental business strategy, and governance are made through the following channels:

- (i) the HKEx website which is under revamp for launch in March 2010;
- (ii) quarterly newsletters *Exchange* and status report on new product and market development initiatives;
- (iii) prompt news releases;
- (iv) quarterly, interim and annual financial reports as well as press conferences, webcast presentations and newspaper notifications on financial results;

- (v) regular circulars and letters to Shareholders;
- (vi) continuous dialogue with investors, media and financial analysts by means of roadshows, conference calls, one-to-one meetings and industry conferences;
- (vii) hotlines; and
- (viii) market consultations, for which the guidelines were updated in June 2009 to achieve a consistent approach to HKEx's market consultations and to provide predictable communication arrangements for the public.

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 Shareholders.

More information about our stakeholder engagement programme completed in 2009 will be set out in the 2009 CSR Report (which will be available on the CSR section of the HKEx website).

Shareholders' Rights and Meetings

Open and candid communication between the Board and our Shareholders is maintained. We welcome Shareholders' views and input at all times. Shareholders and other stakeholders may at any time address their concerns to the Company Secretary by mail or email. The contact details are set out in the Information for Stakeholders of this Annual Report.

Periodical analysis of HKEx's shareholding profile is conducted to help better understand Shareholders' interests and needs. Details of the analysis and HKEx's public float capitalisation are set out in the Shareholding Analysis and Information for Stakeholders of this Annual Report respectively.

Shareholders are welcome to attend Shareholders' meetings where they are fully briefed on the Company's activities and can raise questions directly to the Board and the management on both operational and governance matters.

Poll voting has been adopted for decision-making at Shareholders' meetings since 2003 to ensure that each share is entitled to one vote. Details of the poll voting procedures are 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.

The Board proposed to make certain amendments to HKEx's Articles with the aim of facilitating the Board decision making process and corporate communication with Shareholders, and the related resolution will be put forth for Shareholders' approval at the 2010 AGM. An explanatory statement in connection with the proposed changes will be set out in the Circular to Shareholders to be sent together with this Annual Report.

2009 AGM

The majority of the Board members, including the Chairman (who was also the chairman of the Remuneration and Nomination Committees) and the deputy chairman of the Audit Committee, together with key executives and the external auditor attended the 2009 AGM held at the Exchange Auditorium in the Exchange Exhibition Hall of SEHK on 23 April 2009 at 4:30 pm. HKEx continued to propose a separate resolution for each substantive issue, including the election of individual Directors. The poll voting results and the minutes of the 2009 AGM are available on the HKEx website. The matters resolved thereat are summarised below.

Matters Resolved at the 2009 AGM

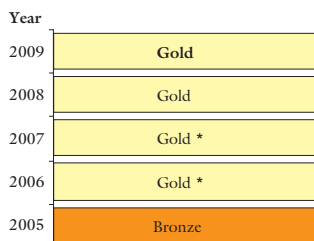
- Received the audited accounts for the year ended 31 December 2008 together with the Reports of the Directors and the Auditor;
- Payment of a final dividend of \$1.80 per share for the year ended 31 December 2008;
- Election of Messrs Ignatius T C Chan and John M M Williamson as Directors;
- Re-appointment of PricewaterhouseCoopers as Auditor of the Company and authorisation of the Board to fix the Auditor's remuneration; and
- 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 2009 AGM.

The key dates in 2009 are set out in the Financial Calendar section under the Information for Stakeholders of this Annual Report. The tentative important dates in 2010 are set out in the 2010 Financial Calendar which is available at the Investor Relations section on the HKEx website.

Corporate Governance Scores and Ratings

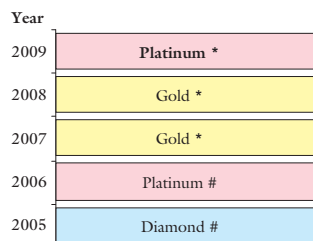
HKEx has been included as a constituent of the FTSE4Good Index Series since September 2005. In 2009, HKEx was granted the Platinum Award for All-Round Excellence in Financial Performance, Management, Corporate Governance, Social Responsibility, Environmental Responsibility and Investor Relations under the Triple A Corporate Awards 2009 organised by *The Asset*. 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



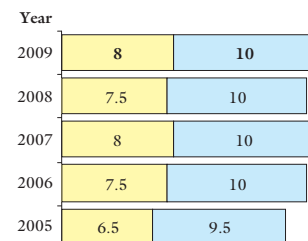
* Also the Winner in Citation for Achievement in Corporate Governance Disclosure

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



□ Global Rating □ Home Market
Note: The score is on a 10-point scale.

We are strongly committed to continuous improvement in our corporate governance standards to ensure that they meet ongoing developments in global corporate governance practices and the interests of our stakeholders. Your comments are invaluable to us and can be sent to us in writing or by email to ssd@hkex.com.hk.

Changes after Closure of Financial Year

This report takes into account the changes that have occurred since the end of the 2009 financial year to the date of approval of this report.

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

Hong Kong, 4 March 2010

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 Vincent K H Lee and Mr Ignatius T C Chan are certified public accountants, and Mr John M M Williamson is a chartered accountant. Mr Chan was appointed on 24 April 2009 to succeed Mr Fong Hup who retired after the 2009 AGM. None of the members is 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 responsibilities, are posted on the HKEx website.

Major Work Done in 2009

The AC holds regular meetings, at least 4 times a year, and organises additional meetings if and when necessary. In 2009, a total of 5 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 2008, for the 6 months ended 30 June 2009, and for the quarters ended 31 March 2009 and 30 September 2009;
- reviewed the internal audit activities summary and approved the internal audit annual plan;
- reviewed internal auditors’/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 2009, including their plan and engagement letter, and the letter of representation of management (the recommendation on the re-appointment of PricewaterhouseCoopers as the Group’s external auditor for 2009 was approved by Shareholders at the 2009 AGM);
- considered and approved the 2009 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
- selected the consultant for the independent review of HKEx’s derivatives trading, clearing and information dissemination systems, and monitored the progress of the review.

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 2009, 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 2009.

Review of 2009 Consolidated Financial Statements

The AC reviewed the 2009 consolidated financial statements in conjunction with HKEx's external auditor 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 Group's financial position and results for the year ended 31 December 2009. The AC therefore recommended the consolidated financial statements for the year ended 31 December 2009 be approved by the Board.

Review of the Group's Accounting and Financial Reporting Function

In compliance with the CG Code, the AC at its meeting on 23 February 2010, 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 23 February 2010, the AC also reviewed the "Continuing Connected Transactions" as set out in the Corporate Governance Report 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.

Members of the Audit Committee

CHEUNG Kin Tung, Marvin (Chairman)
LEE Kwan Ho, Vincent Marshall (Deputy Chairman)
CHAN Tze Ching, Ignatius
CHENG Mo Chi, Moses
John Mackay McCulloch WILLIAMSON

Hong Kong, 23 February 2010

REMUNERATION COMMITTEE REPORT

The Remuneration Committee

The Remuneration Committee (“RC”) comprises 5 INEDs. Its composition is set out on page 19 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.

Major Work Done in 2009

During 2009, the RC held 2 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 2009:

- recommended a salary adjustment for merit increase and promotion for 2010;
- recommended the performance bonus pool for 2009 based on the assessment of the Company’s financial and non-financial performance and a pre-set formula implemented since 2006;
- recommended the performance bonus for the Chief Executive for 2009;
- reviewed the remuneration level for non-executive Directors and recommended to keep the remuneration level unchanged for 2009/2010; and
- adopted the RC Report 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 to every employee. To enable our employees to reach their full potential, we are committed to staff training and development. In 2009, HKEx spent \$4.8 million on staff training and organised 136 in-house training classes with more than 4,800 participants in aggregate. In addition, 15 employees of different grades participated in the academic sponsorship programme and 765 participants attended external training programmes. HKEx’s e-learning programme also provided a variety of courses covering managerial, language and technical skills to 114 employees. More details are set out in the CSR section of the HKEx website and the 2009 CSR Report.

As at 31 December 2009, the Group had 841 permanent employees (2008: 848) and 9 temporary employees (2008: 17), and maintained a low turnover rate of 3 per cent (2008: 7 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 *	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

* Including the Chief Executive

Employees' rewards are linked to performance and differentiated based on a 6-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 10 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 of the HKEx website.

Non-executive Directors' Fee Review for 2009/2010

In 2009, the RC, after having conducted an annual review, recommended that the remuneration package for non-executive Directors for 2009/2010 should remain unchanged:

	2009/2010 (\$)	2008/2009 (\$)
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

In February 2010, the RC recommended raising the remuneration of the Chairman and each of the other non-executive Directors to \$500,000 and \$350,000 per annum respectively. The additional remuneration of the chairman and every member (excluding executive Director) of the Executive Committee, Audit Committee, RC and Investment Advisory Committee is recommended to remain unchanged at \$50,000 per annum but an attendance fee of \$2,500 per meeting is proposed to reflect the variable workload and time commitment of the above committee members. The above recommendation is based on the average annual remuneration of non-executive directors of HSI constituent companies as well as overseas listed exchanges and serves to bring the remuneration of non-executive Directors that has remained unchanged in the past 3 years closer to that of the market. The Board has endorsed the RC's recommendations for Shareholders' approval at the 2010 AGM.

Employees' Pay Review for 2009/2010

In anticipation of the possible economic rebound in 2010 and improvement in the job market, to ensure that HKEx stays competitive in attracting and retaining good talent, the RC recommended and the Board approved an average 3 per cent increase in staff salary, which included a merit increase and promotion for eligible employees based on their performance and salary level.

To recognise employees' contribution in 2009 and under the Group's bonus schemes with the 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 order to ensure that long-term incentives are awarded to employees instrumental to the Company's long-term growth and success, the Board also approved the RC's recommendation to defer the award of long-term incentives to 2010 pending a review of the Share Award Scheme.

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

Emoluments for 2009

Non-executive Directors

Name	Director's Fee (\$)	
	2009	2008
Current Directors		
Ronald J Arculli	550,000	550,000
Laura M Cha	362,500	400,000
Ignatius T C Chan ¹	262,500	–
Moses M C Cheng	400,000	400,000
Marvin K T Cheung	350,000	350,000
Stephen C C Hui ¹	262,500	–
Bill C P Kwok	350,000	350,000
Vincent K H Lee	450,000	450,000
Michael T H Lee ¹	262,500	–
John E Strickland	350,000	350,000
John M M Williamson ²	437,500	214,444
Oscar S H Wong	350,000	350,000
Ex-Directors		
Henry H L Fan ³	75,000	300,000
Fong Hup ³	100,000	400,000
Christine K W Loh ³	87,500	350,000
David M Webb ⁴	–	122,832
Total	4,650,000	4,587,276

Notes:

- 1 Mr Ignatius T C Chan was elected, and Messrs Stephen C C Hui and Michael T H Lee were appointed, on 23 April 2009.
- 2 Mr John M M Williamson, who was appointed on 18 June 2008 to fill the casual vacancy arising from the resignation of Mr David M Webb, was elected on 23 April 2009.
- 3 Messrs Henry H L Fan and Fong Hup, and Dr Christine K W Loh retired on 23 April 2009.
- 4 Mr David M Webb resigned on 15 May 2008.

Executive Director

Name	2009					2008	2009		
	Salary (\$)	Cash Bonus (\$)	Other ¹ Benefits (\$)	Retirement ² Benefits Cost (\$)	Director's Fee (\$)	Total (\$)	Total (\$)	Share ³ Options Benefits (\$)	Share ³ Awards Benefits (\$)
Chief Executive									
Paul M Y Chow ⁴	7,800,000	7,800,000	58,806	975,000	-	16,633,806	12,732,504	-	460,542

Senior Management

Name	2009					2008	2009		
	Salary (\$)	Cash Bonus (\$)	Other ¹ Benefits (\$)	Retirement ² Benefits Cost (\$)	Compensation for Loss of Office (\$)	Total (\$)	Total (\$)	Share ³ Options Benefits (\$)	Share ³ Awards Benefits (\$)
Charles X Li ⁵	2,259,677	-	144,989	188,710	-	2,593,376	-	-	-
Gerald D Greiner	5,851,200	2,438,000	90,555	731,400	-	9,111,155	9,123,414	100,595	805,580
Peter J Curley ⁶	3,360,000	560,000	34,542	336,000	-	4,290,542	2,181,416	61,520	232,331
Mark F Dickens	4,200,000	2,100,000	33,840	525,000	-	6,858,840	-	-	1,574,841
Lawrence K M Fok	3,672,000	918,000	68,060	459,000	-	5,117,060	5,433,178	77,697	196,484
Mary M L Kao	3,681,360	1,533,900	63,784	460,170	-	5,739,214	5,739,224	77,697	261,387
Kevin T King	3,000,000	1,000,000	54,616	375,000	-	4,429,616	3,813,480	-	-
Henry M W Law	2,594,880	1,081,200	45,259	324,360	-	4,045,699	4,032,510	63,432	392,840
Stewart S C Shing ⁷	977,070	-	668,114	122,134	-	1,767,318	6,105,792	13,473	294,297
Archie T C Tsim	3,274,200	1,364,250	63,506	409,276	-	5,111,232	5,029,390	64,708	539,997
Richard G Williams ⁸	755,820	-	19,540	94,478	-	869,838	7,529,368	-	(748,777)
Alfred K K Wong	3,240,000	1,755,000	55,409	405,000	-	5,455,409	5,421,450	71,323	553,778

Notes:

- Other benefits include leave pay, insurance premium, club membership and relocation allowance, as applicable.
- 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.
- 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 2009 (under HKFRS 2, amortisation of the fair value of the options granted under the Pre-Listing Scheme is not required).
- Mr Paul M Y Chow retired on 16 January 2010. Mr Chow's total emoluments for 1 to 15 January 2010 was \$4,890,867 including his salary for 1 to 15 January 2010, leave pay, insurance premium, club membership and retirement benefits cost.
- Mr Charles X Li joined HKEx as the Chief Executive Designate on 16 October 2009 to succeed Mr Paul M Y Chow as the Chief Executive effective 16 January 2010. Mr Li's compensation package includes a salary of \$7.2 million per annum, and his emoluments for 2009 included a special allowance of \$750,000 as a compensation for loss of income during the sanitisation period and a relocation allowance of \$100,000.
- Mr Peter J Curley is a member of a pension scheme operating in the US, 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 Curley.
- Mr Stewart S C Shing retired on 1 April 2009, and was appointed as Adviser effective 1 February 2010.
- Mr Richard G Williams resigned on 1 March 2009. As a member of a pension scheme operating in the UK, he was 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 was 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 to 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 was employed as Chief Executive whose contract expired upon his retirement on 16 January 2010. Mr Charles X Li, the successor of Mr Paul M Y Chow, has a service contract with HKEx for an initial term of 3 years until 15 October 2012. Save as the aforesaid, no Director has any existing or proposed service contract with any member of the Group.

Chief Executive's 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				Exercise Period ¹
			As at 1 Jan 2009	Subscribed during the Year	Lapsed during the Year	As at 31 Dec 2009	
Chief Executive							
Paul M Y Chow	2 May 2003	8.28	-	-	-	-	2 May 2005 – 1 May 2013
Senior Management							
Charles X Li				- Nil -			
Gerald D Greiner	17 May 2004	15.91	100,000	-	-	100,000	17 May 2006 – 16 May 2014
	26 Jan 2005	19.25	100,000	-	-	100,000	26 Jan 2007 – 25 Jan 2015
Peter J Curley	31 Mar 2004	16.96	23,500	23,500	-	-	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	40,000	20,000	-	20,000	26 Jan 2007 – 25 Jan 2015
Mark F Dickens				- Nil -			
Lawrence K M Fok	31 Mar 2004	16.96	30,000	30,000	-	-	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	50,000	-	-	50,000	26 Jan 2007 – 25 Jan 2015
Mary M L Kao	31 Mar 2004	16.96	30,000	-	-	30,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	50,000	-	-	50,000	26 Jan 2007 – 25 Jan 2015
Kevin T King				- Nil -			
Henry M W Law	31 Mar 2004	16.96	25,000	-	-	25,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	40,000	-	-	40,000	26 Jan 2007 – 25 Jan 2015
Stewart S C Shing ²	15 Jan 2004	17.30	273,500	273,500	-	-	15 Jan 2006 – 14 Jan 2014
Archie T C Tsim	26 Jan 2005	19.25	123,000	-	-	123,000	26 Jan 2007 – 25 Jan 2015
Richard G Williams ³	14 Aug 2003	12.45	-	-	-	-	14 Aug 2005 – 13 Aug 2013
Alfred K K Wong	31 Mar 2004	16.96	25,000	-	-	25,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	50,000	-	-	50,000	26 Jan 2007 – 25 Jan 2015

Notes:

- 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.
- Mr Stewart S C Shing retired on 1 April 2009, and was appointed as Adviser effective 1 February 2010.
- Mr Richard G Williams resigned on 1 March 2009.

Awarded Shares

Name	Date of Award ²	Number of Awarded Shares	Average ³ Fair Value per Share (\$)	Number of Shares ¹					As at 31 Dec 2009	Vesting Period ⁴
				As at 1 Jan 2009	Further Shares Acquired during the Year through Reinvesting Dividends Received	Vested during the Year	Lapsed during the Year	As at 31 Dec 2009		
Chief Executive										
Paul M Y Chow ⁵	15 Jan 2007	11,528	72.28	9,282	273	3,185	-	6,370	13 Dec 2008 – 13 Dec 2011	
	7 Apr 2008	4,200	144.18	4,411	134	-	-	4,545	18 Feb 2010 – 18 Feb 2013	
Senior Management										
Charles X Li					- Nil -					
Gerald D Greiner	19 Dec 2005	40,600	31.20	22,381	665	11,520	-	11,526	19 Dec 2007 – 19 Dec 2010	
	15 Jan 2007	11,911	72.28	9,600	283	3,290	-	6,593	13 Dec 2008 – 13 Dec 2011	
	4 Feb 2008	8,418	163.72	8,838	268	2,271	-	6,835	12 Dec 2009 – 12 Dec 2012	
Peter J Curley	19 Dec 2005	20,200	31.20	11,134	330	5,730	-	5,734	19 Dec 2007 – 19 Dec 2010	
	15 Jan 2007	9,629	72.28	7,766	232	2,659	-	5,339	13 Dec 2008 – 13 Dec 2011	
Mark F Dickens	3 Feb 2009	59,900	81.96	-	1,785	-	-	61,685	1 Jan 2011 – 1 Jan 2014	
Lawrence K M Fok	19 Dec 2005	24,600	31.20	13,559	400	6,979	-	6,980	19 Dec 2007 – 19 Dec 2010	
	15 Jan 2007	3,842	72.28	3,096	90	1,059	-	2,127	13 Dec 2008 – 13 Dec 2011	
	4 Feb 2008	658	163.72	698	26	175	-	549	12 Dec 2009 – 12 Dec 2012	
Mary M L Kao	19 Dec 2005	28,700	31.20	15,821	470	8,143	-	8,148	19 Dec 2007 – 19 Dec 2010	
	15 Jan 2007	5,048	72.28	4,065	118	1,392	-	2,791	13 Dec 2008 – 13 Dec 2011	
	4 Feb 2008	1,202	163.72	1,270	42	323	-	989	12 Dec 2009 – 12 Dec 2012	
Kevin T King					- Nil -					
Henry M W Law	19 Dec 2005	22,900	31.20	12,619	374	6,495	-	6,498	19 Dec 2007 – 19 Dec 2010	
	15 Jan 2007	6,660	72.28	5,368	157	1,837	-	3,688	13 Dec 2008 – 13 Dec 2011	
	4 Feb 2008	3,623	163.72	3,812	118	977	-	2,953	12 Dec 2009 – 12 Dec 2012	
Stewart S C Shing ⁶	15 Jan 2007	5,360	72.28	4,313	-	4,313	-	-	13 Dec 2008 – 13 Dec 2011	
	4 Feb 2008	1,361	163.72	1,433	-	1,433	-	-	12 Dec 2009 – 12 Dec 2012	
Archie T C Tsim	19 Dec 2005	32,700	31.20	18,025	534	9,278	-	9,281	19 Dec 2007 – 19 Dec 2010	
	15 Jan 2007	8,965	72.28	7,224	210	2,476	-	4,958	13 Dec 2008 – 13 Dec 2011	
	4 Feb 2008	4,941	163.72	5,189	162	1,332	-	4,019	12 Dec 2009 – 12 Dec 2012	
Richard G Williams ⁷	15 Jan 2007	12,490	72.28	10,061	-	-	10,061	-	13 Dec 2008 – 13 Dec 2011	
	4 Feb 2008	7,672	163.72	8,050	-	-	8,050	-	12 Dec 2009 – 12 Dec 2012	
Alfred K K Wong	19 Dec 2005	32,100	31.20	17,694	526	9,108	-	9,112	19 Dec 2007 – 19 Dec 2010	
	15 Jan 2007	9,417	72.28	7,590	223	2,600	-	5,213	13 Dec 2008 – 13 Dec 2011	
	4 Feb 2008	5,113	163.72	5,373	164	1,379	-	4,158	12 Dec 2009 – 12 Dec 2012	

Notes:

- The number included shares acquired through reinvesting dividends received.
- Prior to 16 August 2006, the date of award referred 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 referred 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.
- 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.
- 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.
- According to the terms of the Share Award Scheme, a total of 10,915 shares were vested and transferred to Mr Paul M Y Chow on 15 January 2010, the date immediately prior to his retirement.
- Mr Stewart S C Shing retired on 1 April 2009, and according to the terms of the Share Award Scheme, a total of 5,746 shares were vested and transferred to him on the date immediately prior to his retirement. Mr Shing was subsequently appointed as Adviser effective 1 February 2010.
- Mr Richard G Williams resigned on 1 March 2009.

Long-Term Incentive Schemes

HKEx maintains 2 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 2 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 the 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 65,184,484 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: $P = 80 \text{ per cent } (A \times B)$, 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 the 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 38(b) to the consolidated accounts of this Annual Report. The share options granted under the 2 schemes, which remained outstanding as at 31 December 2009 were as follows:

Pre-Listing Scheme

Date of Grant	Exercise Price (\$)	Number of Shares Issuable Under the Options			As at 31 Dec 2009	Exercise Period ²
		As at 1 Jan 2009	Issued upon ¹ Subscription during the Year	Lapsed during the Year		
Employees ³						
20 Jun 2000	6.88	130,000	16,000	-	114,000	6 Mar 2002 – 30 May 2010

Post-Listing Scheme

Date of Grant	Exercise Price (\$)	Number of Shares Issuable Under the Options			As at 31 Dec 2009	Exercise Period ⁵
		As at 1 Jan 2009	Issued upon ⁴ Subscription during the Year	Lapsed during the Year		
Executive Director ⁶						
2 May 2003	8.28	-	-	-	-	2 May 2005 – 1 May 2013
Employees ³						
14 Aug 2003	12.45	-	-	-	-	14 Aug 2005 – 13 Aug 2013
15 Jan 2004	17.30	273,500	273,500	-	-	15 Jan 2006 – 14 Jan 2014
31 Mar 2004	16.96	1,514,500	494,500	-	1,020,000	31 Mar 2006 – 30 Mar 2014
17 May 2004	15.91	100,000	-	-	100,000	17 May 2006 – 16 May 2014
26 Jan 2005	19.25	2,667,500	520,000	25,000	2,122,500	26 Jan 2007 – 25 Jan 2015

Notes:

- 1 The weighted average closing price immediately before the dates on which the options were exercised was \$74.54.
- 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 \$98.38.
- 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.

No options granted under the Share Option Schemes were cancelled during the year ended 31 December 2009.

As from 26 January 2010, the fifth anniversary of the latest grant on 26 January 2005 under the Post-Listing Scheme, all shares that might be issued under the Share Option Schemes were fully vested.

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.

In 2008, the Board approved an amount of \$4,900,000 for the purchase of HKEx shares to be awarded to an employee upon his joining HKEx on 1 January 2009. Save for the purchase and allocation of 59,900 HKEx shares to the relevant employee in 2009 according to the rules of the Share Award Scheme, no further shares were awarded in the year. Further details in relation to the award and the Share Award Scheme are set out in note 38(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
John Mackay McCulloch WILLIAMSON

Hong Kong, 4 March 2010

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 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.

Major Work Done in 2009

The CSR Committee held 4 meetings during the year with no absentees. The following is a summary of major work done under the leadership of the CSR Committee in 2009:

- taken into account HKEx's CSR principles in the development of HKEx's Strategic Plan;
- set CSR key performance indicators for long-term CSR development;
- considered and approved HKEx's CSR Policy and Management System Framework;
- approved the waste management guide to help raise employees' awareness of environmental preservation;
- approved a budget of \$800,000 for carrying out various environmental initiatives in 2010, including energy efficiency enhancement, indoor air quality certification and waste audit;
- conducted the 2009 CSR Report Cover Design Competition;
- developed a CSR Management System (which is expected to be completed by the second quarter of 2010);
- developed a Supply Chain Management System (which is expected to be completed by the first quarter of 2010);
- endorsed and rolled out green purchasing and procurement guidelines including environmental specifications for 4 product categories;
- completed energy audit, lighting system audit and waste audit at 3 office premises;
- completed indoor air quality inspection and certification at 6 office premises;
- set the corporate donation focus and budget;
- approved the engagement of an independent third party to verify the 2009 CSR Report and the involvement of Global Reporting Initiative ("GRI") to affirm the GRI application level of the 2009 CSR Report; and
- conducted a series of CSR workshops to raise employees' awareness of CSR.

CSR Management and Communication

To improve CSR management within HKEx, the CSR Committee approved the establishment of a CSR Management System in 2009 as a means to ensure compliance with CSR-related legal requirements and best practices and continual improvement under HKEx's existing CSR commitments, and to facilitate more efficient and effective CSR reporting. Under the new CSR Management System structure, the CSR Committee approved the setting up of a CSR Working Group effective 1 January 2010 to oversee the overall daily operation of the management system. CSR Coordinators are appointed by each division or department to oversee the implementation of CSR practices within individual division/department.

Our CSR values and commitment can positively impact the marketplace through the daily business interactions between our employees, customers, suppliers and business partners. A series of "HKEx and CSR – Think and Work Responsibly" workshops were organised in 2009 to enrich employees' knowledge and awareness of CSR and its application in our daily operations. Over 90 per cent of employees, including senior executives, participated in these workshops. The CSR Committee responded to over 100 CSR suggestions raised by employees during the workshops, which were posted on the HKEx Intranet. As part of our CSR Management System development initiative, periodic trainings will be provided to the CSR Coordinators to ensure their competency in implementing HKEx's CSR policies and procedures. We are also developing a Supply Chain Management System which will include the addition of CSR aspects to the vendor selection criteria, promotion of socially responsible corporate behaviour to our suppliers and monitoring of our suppliers' CSR performance.

Since the publication of the 2008 CSR Report, which is HKEx's inaugural stand-alone CSR report, we have further improved the transparency and accountability of our CSR reporting by adopting the GRI G3 Guidelines in the preparation of the 2009 CSR Report. The Report achieved a GRI application level A+ which has been checked and affirmed by both an independent verifier as well as the GRI Secretariat. The 2009 CSR Report will be posted on the CSR section of the HKEx website.

Looking Ahead

Given the Board's continued support and our employees' active participation, we are confident that CSR will be further integrated into our business strategy and management approach in the long run to create sustainable value for HKEx, our stakeholders and the wider community. Visit our website for further information and to provide feedback on our CSR management approach and performance.

Members of the Corporate Social Responsibility Committee

LI Xiaojia, Charles (Chairman)
 CHOW Lok Sum, Eddie
 Peter Joseph CURLEY
 MAU Kam Shing, Joseph
 WONG Kwok Kuen, Alfred
 YEN Tai Mui, Brenda

Hong Kong, 4 March 2010

SHAREHOLDING ANALYSIS

Share Capital (as at 31 December 2009)

Authorised Share Capital \$2,000 million with shares of \$1 each
 Issued Share Capital \$1,076,190,346 with shares of \$1 each

An analysis of the Shareholders based on the ROM as at 31 December 2009 and 31 December 2008 is as follows:

Shareholding Distribution

Size of Shareholding	Number of Shareholders		% of Shareholders		Number of ¹ Shares Held ('000)		% of the Issued Share Capital	
	2009	2008	2009	2008	2009	2008	2009	2008
1 – 1,000	2,191	2,458	47.05	47.99	1,346	1,526	0.13	0.14
1,001 – 5,000	1,513	1,648	32.49	32.17	4,070	4,365	0.38	0.41
5,001 – 10,000	423	460	9.08	8.98	3,440	3,718	0.32	0.35
10,001 – 100,000	379	402	8.14	7.85	11,888	12,593	1.10	1.17
100,001 and above	151	154	3.24	3.01	1,055,446	1,052,684	98.07	97.93
Total	4,657	5,122	100.00	100.00	1,076,190	1,074,886	100.00	100.00

Geographical Distribution

Location	Number of Shareholders		Number of Shares Held ¹ ('000)	
	2009	2008	2009	2008
Hong Kong	4,644	5,108	1,076,041	1,074,333
Outside Hong Kong	13	14	149	553
Australia	1	–	0.1	–
Canada	3	3	3.5	3.5
Macau	5	6	35.5	37.5
PRC	2	2	8.0	8.0
UK	2	2	102.0	102.0
US	–	1	–	402.5
Total	4,657	5,122	1,076,190	1,074,886

Share Ownership by Type

Type of Shareholders	Number of Shareholders		Number of Shares Held ¹ ('000)		% of the Issued Share Capital	
	2009	2008	2009	2008	2009	2008
Individual	4,568	5,022	65,843	66,892	6.12	6.22
Non-Individual	89	100	1,010,347	1,007,994	93.88	93.78
HKSCC Nominees Limited	1	1	971,700	963,973	90.29	89.68
Category A Participants			33,759	47,939	3.14	4.46
Category B Participants			53,533	72,919	4.97	6.78
Category C Participants			51,347	66,266	4.77	6.16
Custodians			823,523	765,486	76.52	71.22
IPs			7,970	9,124	0.74	0.85
Defaulting Participant			1,489	1,489	0.14	0.14
Other corporate/incorporated bodies	88	99	971,621 ²	963,223 ²	90.28	89.61
			38,647	44,021	3.59	4.10
Total	4,657	5,122	1,076,190	1,074,886	100.00	100.00

Notes:

- Figures have been rounded up/down to the nearest thousand.
- 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 2009, the shares were held for 13 (2008: 12) Category A Participants (top 14 brokers by market turnover), 42 (2008: 41) Category B Participants (brokers ranked 15-65 by market turnover), 344 (2008: 346) Category C Participants (all remaining brokers), 32 (2008: 29) Custodians, 811 (2008: 1,025) IPs and 1 (2008: 1) Defaulting Participant.

INFORMATION FOR STAKEHOLDERS

Annual Report

This Annual Report is printed in English and Chinese and is available on the Investor Relations section of the HKEx website. Shareholders can elect to receive printed or electronic copies. Should Shareholders elect electronic means, HKEx will donate \$50 to a charity with a focus on environmental protection, subject to a cap of \$100,000 per annum. A free printed version will be sent to Shareholders who have elected to receive electronic copies but for any reason have difficulty receiving or gaining access to them. 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 reasonable notice in writing to HKEx's registrar, Hong Kong Registrars Limited, or by email to the Company at communicationrequest@hkex.com.hk.

2009 Dividends

Interim dividend	\$1.84 per share
Payment date for interim dividend	9 September 2009
Proposed final dividend	\$2.09 per share
Ex-dividend date for final dividend	15 April 2010
Record date for final dividend	22 April 2010
Payment date for final dividend	3 May 2010

Closure of Register of Members

HKEx's ROM will be closed from Monday, 19 April 2010 to Thursday, 22 April 2010, 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 2010 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 4:30 pm on Friday, 16 April 2010.

Annual General Meeting

The 2010 AGM will be held on Thursday, 22 April 2010. The Notice of the 2010 AGM which constitutes part of the circular to Shareholders will be sent together with this Annual Report. The Notice of the 2010 AGM and the proxy form will also be available on the HKEx website.

Financial Calendar

2009 AGM	23 April 2009
Announcement of first quarter results	13 May 2009
Announcement of interim results	12 August 2009
Announcement of third quarter results	11 November 2009
Announcement of final results	4 March 2010
2010 AGM	22 April 2010

Share Information

Share Listing

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

Board Lot 100 shares

Market Capitalisation as at 31 December 2009

Public float capitalisation \$150 billion
Number of issued shares 1,076,190,346 shares
Closing price \$139.40 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

2009	Price per Share		Turnover* (in millions)	
	High (\$)	Low (\$)	Shares	\$
January	88.60	63.25	155.0	11,626.8
February	70.85	60.50	127.5	8,414.3
March	79.20	53.40	244.8	15,849.4
April	93.00	71.95	238.1	20,392.5
May	125.70	92.80	300.5	33,095.7
June	133.00	113.60	217.4	26,957.2
July	148.00	114.00	186.9	24,197.7
August	153.70	134.50	149.7	21,739.0
September	150.00	133.50	118.1	16,876.5
October	146.80	132.50	132.0	18,473.5
November	143.80	133.30	99.4	13,863.8
December	142.40	133.40	73.7	10,169.3

* Figures have been rounded.

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

Our Contact Information

Registered Office

12th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Tel. No.: +852 2522 1122

Fax No.: +852 2295 3106

Email address: info@hkex.com.hk

Website: www.hkex.com.hk

Beijing Representative Office

Ren Guang Ming, Chief Representative
Suite 1002, Level 10, Tower W2, The Towers,
Oriental Plaza, No. 1 East Chang An Avenue,
Dong Cheng District, Beijing, 100738 China

Tel. No.: +8610 8518 3088

Fax No.: +8610 8518 3288

Email address: bj@hkex.com.hk

Guangzhou

Li Jia, Assistant Manager
Room 2503, Skyfame Tower, No. 8 Linhezhong Road,
Tianhe District, Guangzhou, 510610 China

Tel. No.: +8620 8550 1459

Fax No.: +8620 8550 1035

Email address: jjali@hkex.com.hk

Shanghai Special Representative

Maggie Cao, Special Representative
Unit 2101, 2 Grand Gateway, 3 Hongqiao Road,
Xuhui District, Shanghai, 200030 China

Tel. No.: +8621 6407 8811

Fax No.: +8621 6448 0597

Email address: maggiacao@hkex.com.hk

Chief Marketing Officer

Lawrence Fok
12th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Tel. No.: +852 2840 3050

Fax No.: +852 2521 7060

Email address: lawrencefok@hkex.com.hk

Corporate Communications/Investor Services

Henry Law, Head of Corporate Communications Department
12th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Tel. No.: +852 2840 3861

Fax No.: +852 2868 4270

Email address: info@hkex.com.hk

Listing

Mark Dickens, Head of Listing Division
11th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Tel. No.: +852 2840 3036

Fax No.: +852 2295 4806

Email address: hol@hkex.com.hk

Market Development

Romnesh Lamba, Head of Market Development Division
12th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Tel. No.: +852 2840 3829

Fax No.: +852 2537 1168

Email address: imd@hkex.com.hk

Secondary Market

Gerald Greiner, Chief Operating Officer
12th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Tel. No.: +852 2840 3312

Fax No.: +852 2295 0935

Email address: geraldgreiner@hkex.com.hk

Secretarial Services

Joseph Mau, Company Secretary and
Head of Secretarial Services Department
12th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Tel. No.: +852 2840 3872

Fax No.: +852 2878 7029

Email address: ssd@hkex.com.hk

DIRECTORS' REPORT

The Directors are pleased to present this Annual Report together with the audited financial statements for the year ended 31 December 2009.

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 2009 is set out in note 4 to the consolidated accounts of this Annual Report.

Particulars of HKEx's subsidiaries as at 31 December 2009 are set out in note 36 to the consolidated accounts of this Annual Report.

Results and Appropriations

The Group's results for the year ended 31 December 2009 are set out in the consolidated income statement on page 117 of this Annual Report.

An interim dividend of \$1.84 per share (2008: \$2.49 per share), amounting to a total of about \$1,980 million (2008: \$2,676 million) was paid to Shareholders on 9 September 2009 and included dividends of about \$1.9 million for shares held in trust under the Share Award Scheme (2008: \$3.1 million).

The Board recommends the payment of a final dividend of \$2.09 per share (2008: \$1.80 per share) to Shareholders whose names appear on HKEx's ROM on 22 April 2010, 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 \$4,229 million (including dividends of about \$3.3 million for shares held in trust under the Share Award Scheme) (2008: \$4,613 million, including dividends of about \$4.9 million for shares held in trust under the Share Award Scheme).

Reserves

HKEx's distributable reserves as at 31 December 2009, calculated under Section 79B of the Companies Ordinance, amounted to \$4,956 million (2008: \$4,536 million).

Details of the movements in the reserves of the Group and HKEx during the year are set out in notes 38 to 42 to the consolidated accounts of this Annual Report.

Donations

The Group's charitable and other donations during the year amounted to \$542,000 (2008: \$10.6 million which included \$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 37 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 10 financial years is set out in the Financial Statistics since the Year of Merger of this Annual Report.

Purchase, Sale or Redemption of HKEx's Listed Securities

In 2009, 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 89,700 HKEx shares at a total consideration of \$8.6 million.

Public Float

As at the date of this Annual Report, based on publicly available information, 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 2009, are set out in the Information for Stakeholders 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 Board and Committees of this Annual Report. Information about the Board, including members' appointments and retirements, and their interests in the HKEx 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 Board of Directors and Senior Management 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 and note 47 to the consolidated accounts of this Annual Report.

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 and note 38 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 debentures 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 2009, 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 2009.

Provident Fund Schemes

Particulars of the Group's provident fund schemes are set out in note 10 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.

Since 7 September 2007, the Hong Kong Government has become a Minority Controller. According to the Hong Kong Government, the provisions of Section 61 of the SFO do not expressly, or by necessary implication, bind the Hong Kong 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 Hong Kong Government.

In March 2009, an entity obtained the SFC's approval for it to become a Minority Controller. As at the date of this Annual Report, the SFC has only granted approval to 6 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 2009, the 6 (2008: 5) approved Minority Controllers in aggregate held 67 per cent (2008: 56 per cent) of HKEx's issued share capital.

Auditor

The accounts for the year ended 31 December 2009 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the 2010 AGM. A resolution to re-appoint them and to authorise the Directors to fix their remuneration will be proposed at the 2010 AGM.

On behalf of the Board

Ronald Joseph ARCULLI
Chairman

Hong Kong, 4 March 2010

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 117 to 222, which comprise the consolidated and company statements of financial position as at 31 December 2009, 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 judgement, 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 2009 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 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

		2009	As restated 2008
	Note	\$'000	\$'000
Trading fees and trading tariff	5	2,586,297	2,803,081
Stock Exchange listing fees	6	728,477	711,983
Clearing and settlement fees		1,424,748	1,405,202
Depository, custody and nominee services fees		562,599	496,708
Income from sale of information		694,563	673,445
Other revenue	7	417,402	390,855
REVENUE		6,414,086	6,481,274
Investment income		624,300	1,075,590
Interest rebates to Participants		(3,346)	(76,415)
Net investment income	8	620,954	999,175
Gain on disposal of properties	9	–	68,641
	4	7,035,040	7,549,090
OPERATING EXPENSES			
Staff costs and related expenses	10	793,503	803,106
Information technology and computer maintenance expenses	11	246,291	238,917
Premises expenses		219,084	149,786
Product marketing and promotion expenses		12,622	16,986
Legal and professional fees		13,282	25,128
Depreciation		101,173	109,646
Other operating expenses:			
(Reversal of provision for)/provision for impairment losses arising from Participants' default on market contracts	12(a)	(330)	163,203
Others	12(b)	107,324	114,181
	4	1,492,949	1,620,953
PROFIT BEFORE TAXATION	4/13	5,542,091	5,928,137
TAXATION	16(a)	(838,047)	(799,506)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	42	4,704,044	5,128,631
Earnings per share			
Basic	18(a)	\$4.38	\$4.78
Diluted	18(b)	\$4.36	\$4.75

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009 \$'000	As restated 2008 \$'000
Profit attributable to shareholders	4,704,044	5,128,631
Other comprehensive income:		
Available-for-sale financial assets:		
Change in fair value during the year	-	111,494
Change in fair value up to maturity	(113,265)	(54,451)
Less: Reclassification adjustment:		
Gains included in profit or loss on disposal	(2,520)	(4,678)
Deferred tax	19,104	(8,565)
Other comprehensive income attributable to shareholders, net of tax	(96,681)	43,800
Total comprehensive income attributable to shareholders	4,607,363	5,172,431

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Share capital, share premium and shares held for Share Award Scheme (note 37) \$'000	Employee comprehensive share-based compensation reserve (note 38) \$'000	Other Revaluation reserves (note 39) \$'000	Designated reserves (note 40) \$'000	Retained earnings (note 42) \$'000	Total equity \$'000
At 1 Jan 2008, as previously reported	1,288,652	49,669	56,036	694,853	6,288,138	8,377,348
Effect of changes in accounting policies (note 2(b))	-	-	-	-	(1,415)	(1,415)
At 1 Jan 2008, as restated	1,288,652	49,669	56,036	694,853	6,286,723	8,375,933
Total comprehensive income						
attributable to shareholders	-	-	43,800	-	5,128,631	5,172,431
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 dividends 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, as restated	1,356,534	47,032	96,681	552,383	5,240,984	7,293,614
At 1 Jan 2009, as previously reported	1,356,534	47,032	96,681	552,383	5,242,692	7,295,322
Effect of changes in accounting policies (note 2(b))	-	-	-	-	(1,708)	(1,708)
At 1 Jan 2009, as restated	1,356,534	47,032	96,681	552,383	5,240,984	7,293,614
Total comprehensive income						
attributable to shareholders	-	-	(96,681)	-	4,704,044	4,607,363
2008 final dividend at \$1.80 per share	-	-	-	-	(1,934,708)	(1,934,708)
2009 interim dividend at \$1.84 per share	-	-	-	-	(1,978,110)	(1,978,110)
Unclaimed dividends forfeited	-	-	-	-	3,914	3,914
Shares issued under employee share option schemes	23,238	-	-	-	-	23,238
Shares purchased for Share Award Scheme	(8,568)	-	-	-	-	(8,568)
Vesting of shares of Share Award Scheme	22,121	(17,777)	-	-	(4,344)	-
Employee share-based compensation benefits	-	20,583	-	-	-	20,583
Transfer of reserves	6,759	(6,759)	-	11,018	(11,018)	-
At 31 Dec 2009	1,400,084	43,079	-	563,401	6,020,762	8,027,326

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Note	At 31 Dec 2009 \$'000	As restated At 31 Dec 2008 \$'000	As restated At 1 Jan 2008 \$'000
NON-CURRENT ASSETS				
Fixed assets	19(a)	302,721	370,078	376,809
Financial assets measured at fair value through profit or loss	20	1,559,405	–	–
Available-for-sale financial assets	21	–	–	481,666
Financial assets at amortised cost	22	–	47,172	19,177
Financial assets measured at amortised cost	23	767,933	–	–
Deferred tax assets	35(e)	3,563	4,429	3,610
Other assets		3,207	3,207	3,212
		2,636,829	424,886	884,474
CURRENT ASSETS				
Accounts receivable, prepayments and deposits	24	11,334,370	8,535,392	18,367,345
Financial assets at fair value through profit or loss	25	–	3,020,035	2,996,555
Financial assets measured at fair value through profit or loss	20	12,465,473	–	–
Available-for-sale financial assets	21	–	19,394,095	19,681,853
Financial assets at amortised cost	22	–	3,664,012	3,190,733
Financial assets measured at amortised cost	23	4,157,247	–	–
Cash and cash equivalents	26	14,738,083	27,783,692	42,768,745
		42,695,173	62,397,226	87,005,231
Non-current assets held for sale	28	–	–	64,092
		42,695,173	62,397,226	87,069,323
CURRENT LIABILITIES				
Participants' contributions to Clearing House Funds	29	722,726	197,520	1,252,355
Margin deposits from Clearing Participants on derivatives contracts	30	20,242,938	41,839,991	55,428,888
Cash collateral from HKSCC Clearing Participants	31	3,431,725	3,599,902	2,719,588
Accounts payable, accruals and other liabilities	32	11,827,011	8,894,102	18,741,921
Other financial liabilities	33	42,174	118,485	37,139
Deferred revenue		423,998	392,688	375,174
Taxation payable		260,911	141,363	687,726
Provisions	34(a)	33,397	36,290	29,630
		36,984,880	55,220,341	79,272,421
NET CURRENT ASSETS		5,710,293	7,176,885	7,796,902
TOTAL ASSETS LESS CURRENT LIABILITIES		8,347,122	7,601,771	8,681,376

	Note	At 31 Dec 2009 \$'000	As restated At 31 Dec 2008 \$'000	As restated At 1 Jan 2008 \$'000
NON-CURRENT LIABILITIES				
Participants' contributions to Clearing				
House Funds	29	276,000	252,000	244,500
Deferred tax liabilities	35(e)	17,954	30,674	36,815
Provisions	34(a)	25,842	25,483	24,128
		319,796	308,157	305,443
NET ASSETS		8,027,326	7,293,614	8,375,933
CAPITAL AND RESERVES				
Share capital	37	1,076,190	1,074,886	1,070,285
Share premium	37	375,595	346,902	266,170
Shares held for Share Award Scheme	37	(51,701)	(65,254)	(47,803)
Employee share-based compensation reserve	38	43,079	47,032	49,669
Revaluation reserves	39	–	96,681	56,036
Designated reserves	40	563,401	552,383	694,853
Retained earnings	42	6,020,762	5,240,984	6,286,723
SHAREHOLDERS' FUNDS		8,027,326	7,293,614	8,375,933
TOTAL ASSETS		45,332,002	62,822,112	87,953,797
TOTAL LIABILITIES		37,304,676	55,528,498	79,577,864
SHAREHOLDERS' FUNDS PER SHARE		\$7.46	\$6.79	\$7.83

Approved by the Board of Directors on 4 March 2010

Ronald Joseph ARCULLI
Director

LI Xiaojia, Charles
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Note	At 31 Dec 2009 \$'000	As restated At 31 Dec 2008 \$'000	As restated At 1 Jan 2008 \$'000
NON-CURRENT ASSETS				
Fixed assets	19(b)	28,459	23,237	19,206
Investments in subsidiaries	36(a)	4,156,588	4,156,588	4,156,588
Contributions to HKEx Employee Share Trust	36(d)	44,078	56,946	43,635
Financial assets at amortised cost	22	–	720	481
Financial assets measured at amortised cost	23	10,036	–	–
Deferred tax assets	35(e)	3,563	4,393	3,610
Other assets		3,089	3,089	3,089
		4,245,813	4,244,973	4,226,609
CURRENT ASSETS				
Accounts receivable, prepayments and deposits	24	14,575	17,434	17,136
Amounts due from subsidiaries	36(b)	2,798,007	1,839,066	1,171,921
Available-for-sale financial assets	21	–	8,220	–
Financial assets at amortised cost	22	–	142,167	46,880
Financial assets measured at amortised cost	23	92,728	–	–
Cash and cash equivalents	26	27,486	31,680	20,184
		2,932,796	2,038,567	1,256,121
CURRENT LIABILITIES				
Accounts payable, accruals and other liabilities	32	180,334	175,211	167,044
Amounts due to subsidiaries	36(b)	483,565	32,269	522,218
Other financial liabilities	33	11,390	11,390	11,390
Taxation payable		18,026	24,052	12,982
Provisions	34(b)	33,397	35,104	29,630
		726,712	278,026	743,264
NET CURRENT ASSETS		2,206,084	1,760,541	512,857
TOTAL ASSETS LESS CURRENT LIABILITIES		6,451,897	6,005,514	4,739,466
NON-CURRENT LIABILITIES				
Provisions	34(b)	634	634	575
NET ASSETS		6,451,263	6,004,880	4,738,891

		At 31 Dec 2009 \$'000	As restated At 31 Dec 2008 \$'000	As restated At 1 Jan 2008 \$'000
	Note			
CAPITAL AND RESERVES				
Share capital	37	1,076,190	1,074,886	1,070,285
Share premium	37	375,595	346,902	266,170
Employee share-based compensation reserve	38	43,079	47,032	49,669
Revaluation reserves	39	–	111	–
Merger reserve	41	2,997,115	2,997,115	2,997,115
Retained earnings	42	1,959,284	1,538,834	355,652
SHAREHOLDERS' FUNDS		6,451,263	6,004,880	4,738,891
TOTAL ASSETS		7,178,609	6,283,540	5,482,730
TOTAL LIABILITIES		727,346	278,660	743,839
SHAREHOLDERS' FUNDS PER SHARE		\$5.99	\$5.59	\$4.43

Approved by the Board of Directors on 4 March 2010

Ronald Joseph ARCULLI
Director

LI Xiaojia, Charles
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Note	2009 \$'000	2008 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	43	4,373,998	5,049,315
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		(47,483)	(221,378)
Net proceeds from sales of properties		–	132,733
Net proceeds from sales of fixed assets		601	2,435
Net (increase)/decrease in financial assets of Corporate Funds:			
(Increase)/decrease in time deposits with original maturities more than three months		(237,289)	245,278
Payments for purchases of available-for-sale financial assets		(464,900)	(4,592,100)
Net proceeds from sales or maturity of available-for-sale financial assets		3,013,294	5,117,831
Payments for purchases of financial assets measured at amortised cost (excluding bank deposits)		(1,285,161)	–
Payments for purchases of financial assets measured at fair value through profit or loss		(1,751,998)	–
Interest received from available-for-sale financial assets		187,601	524,732
Interest received from financial assets measured at amortised cost (excluding bank deposits)		977	–
Interest received from financial assets measured at fair value through profit or loss and financial assets at fair value through profit or loss		80,050	–
Net cash (outflow)/inflow from investing activities		(504,308)	1,209,531
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		23,238	66,533
Purchases of shares for Share Award Scheme		(8,568)	(32,494)
Dividends paid		(3,889,421)	(6,281,846)
Net cash outflow from financing activities		(3,874,751)	(6,247,807)
Net (decrease)/increase in cash and cash equivalents		(5,061)	11,039
Cash and cash equivalents at 1 Jan		4,755,750	4,744,711
Cash and cash equivalents at 31 Dec		4,750,689	4,755,750
Analysis of cash and cash equivalents			
Cash collateral received – cash at bank		3,431,725	3,599,902
Cash at bank and in hand		616,592	620,885
Time deposits with original maturities within three months		702,372	534,963
Cash and cash equivalents at 31 Dec	26	4,750,689	4,755,750

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 2010.

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”).

(b) Basis of preparation

These consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities measured at fair value.

The preparation of financial statements 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. The areas involving higher degree of judgement, or areas where assumptions and estimates are significant to the consolidated accounts are disclosed in note 3.

Adoption of new/revised HKFRSs

In 2009, the Group adopted the amendments to HKFRS 7: Improving Disclosures about Financial Instruments, which were the only new/revised HKFRS effective in 2009 relevant to its operations.

The amendments to HKFRS 7 require enhanced disclosure about fair value measurement and liquidity risk of financial instruments. In particular, the amendments require the disclosure of fair value measurement of financial instruments into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transition provisions, under which comparative information for the newly required disclosures about the fair value measurements has not been provided. The adoption of amendments to HKFRS 7 only results in additional disclosures.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Early adoption of new/revised HKFRSs

In the fourth quarter of 2009, the Group early adopted all new/revised HKFRSs issued up to 31 December 2009 which were pertinent to its operations where early adoption is permitted. The applicable HKFRSs are set out below:

HKFRS 9: Financial Instruments
 HKAS 24 (Revised): Related Party Disclosures
 Improvements to HKFRSs (2009)

HKFRS 9 is the first part of a project to replace HKAS 39: Financial Instruments: Recognition and Measurement, and it replaces the classification and measurement requirements in HKAS 39 for financial assets. Previously, financial assets of the Group were classified as financial assets at fair value through profit or loss, available-for-sale financial assets or loans and receivables (which included bank deposits) (note 2(q)(i)). The early adoption of HKFRS 9 has resulted in a change in accounting policy, and financial assets are classified into financial assets measured at fair value through profit or loss or financial assets measured at amortised cost. As HKFRS 9 was only issued in November 2009, the Group first applied the requirements of HKFRS 9 on 31 December 2009, which was not at the beginning of the reporting period. Details of the changes in measurement category of financial assets as at the date of initial application are disclosed in note 2(b) under the caption, "Adoption of HKFRS 9 – Re-designation of financial assets on 31 December 2009". Under the transitional provisions, HKFRS 9 was applied to financial assets extant at the date of initial application (ie, 31 December 2009) and comparative figures were not restated. No adjustments to retained earnings or revaluation reserves were required as at 1 January 2009 because the available-for-sale financial assets as at 31 December 2009 solely comprised those assets purchased during 2009 and there was no reclassification from financial assets at fair value through profit or loss to financial assets measured at amortised cost or from loans and receivables to financial assets measured at fair value through profit or loss at that date. There are consequential amendments to certain provisions of HKFRS 7, which the Group has also early adopted in the accounts.

HKAS 24 (Revised) amends the definition of a related party and provides disclosure exemption for government-related entities. It requires retrospective application. The early adoption of HKAS 24 (revised 2009) did not have any financial impact to the Group as it only affects the extent of disclosure of significant related party transactions.

The Improvements to HKFRSs (2009) comprise a number of minor and non-urgent amendments to a range of HKFRSs. Of these, the following three amendments are pertinent to the Group's operations:

HKAS 17: Leases
 HKFRS 8: Operating Segments
 HKAS 7: Statement of Cash Flows

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Early adoption of new/revised HKFRSs (continued)

The early adoption of the amendment to HKAS 17 has resulted in a change in accounting policy for the classification of leasehold land of the Group. Previously, leasehold land was classified as an operating lease and stated at cost less accumulated amortisation. In accordance with the amendment, leasehold land is classified as a finance lease and stated at cost less accumulated depreciation if substantially all risks and rewards of the leasehold land have been transferred to the Group. As the present value of the minimum lease payments (ie, the transaction price) of the land held by the Group amounted to substantially all of the fair value of the land as if it were freehold, the leasehold land of the Group has been classified as a finance lease. The amendment has been applied retrospectively to unexpired leases at the date of adoption of the amendment on the basis of information existing at the inception of the leases. The amendment does not apply to the leasehold land disposed of by the Group in prior years.

HKFRS 8 is amended to state that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision-makers. It requires retrospective application. As such information is not regularly reported to the chief operating decision-makers of the Group, it is not disclosed in the information on operating segments.

HKAS 7 is amended to state explicitly that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities. It requires retrospective application. The early adoption of the amendment does not have any impact on the presentation of the Group's consolidated statement of cash flows as the Group's accounting policy already complies with this amendment.

Change in accounting policy for the measurement of leasehold building

The Group has changed its accounting policy for measurement of leasehold building to cost less accumulated depreciation instead of depreciated replacement cost. This change means that the building component and the more significant land component of property leases are measured on the same basis. The change has been applied retrospectively to unexpired leases at the date of change of accounting policy. The effect of the change is shown in the tables below under the column HKAS 17 and building.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Effect of changes in accounting policies on consolidated income statement

	Group				
	Effect of adopting		HKFRS 9	Total	
	HKAS 17 and building	2008		2009	2009
	2009	2008	2009	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000
Increase in net investment income	-	-	29,529	29,529	-
Decrease in premises expenses (land)	510	509	-	510	509
Increase in depreciation *	(846)	(833)	-	(846)	(833)
Decrease/(increase) in other operating expenses (building)	200	(12)	-	200	(12)
Decrease/(increase) in taxation	13	43	(4,514)	(4,501)	43
Total (decrease)/increase in profit	(123)	(293)	25,015	24,892	(293)
(Decrease)/increase in basic earnings per share	(0.01 cent)	(0.03 cent)	2.33 cents	2.32 cents	(0.03 cent)
(Decrease)/increase in diluted earnings per share	(0.01 cent)	(0.03 cent)	2.32 cents	2.31 cents	(0.03 cent)

* Included depreciation for land of \$510,000 (2008: \$509,000) and depreciation for building of \$336,000 (2008: \$324,000).

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Effect of changes in accounting policies on statements of financial position

	Group						
	Effect of adopting				Total		
	HKAS 17 and building		HKFRS 9				
	At 31 Dec 2009 \$'000	At 31 Dec 2008 \$'000	At 1 Jan 2008 \$'000	At 31 Dec 2009 \$'000	At 31 Dec 2009 \$'000	At 31 Dec 2008 \$'000	At 1 Jan 2008 \$'000
Increase/(decrease) in assets (current and non-current)							
Fixed assets *	58,253	58,899	59,744	-	58,253	58,899	59,744
Lease premium for land	(60,198)	(60,708)	(61,217)	-	(60,198)	(60,708)	(61,217)
Financial assets at fair value through profit or loss	-	-	-	(6,128,894)	(6,128,894)	-	-
Financial assets measured at fair value through profit or loss	-	-	-	14,024,878	14,024,878	-	-
Available-for-sale financial assets	-	-	-	(9,188,368)	(9,188,368)	-	-
Financial assets at amortised cost	-	-	-	(3,629,268)	(3,629,268)	-	-
Financial assets measured at amortised cost	-	-	-	4,925,180	4,925,180	-	-
Deferred tax assets	-	-	-	75	75	-	-
Increase/(decrease) in liabilities/equity							
Taxation payable	-	-	-	1,353	1,353	-	-
Deferred tax liabilities	(114)	(101)	(58)	(1,054)	(1,168)	(101)	(58)
Revaluation reserves	-	-	-	(21,711)	(21,711)	-	-
Retained earnings	(1,831)	(1,708)	(1,415)	25,015	23,184	(1,708)	(1,415)

* Included the increase due to the effect of HKAS 17 of \$60,198,000 as at 31 December 2009 (31 December 2008 and 1 January 2008: \$60,708,000 and \$61,217,000 respectively) and the decrease due to the change in accounting policy for leasehold building of \$1,945,000 as at 31 December 2009 (31 December 2008: \$1,809,000 and \$1,473,000 respectively).

	HKEx Effect of adopting HKFRS 9 At 31 Dec 2009 \$'000
Increase/(decrease) in assets (current and non-current)	
Available-for-sale financial assets	(72,387)
Financial assets at amortised cost	(30,834)
Financial assets measured at amortised cost	102,764
Deferred tax assets	75
Increase/(decrease) in equity	
Revaluation reserves	(382)

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Change in presentation of financial assets of Margin Funds, Clearing House Funds and Corporate Funds

Previously, financial assets of the Margin Funds, Clearing House Funds and Corporate Funds were presented separately on the face of the consolidated statement of financial position.

In 2009, as a simplification of the presentation of the consolidated statement of financial position, the financial assets of all Funds are combined and presented together according to their classification under HKFRS 9 or HKAS 39.

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

Reclassification of financial guarantee contracts

In previous years, financial guarantee contracts were included as non-current liabilities as the amounts were not expected to be payable within twelve months. From 2009 onwards, the amounts are reclassified as current liabilities and included in “Other financial liabilities”, as it is the Group’s practice to pay the holders of the financial guarantee contracts when they demand payment.

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

Change in presentation of cash collateral received from Hong Kong Securities Clearing Company Limited (“HKSCC”) Clearing Participants

In previous years, the obligation to refund cash collateral received from HKSCC Clearing Participants was included in “Accounts payable, accruals and other liabilities” in the consolidated statement of financial position.

Since the default of Lehman Brothers Securities Asia Limited in September 2008, cash collateral requirements have increased substantially compared to prior years. Therefore, in 2009, as an enhancement to the presentation of the consolidated statement of financial position, the obligation to refund the cash collateral received from HKSCC Clearing Participants is shown as “Cash collateral from HKSCC Clearing Participants” under current liabilities in the consolidated statement of financial position.

Comparative figures have been adjusted to conform with the enhanced disclosure. This change has no effect on the consolidated income statement and the consolidated statement of cash flows.

Adoption of HKFRS 9 – Re-designation of financial assets on 31 December 2009

The table below presents the original measurement category and carrying amount for each class of financial assets of the Group and HKEx determined in accordance with HKAS 39 and the new measurement category and carrying amount determined in accordance with HKFRS 9 at the date of initial application (ie, 31 December 2009).

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Adoption of HKFRS 9 – Re-designation of financial assets on 31 December 2009 (continued)

Group			
Original measurement category and carrying amount in accordance with HKAS 39		New measurement category and carrying amount in accordance with HKFRS 9	
Original measurement category	Original carrying amount \$'000	Financial assets measured at amortised cost \$'000	Financial assets mandatorily measured at fair value through profit or loss \$'000
Financial assets at fair value through profit or loss, on designation	2,946,253	–	2,946,253
Financial assets at fair value through profit or loss, held for trading	3,182,641	–	3,182,641
Available-for-sale financial assets	9,188,368	1,295,912	7,895,984
Loans and receivables:			
Financial assets at amortised cost	3,629,268	3,629,268	–
Accounts receivable and deposits*	11,319,690	11,319,690	–
Cash and cash equivalents *	14,738,083	14,738,083	–

HKEx			
Original measurement category and carrying amount in accordance with HKAS 39		New measurement category and carrying amount in accordance with HKFRS 9	
Original measurement category	Original carrying amount \$'000	Financial assets measured at amortised cost \$'000	Financial assets mandatorily measured at fair value through profit or loss \$'000
Available-for-sale financial assets	72,387	71,930	–
Loans and receivables:			
Financial assets at amortised cost	30,834	30,834	–
Accounts receivable and deposits*	1	1	–
Amounts due from subsidiaries*	2,798,007	2,798,007	–
Cash and cash equivalents*	27,486	27,486	–

* captions of these items have remained unchanged as they are accounted for at amortised cost under both HKAS 39 and HKFRS 9.

The Group did not designate or de-designate any financial assets as measured at fair value through profit or loss on the date of initial application.

Effects of HKFRSs issued after 31 December 2009 and up to the date of approval of the consolidated accounts

Subsequent to 31 December 2009 and up to the date of approval of these consolidated accounts, the HKICPA has issued certain new/revised HKFRSs but they are not applicable to the Group's operations.

2. Principal Accounting Policies (continued)

(c) Consolidation

The Group 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.

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.

(d) Turnover

Turnover comprises trading fees and trading tariff, 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 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 ("CBBCs") 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.
- (iii) Fees for clearing and settlement of trades between Participants in eligible securities transacted on the The Stock Exchange of Hong Kong Limited ("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.
- (iv) Custody fees for securities held in the Central Clearing and Settlement System ("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)

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

Interest income on impaired loans is recognised using the original effective interest rate.

(f) Net investment income

Net investment income comprises interest income (net of interest rebates to Participants), net realised and unrealised gains/losses on financial assets and financial liabilities and dividend income, which is presented on the face of the consolidated income statement as part of other income.

(g) Interest expenses

Interest expenses (including interest rebates to Participants for Clearing House Funds, Margin Funds and cash collateral) 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.

(h) 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 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 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 employee share-based compensation expense and credited to an employee share-based compensation reserve under equity over the period in which the vesting conditions (ie, service 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.

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 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)

(h) 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 the requirements of HKFRS 2.

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.

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 recognised 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 for 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.

(i) 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 under 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.

(j) Finance leases

Leases where substantially all the rewards and risks of ownership are transferred to the Group are accounted for as finance leases. Finance leases are capitalised at the commencement of the leases at the lower of the fair values of the leased assets and the present values of the minimum lease payments.

(k) Fixed assets

Tangible fixed assets (including the land and building components of owner-occupied leasehold properties) 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.

2. Principal Accounting Policies (continued)

(k) Fixed assets (continued)

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 land	Over the remaining lives of the leases
Leasehold buildings	25 years
Leasehold improvements	Over the remaining lives 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, equipment and motor vehicles	3 to 5 years

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.

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

(l) Impairment of non-financial assets

Assets are reviewed for impairment whenever there is any indication 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.

Impairment loss is reversed if the circumstances and events leading to the impairment cease to exist.

(m) Margin Funds on derivatives contracts

Margin Funds are established by cash received or receivable from The SEHK Options Clearing House Limited (“SECHK”) and HKFE Clearing Corporation Limited (“HKCC”) Clearing Participants for covering their open positions in derivatives contracts. The funds are refundable to the Clearing Participants 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 manage the liquidity requirements of the Margin Funds and earn investment income. The financial assets will be liquidated whenever liquid funds are required.

2. Principal Accounting Policies (continued)

(m) Margin Funds on derivatives contracts (continued)

The obligation to refund the margin deposits is disclosed as Margin deposits from Clearing Participants on derivatives contracts under current liabilities. Non-cash collateral (ie, securities and bank guarantees) received from Clearing Participants is held off the consolidated statement of financial position.

(n) 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 the CCASS. Contributions are made to the Clearing House Funds by the Clearing Participants and the respective clearing houses. The funds are 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 manage the liquidity requirements of the Clearing House Funds and earn investment income. The financial assets will be liquidated whenever liquid funds are required.

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. Non-cash collateral of the Clearing House Funds (ie, contributions receivable from Clearing Participants fully secured by bank guarantees) is held off the consolidated statement of financial position. 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.

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.

(o) Cash collateral received from HKSCC Clearing Participants

Cash collateral received from HKSCC Clearing Participants for their open positions are included as part of cash and cash equivalents of the Group. As these funds are refundable to the Participants when they settle their positions, the collateral received are reflected as liabilities to the Participants and disclosed as Cash collateral from HKSCC Clearing Participants under current liabilities.

Cash collateral are invested in short-term bank deposits to earn investment income.

(p) Derivative financial instruments

Derivatives, which may include forward foreign exchange contracts, futures and options contracts, are initially recognised at fair value on trade-date and subsequently remeasured at their fair values. Changes in fair value, based on quoted market prices in active markets or recent market transactions, are recognised in profit or loss. All derivatives are classified as financial assets measured 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.

2. Principal Accounting Policies (continued)

(q) Financial assets

(i) Classification

For financial assets extant at 31 December 2009

Following the adoption of HKFRS 9, investments and other financial assets of the Group extant at 31 December 2009 are classified under the following categories:

Financial assets measured at amortised cost

Investments are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows for managing liquidity and generating income on its investment, but not for the purpose of realising fair value gains; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, with interest being the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and are unleveraged.

Bank deposits, trade and accounts receivable and other deposits are also classified under this category.

Financial assets measured at fair value through profit or loss

Investments and other financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost.

Securities or bank deposits with embedded derivatives are classified in their entirety as measured at fair value through profit or loss, where the economic characteristics and risks of the embedded derivatives are dissimilar to those of the host contracts and modify the contractual cash flows, such that they are not solely payments of principal and interest on the principal amount outstanding or the interest rate does not reflect only consideration for the time value of money and credit risk.

Financial assets, which include those held for trading purpose, are classified as current assets unless they are non-trading assets held in Corporate Funds that 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. For equities and mutual funds which have no maturity date, they are included in current assets.

2. Principal Accounting Policies (continued)

(q) Financial assets (continued)

(i) Classification (continued)

For financial assets held before 31 December 2008 or financial assets derecognised prior to 31 December 2009

Investments and other financial assets of the Group which were held before 31 December 2008 or derecognised prior to 31 December 2009 were classified under the following categories:

Financial assets at fair value through profit or loss

This category comprised financial assets held for trading and financial assets designated as fair value through profit or loss at inception if the designation related to financial instruments containing one or more embedded derivatives that significantly modified the cash flows arising from those financial instruments.

Securities or bank deposits with embedded derivatives whose economic characteristics and risks were not closely related to the host investments were designated as financial assets at fair value through profit or loss.

Available-for-sale financial assets

This category comprised financial assets which were non-derivatives and were designated as available-for-sale financial assets or not classified under other investment categories.

Loans and receivables

Loans and receivables, which comprised bank deposits, trade and accounts receivable, deposits and other assets, were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and the Group had no intention of trading the loans or receivables.

Financial assets were classified as current assets unless the investments were expected to mature after twelve months as at the end of the reporting period and, in which case, they were included in non-current assets. For equities or mutual funds which had no maturity date, they were included in current assets.

(ii) Recognition and initial measurement

Purchases and sales of financial assets are recognised on trade-date. Assets classified as financial assets measured at fair value through profit or loss (for financial assets extant at 31 December 2009) and financial assets at fair value through profit or loss (for financial assets held before 31 December 2008 or derecognised prior to 31 December 2009) are initially recognised at fair value with transaction costs recognised as expenses in profit or loss. Financial assets not carried at fair value through profit or loss are initially recognised at fair value plus transaction costs.

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all the risks and rewards of ownership of the assets.

2. Principal Accounting Policies (continued)

(q) Financial assets (continued)

- (iv) Gains or losses on subsequent measurement and disposal, interest income and dividend income

For financial assets extant at 31 December 2009

Financial assets measured at fair value through profit or loss

- Financial assets under this category are investments 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 differences between the net sale proceeds and the carrying values are included in profit or loss.
- Interest income is recognised using the effective interest method and included in net realised and unrealised gains/(losses) and interest income from these financial assets.
- Dividend income is recognised when the right to receive a dividend is established and is disclosed separately as dividend income.

Financial assets measured at amortised cost

- Financial assets under this category are carried at amortised cost using the effective interest method less provision for impairment. Gains and losses arising from disposal, being the differences between the net sale proceeds and the carrying values, are recognised in profit or loss.
- Interest income is recognised using the effective interest method and disclosed as interest income.

For financial assets held before 31 December 2008 or financial assets derecognised prior to 31 December 2009

Financial assets at fair value through profit or loss

- Same as financial assets measured at fair value through profit or loss.

Available-for-sale financial assets

- Available-for-sale financial assets were carried at fair value. Unrealised gains and losses (including transaction costs on acquisition) arising from changes in the fair value were recognised in other comprehensive income and transferred to investment revaluation reserve, except for impairment losses on all investments and exchange differences on monetary securities, which are dealt with in profit or loss. When an asset was 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 were reclassified from investment revaluation reserve to profit or loss as a reclassification adjustment.

2. Principal Accounting Policies (continued)

(q) Financial assets (continued)

- (iv) Gains or losses on subsequent measurement and disposal, interest income and dividend income (continued)

For financial assets held before 31 December 2008 or financial assets derecognised prior to 31 December 2009 (continued)

Available-for-sale financial assets (continued)

- Interest income was recognised using the effective interest method and disclosed as interest income.
- Dividend income was recognised when the right to receive a dividend was established and was disclosed as dividend income.

Loans and receivables

- Same as financial assets measured at amortised cost.

- (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 (note 3(d)).

- (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. 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 financial assets and have an impact on their estimated future cash flows 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;
- 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; or
- 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.

2. Principal Accounting Policies (continued)

(q) Financial assets (continued)

(vi) Impairment (continued)

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.

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.

For financial assets extant at 31 December 2009

Financial assets measured at amortised cost

If there is objective evidence that an impairment loss has been incurred, 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 financial asset measured at amortised cost, 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 trade receivable becomes impaired, the Group may continue to allow the debtor or obligor concerned to participate in its 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.

For financial assets held before 31 December 2008 or financial assets derecognised prior to 31 December 2009

Available-for-sale financial assets

If there was objective evidence that an impairment loss on available-for-sale financial assets had 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) was reclassified from investment revaluation reserve to profit or loss.

2. Principal Accounting Policies (continued)

(q) Financial assets (continued)

(vi) Impairment (continued)

For financial assets held before 31 December 2008 or financial assets derecognised prior to 31 December 2009 (continued)

Available-for-sale financial assets (continued)

If, in a subsequent period, the fair value of a debt instrument increased and the increase could be related objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss up to the amount previously charged to profit or loss and any further increase in fair value thereafter was recognised in other comprehensive income and credited to investment revaluation reserve.

Loans and receivables

- Same as financial assets measured at amortised cost.

(r) 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.

Liabilities under this category are initially recognised at fair value on trade-date 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 initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 and the amount initially recognised less, where appropriate, cumulative amortisation 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.

2. Principal Accounting Policies (continued)

- (s) Recognition of receivables and payables from/to HKSCC Clearing Participants on Stock Exchange trades settled under the Continuous Net Settlement (“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.

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 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.

- (t) 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, which are recognised in other comprehensive income (such as fair value re-measurement of available-for-sale financial assets) or directly in equity (such as an adjustment to the opening balance of retained earnings resulting from a change in accounting policy).

- (u) Deferred revenue

Deferred revenue comprises listing fees received in advance, and 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.

- (v) Provisions and contingent liabilities

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.

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.

2. Principal Accounting Policies (continued)

(w) 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 and liabilities denominated in foreign currencies are recognised in profit or loss.

Translation differences on non-monetary financial assets that are classified as financial assets measured at fair value through profit or loss are reported as part of the fair value gain or loss.

(x) 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.

(y) 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.

Upon vesting, the related costs of the vested Awarded Shares recognised 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.

(z) Operating Segments

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-makers (note 4).

(aa) Dividends

Dividends disclosed in note 17 to the consolidated accounts represent interim dividend paid and final and special dividends proposed for the year (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).

Dividends declared are recognised as liabilities in the Group's accounts when the dividends are approved by the shareholders.

3. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future when the consolidated accounts are prepared. 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) 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 differed by 10 per cent from management's estimates, the Group's profit would be affected by \$84,374,000 (2008: \$79,966,000, as restated).

(b) 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 concerned.

As at 31 December 2009, the Group had tax losses carried forward amounting to \$315,394,000 (2008: \$224,612,000). These losses relate to subsidiaries that have a history of tax 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 Group's profit would increase by \$52,040,000 (2008: \$37,061,000).

(c) Impairment of debt instruments measured at amortised cost

Following the adoption of HKFRS 9, the Group has a significant holding of debt instruments as investments that are measured at amortised cost. The Group recognises an impairment loss for an investment in debt instrument when there is objective evidence that the debt instrument is impaired. Objective evidence of an impairment for a debt instrument exists when one or more events have occurred after the initial recognition of the debt instrument that reduce the estimated future cash flows to be received on the debt instrument such as significant financial difficulties of the issuer of the debt instrument, probability that the issuer will enter into bankruptcy or financial reorganisation, and default or delinquency in interest or principal payments.

As at 31 December 2009, the debt instruments that were measured at amortised cost held by the Group amounted to \$1,295,912,000 (2008: \$Nil). If one percent of the amount of such debt instruments was impaired, the Group's profit would decrease by \$12,959,000 (2008: \$Nil).

3. Critical Accounting Estimates and Judgements (continued)

(d) Valuation of investments measured at fair value through profit or loss

The Group has a significant amount of investments that are measured at fair value through profit or loss. 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 computes 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.

As at 31 December 2009, the financial assets that are measured at fair value through profit or loss held by the Group amounted to \$14,024,878,000 (2008: \$3,020,035,000). If the fair value of such financial assets decreased by one percent, the Group's profit would decrease by \$140,249,000 (2008: \$30,200,000).

(e) 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(q)(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 in 2008, the trade receivables are of good credit quality.

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, 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.

4. Operating Segments (continued)

The **Derivatives Market** business refers to the derivatives products traded on Hong Kong Futures Exchange Limited (“Futures Exchange”) and stock options traded on the Stock Exchange, which includes the provision and maintenance of trading platforms for a range of derivatives products, such as stock and equity index futures and options, and interest rate, 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, SEOC and HKCC, which are responsible for clearing, settlement and custodian activities of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from net investment income earned on the Clearing House Funds and fees from providing clearing, settlement, depository, custody and nominee services.

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

An analysis of the Group’s reportable segment profit before taxation and other selected financial information for the year by operating segment is as follows:

	2009					
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Inter-segment elimination (note (b)) \$'000	Group \$'000
Income from external customers	2,905,000	704,134	2,109,978	694,974	-	6,414,086
Net investment income	134,478	340,199	156,885	822	(11,430)	620,954
	3,039,478	1,044,333	2,266,863	695,796	(11,430)	7,035,040
Operating expenses						
Direct costs	602,129	157,363	332,978	50,117	(11,430)	1,131,157
Indirect costs	175,028	50,851	110,572	25,341	-	361,792
	777,157	208,214	443,550	75,458	(11,430)	1,492,949
Reportable segment profit before taxation	2,262,321	836,119	1,823,313	620,338	-	5,542,091
Interest income	27,581	240,484	34,685	169	(11,430)	291,489
Interest expenses (including interest rebates to Participants):						
– included under net investment income	(2)	(2,883)	(461)	-	-	(3,346)
– others	(13)	(4)	(11,438)	(2)	11,430	(27)
Depreciation	(47,930)	(9,935)	(40,195)	(3,113)	-	(101,173)
Other material non-cash items:						
Employee share-based compensation expenses	(11,889)	(2,248)	(5,008)	(1,438)	-	(20,583)
Reversal of provision for/(provision for) impairment losses	729	224	(114)	(45)	-	794
Additions to fixed assets (ie, non-current assets excluding financial assets and deferred tax assets)	6,512	23,422	3,607	1,154	-	34,695

4. Operating Segments (continued)

	As restated 2008					Group \$'000
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Inter- segment elimination (note (b)) \$'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	562,874	140,047	513,892	50,297	(7,106)	1,260,004
Indirect costs	165,959	58,006	113,783	23,201	-	360,949
	728,833	198,053	627,675	73,498	(7,106)	1,620,953
Reportable segment profit before taxation	2,422,562	1,443,050	1,456,317	606,208	-	5,928,137
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	(46,515)	(7,169)	(53,334)	(2,628)	-	(109,646)
Other material non-cash items:						
Employee share-based compensation expenses	(15,105)	(3,401)	(7,978)	(1,695)	-	(28,179)
Provision for impairment losses	(1,618)	(57)	(163,259)	(31)	-	(164,965)
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

- (a) The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. The segment information provided above has been revised from that originally provided to the chief operating decision-makers to reflect the implementation of HKFRS 9 (2009), the amendment to HKAS 17 and the change in accounting policy for leasehold building (2009 and 2008) (see note 2(b)). Decisions made by the chief operating decision-makers on the basis of the original segment information would not have changed had the revised information been available at the time. The chief operating decision-makers have reviewed the revised segment results information.

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, Lehman Brothers Securities Asia Limited.

4. Operating Segments (continued)

(c) 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:

	At 31 Dec 2009 \$'000	As restated At 31 Dec 2008 \$'000	As restated At 1 Jan 2008 \$'000
Hong Kong	305,359	372,442	379,992
China	569	843	29
	305,928	373,285	380,021

(d) Information about major customers

In 2009 and 2008, 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

	2009 \$'000	2008 \$'000
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	1,834,097	2,028,480
Derivatives contracts traded on the Derivatives Market	752,200	774,601
	2,586,297	2,803,081

6. Stock Exchange Listing Fees

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

	2009				As restated 2008			
	Equity		CBBs, Derivative		Equity		CBBs, Derivative	
	Main Board	GEM	warrants & others	Total	Main Board	GEM	& others	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Stock Exchange Listing Fees								
Annual listing fees	335,952	23,550	2,410	361,912	318,322	25,138	2,803	346,263
Initial and subsequent issue listing fees	67,785	3,440	289,760	360,985	86,566	3,580	270,798	360,944
Prospectus vetting fees	3,570	540	80	4,190	2,300	240	30	2,570
Other listing fees	1,318	72	-	1,390	1,724	482	-	2,206
Total	408,625	27,602	292,250	728,477	408,912	29,440	273,631	711,983
Costs of Listing Function								
<u>Direct costs</u>								
Staff costs and related expenses	175,906	37,158	12,200	225,264	167,122	35,075	12,449	214,646
Information technology and computer maintenance expenses	5,121	944	317	6,382	4,481	882	301	5,664
Premises expenses	34,133	7,438	1,690	43,261	18,613	3,780	862	23,255
Legal and professional fees	3,271	441	-	3,712	11,792	1,252	-	13,044
Depreciation	4,220	1,274	1,647	7,141	4,418	1,231	1,545	7,194
Other operating expenses	6,079	1,819	406	8,304	7,252	2,015	508	9,775
Total direct costs	228,730	49,074	16,260	294,064	213,678	44,235	15,665	273,578
Total indirect costs	36,822	6,755	9,671	53,248	34,680	6,104	8,544	49,328
Total costs	265,552	55,829	25,931	347,312	248,358	50,339	24,209	322,906
Contribution to Cash Market Segment Profit before Taxation	143,073	(28,227)	266,319	381,165	160,554	(20,899)	249,422	389,077

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

	2009 \$'000	2008 \$'000
Network, terminal user, dataline and software sub-license fees	320,829	289,783
Participants' subscription and application fees	35,037	34,614
Brokerage on direct IPO allotments	16,467	5,313
Trading booth user fees	15,132	9,603
Accommodation income on securities deposited by Participants as alternatives to cash deposits of Margin Funds	4,908	21,844
Sales of Trading Rights	9,500	8,335
Miscellaneous revenue	15,529	21,363
	417,402	390,855

8. Net Investment Income

	2009 \$'000	2008 \$'000
Interest income		
Available-for-sale financial assets		
– listed securities	6,497	11,573
– unlisted securities	162,432	551,568
	168,929	563,141
Loans and receivables		
– bank deposits	80,879	564,725
Financial assets measured at amortised cost		
– bank deposits	29,953	–
– listed securities	658	–
– unlisted securities	11,070	–
	41,681	–
Gross interest income	291,489	1,127,866
Interest rebates to Participants on financial liabilities not at fair value through profit or loss	(3,346)	(76,415)
Net interest income	288,143	1,051,451
Net realised and unrealised gains/(losses) and interest income on financial assets at fair value through profit or loss		
<u>On designation</u>		
– unlisted securities	254	–
– bank deposits with embedded derivatives	55	171
– exchange differences	1,551	–
	1,860	171
<u>Held for trading</u>		
– listed securities	60,935	(63,822)
– unlisted securities	10,155	41,149
– exchange differences	89,298	68,212
	160,388	45,539
	162,248	45,710
Net unrealised gains and interest income on financial assets mandatorily measured at fair value through profit or loss		
– listed securities	128,543	–
– unlisted securities	130,084	–
– bank deposits with embedded derivatives	1,064	–
– exchange differences	47,530	–
	307,221	–
Net realised and unrealised losses on financial liabilities at fair value through profit or loss, held for trading		
– listed securities	(2,632)	(11,369)
– exchange differences	(137,201)	(92,233)
	(139,833)	(103,602)
Realised gains on disposal of unlisted available-for-sale financial assets	1,500	1,523
Dividend income from listed financial assets:		
– at fair value through profit or loss	1,399	3,769
– measured at fair value through profit or loss	1,012	–
Other exchange differences	(736)	324
Net investment income	620,954	999,175

8. Net Investment Income (continued)

	2009 \$'000	2008 \$'000
Net investment income/(loss) was derived from:		
Corporate Funds	303,571	82,709
Cash collateral	(139)	347
Margin Funds	306,598	895,151
Clearing House Funds	10,924	20,968
	620,954	999,175

9. Gain on Disposal of Properties

The Group sold its last investment property and one of its leasehold properties in 2008, generating a gain of \$68,641,000.

10. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	2009 \$'000	2008 \$'000
Salaries and other short-term employee benefits	711,229	713,827
Employee share-based compensation benefits (note 38)		
– employee share options	1,134	6,506
– Awarded Shares	19,449	21,673
	20,583	28,179
Termination benefits	580	429
Retirement benefit costs (note (a)):		
– ORSO Plan	60,639	60,142
– MPF Scheme	472	529
	793,503	803,106

(a) Retirement Benefit Costs

The Group has sponsored a defined contribution provident fund scheme (“ORSO Plan”) which is registered under ORSO and a Mandatory Provident Fund scheme (“MPF Scheme”). 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. 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).

10. Staff Costs and Related Expenses (continued)**(a) Retirement Benefit Costs (continued)**

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 2009 was \$93,000 (31 December 2008 and 1 January 2008: \$109,000 and \$104,000 respectively) and no contribution to the ORSO Plan was outstanding as at 31 December 2009, 31 December 2008 and 1 January 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.

	2009 \$'000	2008 \$'000
Contributions forfeited during the year and retained in the ORSO Plan	971	2,202

11. Information Technology and Computer Maintenance Expenses

	2009 \$'000	2008 \$'000
Costs of services and goods:		
– consumed by the Group	140,651	142,052
– directly consumed by Participants	105,640	96,865
	246,291	238,917

12. Other Operating Expenses

- (a) (Reversal of provision for)/provision for impairment losses arising from Participants' default on market contracts

The amount for 2008 mainly included \$154,968,000 of provision for impairment loss of trade receivables arising from the default on market contracts by Lehman Brothers Securities Asia Limited.

- (b) Others

	2009 \$'000	As restated 2008 \$'000
(Reversal of provision for)/provision for impairment losses of other trade receivables (note 24(b))	(1,218)	1,757
Provision for impairment loss of leasehold improvements (note 19(a)(iii))	754	–
Insurance	4,068	4,394
Financial data subscription fees	5,154	4,499
Custodian and fund management fees	11,012	11,901
Bank charges	12,656	9,711
Repair and maintenance expenses	10,116	8,389
License fees	14,576	15,009
Communication expenses	5,096	5,486
Overseas travel expenses	4,212	6,474
Contribution to Financial Reporting Council	2,500	2,500
Charitable donations	542	10,633
Other miscellaneous expenses	37,856	33,428
	107,324	114,181

13. Profit before Taxation

	2009 \$'000	As restated 2008 \$'000
Profit before taxation is stated after (charging)/crediting:		
Auditor's remuneration		
– audit fees		
– charge for the year	(2,983)	(2,877)
– under provision in respect of prior years	(387)	–
– non-audit fees:		
– charge for the year	(394)	(458)
– reversal of provision in respect of prior years	29	–
Interest on bank loans and overdrafts repayable within five years	(27)	(268)
Operating lease rentals		
– land and buildings	(173,640)	(104,384)
– computer systems and equipment	(5,833)	(6,009)
Rental income from investment property	–	82
Direct operating expenses of the investment property that generates rental income	–	(22)
Depreciation	(101,173)	(109,646)
Reversal of provision for/(provision for) impairment losses of trade receivables under other operating expenses	1,548	(164,960)
Provision for impairment loss of leasehold improvements under other operating expenses	(754)	–
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	476	2,367
Exchange (losses)/gains on:		
– financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss and financial assets measured at fair value through profit or loss)	(736)	324
– Others	(52)	1

14. Directors' Emoluments

All Directors, including one Executive Director, received emoluments during the years ended 31 December 2009 and 31 December 2008. The aggregate emoluments paid and payable to the Directors during the two years were as follows:

	2009 \$'000	2008 \$'000
Executive Director:		
Salaries and other short-term employee benefits	7,859	7,858
Performance bonus	7,800	3,900
Retirement benefit costs	975	975
	16,634	12,733
Employee share-based compensation benefits (note (a))	461	1,090
	17,095	13,823
Non-executive Directors:		
Fees	4,650	4,587
	21,745	18,410

- (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:

	2009 Number of Directors	2008 Number of Directors
\$1 – \$500,000	14	12
\$500,001 – \$1,000,000	1	1
\$13,500,001 – \$14,000,000	–	1
\$17,000,001 – \$17,500,000	1	–
	16	14

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 2009 and 2008 are set out below:

Name of Director	2009							
	Fees \$'000	Salary \$'000	Other	Performance	Retirement	Sub-total \$'000	Employee	Total \$'000
			benefits (note (i)) \$'000	bonus \$'000	benefits costs (note (ii)) \$'000		share-based compensation benefits \$'000	
Ronald J Arculli	550	-	-	-	-	550	-	550
Paul M Y Chow (note (iii))	-	7,800	59	7,800	975	16,634	461	17,095
Laura M Cha	363	-	-	-	-	363	-	363
Ignatius T C Chan (note (iv))	262	-	-	-	-	262	-	262
Moses M C Cheng	400	-	-	-	-	400	-	400
Marvin K T Cheung	350	-	-	-	-	350	-	350
Henry H L Fan (note (v))	75	-	-	-	-	75	-	75
Fong Hup (note (v))	100	-	-	-	-	100	-	100
Stephen C C Hui (note (iv))	262	-	-	-	-	262	-	262
Bill C P Kwok	350	-	-	-	-	350	-	350
Vincent K H Lee	450	-	-	-	-	450	-	450
Michael T H Lee (note (iv))	262	-	-	-	-	262	-	262
Christine KW Loh (note (v))	88	-	-	-	-	88	-	88
John E Strickland	350	-	-	-	-	350	-	350
John M M Williamson (note (vi))	438	-	-	-	-	438	-	438
Oscar S H Wong	350	-	-	-	-	350	-	350
Total	4,650	7,800	59	7,800	975	21,284	461	21,745

Name of Director	2008							
	Fees \$'000	Salary \$'000	Other	Performance	Retirement	Sub-total \$'000	Employee	Total \$'000
			benefits (note (i)) \$'000	bonus \$'000	benefits costs (note (ii)) \$'000		share-based compensation benefits \$'000	
Ronald J Arculli	550	-	-	-	-	550	-	550
Paul M Y Chow (note (iii))	-	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 (note (v))	300	-	-	-	-	300	-	300
Fong Hup (note (v))	400	-	-	-	-	400	-	400
Bill C P Kwok	350	-	-	-	-	350	-	350
Vincent K H Lee	450	-	-	-	-	450	-	450
Christine KW Loh (note (v))	350	-	-	-	-	350	-	350
John E Strickland	350	-	-	-	-	350	-	350
David M Webb (note (vii))	123	-	-	-	-	123	-	123
John M M Williamson (note (vi))	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

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) Mr. Paul M Y Chow retired on 16 January 2010. Mr. Chow's total emoluments for 1 to 15 January 2010 was \$4,891,000, including his salary for 1 to 15 January 2010, leave pay, insurance premium, club membership and retirement benefit cost.
- (iv) Appointment effective 23 April 2009
- (v) Retired on 23 April 2009
- (vi) Appointment effective 18 June 2008
- (vii) Resigned on 15 May 2008

15. Five Top-paid Employees

One (2008: 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 (2008: four) top-paid employees were as follows:

	2009 \$'000	2008 \$'000
Salaries and other short-term employee benefits	17,216	17,865
Performance bonus	7,827	8,123
Retirement benefit costs	2,122	2,192
	27,165	28,180
Employee share-based compensation benefits (note (a))	3,445	4,377
	30,610	32,557

- (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 (2008: 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:

	2009 Number of employees	2008 Number of employees
\$6,000,001 – \$6,500,000	2	1
\$7,000,001 – \$7,500,000	–	1
\$8,000,001 – \$8,500,000	1	–
\$8,500,001 – \$9,000,000	–	1
\$10,000,001 – \$10,500,000	1	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:

	2009 \$'000	As restated 2008 \$'000
Provision for Hong Kong Profits Tax for the year (note (i))	836,487	815,183
Over provision in respect of prior years	(5,690)	(152)
	830,797	815,031
Deferred taxation (note 35(a))	7,250	(15,525)
	838,047	799,506

(i) Hong Kong Profits Tax has been provided for at 16.5 per cent (2008: 16.5 per cent) on the estimated assessable profit for the year.

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of 16.5 per cent (2008: 16.5 per cent) as follows:

	2009 \$'000	As restated 2008 \$'000
Profit before taxation	5,542,091	5,928,137
Calculated at a taxation rate of 16.5 per cent (2008: 16.5 per cent)	914,445	978,143
Income not subject to taxation	(88,719)	(182,106)
Expenses not deductible for taxation purposes	3,426	8,581
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	14,585	(3,661)
Over provision of Hong Kong Profits Tax in respect of prior years	(5,690)	(152)
Taxation charge	838,047	799,506

17. Dividends

	2009 \$'000	2008 \$'000
Interim dividend paid:		
\$1.84 (2008: \$2.49) per share	1,979,977	2,676,436
Less: Dividend for shares held by Share Award Scheme	(1,867)	(3,061)
	1,978,110	2,673,375
Final dividend proposed (notes (a) and (b)):		
\$2.09 (2008: \$1.80) per share based on issued share capital as at the year end	2,249,238	1,934,795
Less: Dividend for shares held by Share Award Scheme as at the year end	(1,412)	(1,704)
	2,247,826	1,933,091
	4,225,936	4,606,466

- (a) Actual 2008 final dividend paid was \$1,934,708,000 (after eliminating \$1,802,000 paid for shares held by the Share Award Scheme, of which \$98,000 relates to shares acquired by the Share Award Scheme less shares vested to employees after 31 December 2008), of which \$1,715,000 was paid for shares issued for employee share options exercised after 31 December 2008.
- (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

	2009	As restated 2008
Profit attributable to shareholders (\$'000)	4,704,044	5,128,631
Weighted average number of shares in issue less shares held for Share Award Scheme	1,074,704,459	1,072,223,011
Basic earnings per share	\$4.38	\$4.78

(b) Diluted earnings per share

	2009	As restated 2008
Profit attributable to shareholders (\$'000)	4,704,044	5,128,631
Weighted average number of shares in issue less shares held for Share Award Scheme	1,074,704,459	1,072,223,011
Effect of employee share options	3,245,832	5,325,004
Effect of Awarded Shares	902,650	1,146,735
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,078,852,941	1,078,694,750
Diluted earnings per share	\$4.36	\$4.75

19. Fixed Assets

(a) Group

	Leasehold land in Hong Kong held under long term lease \$'000	Leasehold building \$'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 2008						
– as previously reported	–	7,800	238,648	29,965	40,652	317,065
– effect of changes in accounting policies (note 2(b))	61,217	(1,473)	–	–	–	59,744
– as restated (note (i))	61,217	6,327	238,648	29,965	40,652	376,809
Additions	–	–	48,371	8,810	45,802	102,983
Disposals (note (ii))	–	–	(52)	–	(16)	(68)
Depreciation	(509)	(636)	(75,368)	(13,763)	(19,370)	(109,646)
Net book value at 31 Dec 2008, as restated	60,708	5,691	211,599	25,012	67,068	370,078
At 31 Dec 2008 (as restated)						
At cost	69,659	15,900	1,388,172	363,636	310,295	2,147,662
Accumulated depreciation	(8,951)	(10,209)	(1,176,573)	(338,624)	(243,227)	(1,777,584)
Net book value	60,708	5,691	211,599	25,012	67,068	370,078
Net book value at 1 Jan 2009						
– as previously reported	–	7,500	211,599	25,012	67,068	311,179
– effect of changes in accounting policies (note 2(b))	60,708	(1,809)	–	–	–	58,899
– as restated	60,708	5,691	211,599	25,012	67,068	370,078
Additions	–	–	6,066	9,532	19,097	34,695
Disposals (note (ii))	–	–	(95)	(20)	(10)	(125)
Impairment losses recognised (note (iii))	–	–	–	–	(754)	(754)
Depreciation	(510)	(636)	(60,130)	(13,391)	(26,506)	(101,173)
Net book value at 31 Dec 2009	60,198	5,055	157,440	21,133	58,895	302,721
At 31 Dec 2009						
At cost	69,659	15,900	1,260,866	218,842	285,274	1,850,541
Accumulated depreciation	(9,461)	(10,845)	(1,103,426)	(197,709)	(226,379)	(1,547,820)
Net book value	60,198	5,055	157,440	21,133	58,895	302,721
(i) The analysis of net book value as at 1 January 2008 (as restated) is as follows:						
At cost	69,659	15,900	1,389,856	366,805	274,095	2,116,315
Accumulated depreciation	(8,442)	(9,573)	(1,151,208)	(336,840)	(233,443)	(1,739,506)
Net book value	61,217	6,327	238,648	29,965	40,652	376,809

19. Fixed Assets (continued)

(a) Group (continued)

- (ii) The total cost of fixed assets disposed of or written off and their total net book value during 2009 were \$331,816,000 and \$125,000 respectively (2008: \$71,636,000 and \$68,000 respectively).
- (iii) During the year ended 31 December 2009, an impairment loss of \$754,000 (2008: \$Nil) was charged to the consolidated income statement under other operating expenses (note 12(b)) in relation to the reinstatement cost of office premises, the lease of which expired in July 2009.

(b) HKEx

	Other computer hardware and software \$'000	Leasehold improvements, furniture, equipment and motor vehicles \$'000	Total \$'000
Net book value at 1 Jan 2008 (note (i))	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
Net book value at 1 Jan 2009	7,531	15,706	23,237
Additions	8,662	7,953	16,615
Disposals (note (ii))	(29)	–	(29)
Depreciation	(4,432)	(6,932)	(11,364)
Net book value at 31 Dec 2009	11,732	16,727	28,459
At 31 Dec 2009			
At cost	60,421	40,784	101,205
Accumulated depreciation	(48,689)	(24,057)	(72,746)
Net book value	11,732	16,727	28,459

- (i) The analysis of net book value as at 1 January 2008 is as follows:

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

- (ii) The total cost of fixed assets disposed of or written off and their total net book value during 2009 were \$16,322,000 and \$29,000 respectively (2008: \$3,795,000 and \$12,000 respectively).

20. Financial Assets Measured at Fair Value through Profit or Loss

	Group		
	At	At	At
	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000
Financial assets of Clearing House Funds (note 29)	409,585	-	-
Financial assets of Margin Funds on derivatives contracts (note 30)	8,672,979	-	-
Financial assets of Corporate Funds (note 27)	4,942,314	-	-
	14,024,878	-	-
Less: Non-current portion of Corporate Funds	(1,559,405)	-	-
Current portion (note (a))	12,465,473	-	-

- (a) Included financial assets maturing after twelve months of \$409,585,000 (31 December 2008 and 1 January 2008: \$Nil) and \$5,974,627,000 (31 December 2008 and 1 January 2008: \$Nil) attributable to Clearing House Funds and Margin Funds respectively that could readily be liquidated to meet liquidity requirements of the respective Funds (note 50(b)).

21. Available-for-sale Financial Assets

	Group			HKEx		
	At	At	At	At	At	At
	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000
Financial assets of Clearing House Funds (note 29)	-	371,494	361,506	-	-	-
Financial assets of Margin Funds on derivatives contracts (note 30)	-	16,440,918	16,735,006	-	-	-
Financial assets of Corporate Funds (note 27)	-	2,581,683	3,067,007	-	8,220	-
	-	19,394,095	20,163,519	-	8,220	-
Less: Non-current portion maturing after twelve months	-	-	(481,666)	-	-	-
Current portion	-	19,394,095	19,681,853	-	8,220	-

- (a) Following the adoption of HKFRS 9 on 31 December 2009, all extant available-for-sale financial assets were classified as either financial assets measured at fair value through profit or loss (note 20) or financial assets measured at amortised cost (note 23).

22. Financial Assets at Amortised Cost

	Group			HKEx		
	At	At	At	At	At	At
	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000
Financial assets of Clearing House Funds (note 29)	-	21,708	-	-	-	-
Financial assets of Margin Funds on derivatives contracts (note 30)	-	3,205,408	2,508,559	-	-	-
Financial assets of Corporate Funds (note 27)	-	484,068	701,351	-	142,887	47,361
	-	3,711,184	3,209,910	-	142,887	47,361
Less: Non-current portion maturing after twelve months	-	(47,172)	(19,177)	-	(720)	(481)
Current portion	-	3,664,012	3,190,733	-	142,167	46,880

- (a) Following the adoption of HKFRS 9 on 31 December 2009, all extant financial assets at amortised cost were classified as financial assets measured at amortised cost (note 23).

23. Financial Assets Measured at Amortised Cost

	Group			HKEx		
	At	At	At	At	At	At
	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000
Financial assets of Clearing House Funds (note 29)	51,280	-	-	-	-	-
Financial assets of Margin Funds on derivatives contracts (note 30)	2,853,991	-	-	-	-	-
Financial assets of Corporate Funds (note 27)	2,019,909	-	-	102,764	-	-
	4,925,180	-	-	102,764	-	-
Less: Non-current portion of Corporate Funds	(767,933)	-	-	(10,036)	-	-
Current portion (note (a))	4,157,247	-	-	92,728	-	-

- (a) Included time deposits maturing after twelve months of \$2,327,000 (31 December 2008 and 1 January 2008: \$Nil) and \$953,988,000 (31 December 2008 and 1 January 2008: \$Nil) attributable to the Clearing House Funds and Margin Funds respectively that could readily be liquidated to meet liquidity requirements of the respective Funds (note 50(b)).

24. Accounts Receivable, Prepayments and Deposits

	Group			HKEx		
	At	As restated	As restated	At	At	At
	31 Dec 2009	31 Dec 2008	1 Jan 2008	31 Dec 2009	31 Dec 2008	1 Jan 2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Receivable from Exchange and Clearing Participants:						
- CNS money obligations	10,476,438	7,904,042	17,301,606	-	-	-
- transaction levy, stamp duty and fees receivable	517,133	341,317	704,481	-	-	-
- Margin receivable (note 30)	9,300	8,835	3,068	-	-	-
- others	179,475	169,215	92,243	-	-	-
Other fees receivable	289,531	243,511	239,947	-	-	-
Prepayments	14,680	16,934	17,512	14,574	16,706	17,023
Other receivables and deposits	11,860	18,987	13,096	1	728	113
Less: Provision for impairment losses of trade receivables (note (b))	(164,047)	(167,449)	(4,608)	-	-	-
	11,334,370	8,535,392	18,367,345	14,575	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	
	2009	2008
	\$'000	\$'000
At 1 Jan	167,449	4,608
(Reversal of provision for)/provision for impairment losses arising from Participants' default on market contracts	(330)	163,203
(Reversal of provision for)/provision for impairment losses of other trade receivables (note 12(b))	(1,218)	1,757
Settlement from Clearing House Funds	(1,672)	-
Trade receivables written off during the year as uncollectible	(182)	(2,119)
At 31 Dec	164,047	167,449

- (c) CNS money obligations receivable accounted for 92 per cent (31 December 2008 and 1 January 2008: 93 per cent and 94 per cent respectively) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

25. Financial Assets at Fair Value through Profit or Loss

	Group		
	At	At	At
	31 Dec 2009	31 Dec 2008	1 Jan 2008
	\$'000	\$'000	\$'000
Financial assets of Corporate Funds (note 27)	–	3,020,035	2,996,555

- (a) Following the adoption of HKFRS 9 on 31 December 2009, all extant financial assets at fair value through profit or loss were classified as financial assets measured at fair value through profit or loss (note 20).

26. Cash and Cash Equivalents

	Group			HKEx		
	At	At	At	At	At	At
	31 Dec 2009	31 Dec 2008	1 Jan 2008	31 Dec 2009	31 Dec 2008	1 Jan 2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents:						
– Clearing House Funds (note 29)	1,280,726	843,109	1,841,508	–	–	–
– Margin Funds on derivatives contracts (note 30)	8,706,668	22,184,833	36,182,526	–	–	–
(note a)	9,987,394	23,027,942	38,024,034	–	–	–
– Cash collateral received (note 31)	3,431,725	3,599,902	2,719,588	–	–	–
– Corporate Funds	1,318,964	1,155,848	2,025,123	27,486	31,680	20,184
	4,750,689	4,755,750	4,744,711	27,486	31,680	20,184
	14,738,083	27,783,692	42,768,745	27,486	31,680	20,184

- (a) The cash and cash equivalents of Clearing House Funds and Margin Funds are held for the stated specific purposes only and cannot be used to finance any other activities of the Group (notes 2(m) and 2(n)).

27. Financial Assets of Corporate Funds

Financial assets of Corporate Funds comprised the following:

	Group			HKEx		
	At	At	At	At	At	At
	31 Dec 2009	31 Dec 2008	1 Jan 2008	31 Dec 2009	31 Dec 2008	1 Jan 2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets at fair value through profit or loss (note 25 and note (a))	-	3,020,035	2,996,555	-	-	-
Financial assets measured at fair value through profit or loss (note 20 and note (b))	4,942,314	-	-	-	-	-
Available-for-sale financial assets (note 21 and note (c))	-	2,581,683	3,067,007	-	8,220	-
Financial assets at amortised cost (note 22 and note (d))	-	484,068	701,351	-	142,887	47,361
Financial assets measured at amortised cost (note 23 and note (e))	2,019,909	-	-	102,764	-	-
	6,962,223	6,085,786	6,764,913	102,764	151,107	47,361

(a) Financial assets at fair value through profit or loss

	Group		
	At	At	At
	31 Dec 2009	31 Dec 2008	1 Jan 2008
	\$'000	\$'000	\$'000
<u>Held for trading</u>			
Equity securities:			
– listed in Hong Kong	-	12,701	49,559
– listed outside Hong Kong	-	94,680	177,591
	-	107,381	227,150
Debt securities:			
– 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
Mutual funds:			
– listed outside Hong Kong	-	57,707	96,778
Derivative financial instruments:			
– equity index futures contracts, listed outside Hong Kong (note (i))	-	-	159
– forward foreign exchange contracts (note 50(b))	-	18,749	3,513
	-	18,749	3,672
	-	3,020,035	2,996,555

(i) The total notional value of the equity index futures contracts outstanding was \$Nil (31 December 2008 and 1 January 2008: \$Nil and \$6,964,000 respectively).

27. Financial Assets of Corporate Funds (continued)

(b) Financial assets measured at fair value through profit or loss

	Group		
	At	At	At
	31 Dec 2009	31 Dec 2008	1 Jan 2008
	\$'000	\$'000	\$'000
<u>Mandatorily measured at fair value</u>			
Equity securities:			
– listed in Hong Kong	23,241	–	–
– listed outside Hong Kong	156,493	–	–
	179,734	–	–
Debt securities:			
– listed in Hong Kong	68,141	–	–
– listed outside Hong Kong	1,865,827	–	–
– unlisted	2,455,682	–	–
	4,389,650	–	–
Mutual funds:			
– listed outside Hong Kong	75,188	–	–
Derivative financial instruments:			
– equity index futures contracts, listed outside Hong Kong (note (i))	741	–	–
– forward foreign exchange contracts (note 50(b))	17,130	–	–
	17,871	–	–
Bank deposits with embedded derivatives	279,871	–	–
	4,942,314	–	–

(i) The total notional value of the equity index futures contracts outstanding was \$35,110,000 (31 December 2008 and 1 January 2008: \$Nil).

(c) Available-for-sale financial assets

	Group			HKEx		
	At	At	At	At	At	At
	31 Dec 2009	31 Dec 2008	1 Jan 2008	31 Dec 2009	31 Dec 2008	1 Jan 2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Debt securities, at fair value:						
– listed outside Hong Kong	–	160,601	–	–	–	–
– unlisted	–	2,421,082	3,067,007	–	8,220	–
	–	2,581,683	3,067,007	–	8,220	–

27. Financial Assets of Corporate Funds (continued)

(d) Financial assets at amortised cost

	Group			HKEx		
	At	At	At	At	At	At
	31 Dec 2009	31 Dec 2008	1 Jan 2008	31 Dec 2009	31 Dec 2008	1 Jan 2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Time deposits with original maturities over three months	-	436,896	682,174	-	142,167	46,880
Other financial assets	-	47,172	19,177	-	720	481
	-	484,068	701,351	-	142,887	47,361

(e) Financial assets measured at amortised cost

	Group			HKEx		
	At	At	At	At	At	At
	31 Dec 2009	31 Dec 2008	1 Jan 2008	31 Dec 2009	31 Dec 2008	1 Jan 2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Debt securities:						
- listed outside Hong Kong	200,428	-	-	-	-	-
- unlisted	1,095,484	-	-	71,930	-	-
	1,295,912	-	-	71,930	-	-
Time deposits with original maturities over three months	674,185	-	-	28,819	-	-
Other financial assets	49,812	-	-	2,015	-	-
	2,019,909	-	-	102,764	-	-

28. Non-current Assets Held for Sale

	Group		
	At	At	At
	31 Dec 2009	31 Dec 2008	1 Jan 2008
	\$'000	\$'000	\$'000
Leasehold building	-	-	7,524
Investment property	-	-	24,200
Lease premium for land of leasehold property	-	-	32,368
	-	-	64,092
Reserves associated with assets held for sale recognised in other comprehensive income (leasehold land and buildings revaluation reserve (note 39))	-	-	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 and was recognised in the consolidated income statement in 2008 (note 9).

29. Clearing House Funds

	Group		
	At 31 Dec 2009 \$'000	At 31 Dec 2008 \$'000	At 1 Jan 2008 \$'000
The Clearing House Funds comprised the following Funds (notes (a) and (b)):			
HKSCC Guarantee Fund	219,184	215,573	362,015
SEOCH Reserve Fund	583,137	208,291	1,263,056
HKCC Reserve Fund	759,806	578,853	567,133
	1,562,127	1,002,717	2,192,204
The Clearing House Funds were composed of:			
Financial assets mandatorily measured at fair value through profit or loss (note 20):			
Debt securities:			
– listed outside Hong Kong	129,385	–	–
– unlisted	280,200	–	–
	409,585	–	–
Available-for-sale financial assets, at fair value (note 21):			
Unlisted debt securities	–	371,494	361,506
Financial assets at amortised cost (note 22):			
Time deposits with original maturities over three months	–	21,708	–
Financial assets measured at amortised cost (note 23):			
Time deposits with original maturities over three months	51,280	–	–
	460,865	393,202	361,506
Financial assets of Clearing House Funds	1,280,726	843,109	1,841,508
Cash and cash equivalents (note 26)			
	1,741,591	1,236,311	2,203,014
Less: Other financial liabilities of Clearing House Funds (note 33)	(20,191)	(72,319)	(10,810)
	1,721,400	1,163,992	2,192,204
Provision for loss arising from closing-out losses of defaulting Participants	(159,273)	(161,275)	–
	1,562,127	1,002,717	2,192,204
The Clearing House Funds were funded by:			
Clearing Participants' cash contributions due within twelve months	722,726	197,520	1,252,355
Clearing Participants' cash contributions due after twelve months	276,000	252,000	244,500
Designated reserves (note 40):			
At 1 Jan	552,383	694,853	627,816
Transfer from/(to) retained earnings (note (c))	11,018	(142,470)	67,037
At 31 Dec	563,401	552,383	694,853
Revaluation reserve (note 39(b))	–	814	496
	1,562,127	1,002,717	2,192,204

29. Clearing House Funds (continued)

- (a) 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.
- (b) Amounts excluded bank guarantees received and utilised as alternatives to cash contributions.
- (c) The amount comprised net investment income net of expenses of \$10,688,000 (2008 and 2007: \$20,733,000 and \$67,037,000 respectively) and reversal of provision for closing-out losses of \$330,000 (2008 and 2007: provision for closing-out losses of \$163,203,000 and \$Nil respectively).

30. Margin Funds on Derivatives Contracts

	Group		
	At 31 Dec 2009 \$'000	At 31 Dec 2008 \$'000	At 1 Jan 2008 \$'000
The Margin Funds comprised (note (a)):			
SEOCH Clearing Participants' Margin Funds	2,566,818	3,735,254	9,741,149
HKCC Clearing Participants' Margin Funds	17,676,120	38,104,737	45,687,739
	20,242,938	41,839,991	55,428,888
The net assets of the Margin Funds comprised:			
Financial assets mandatorily measured at fair value through profit or loss (note 20):			
Debt securities:			
– listed outside Hong Kong	290,290	–	–
– unlisted	6,556,496	–	–
Bank deposits with embedded derivatives	1,826,193	–	–
	8,672,979	–	–
Available-for-sale financial assets, at fair value (note 21):			
Debt securities:			
– listed outside Hong Kong	–	324,301	243,047
– unlisted	–	16,116,617	16,491,959
	–	16,440,918	16,735,006
Financial assets at amortised cost (note 22):			
Time deposits with original maturities over three months	–	3,205,408	2,508,559
Financial assets measured at amortised cost (note 23):			
Time deposits with original maturities over three months	2,853,991	–	–
Margin receivable from Clearing Participants (note 24)	9,300	8,835	3,068
	11,536,270	19,655,161	19,246,633
Cash and cash equivalents (note 26)	8,706,668	22,184,833	36,182,526
	20,242,938	41,839,994	55,429,159
Less: Other financial liabilities of Margin Funds (note 33)	–	(3)	(271)
	20,242,938	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	20,242,938	41,839,991	55,428,888

(a) Amounts excluded non-cash collateral received and utilised as alternative to cash margin.

31. Cash Collateral from HKSCC Clearing Participants

HKSCC Clearing Participants are required to deposit cash collateral with HKSCC to cover the risk of potential losses arising from their unsettled securities transactions. The cash collateral received are held in savings accounts and form part of the cash and cash equivalents of the Group (note 26).

32. Accounts Payable, Accruals and Other Liabilities

	Group			HKEx		
	At	As restated At	As restated At	At	At	At
	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000
Payable to Exchange and Clearing Participants:						
– CNS money obligations	10,476,569	7,904,083	17,300,191	–	–	–
– Participants' admission fees received	81,000	83,150	85,600	–	–	–
– others	438,280	184,401	169,976	–	–	–
Transaction levy payable to the SFC	125,381	84,256	166,988	–	–	–
Unclaimed dividends (note (b))	306,697	264,730	229,088	112,511	93,028	57,906
Stamp duty payable	205,121	155,977	414,202	–	–	–
Deposits received	37,881	36,898	28,911	–	–	–
Other payables and accruals	156,082	180,607	346,965	67,823	82,183	109,138
	11,827,011	8,894,102	18,741,921	180,334	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 \$3,914,000 (2008: \$2,566,000) were forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association (note 42).
- (c) CNS money obligations payable accounted for 89 per cent (31 December 2008 and 1 January 2008: 89 per cent (as restated) and 92 per cent (as restated) respectively) 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.

33. Other Financial Liabilities

	Group			HKEx		
	At	At	At	At	At	At
	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000
Financial liabilities of						
Clearing House Funds (note 29)	20,191	72,319	10,810	-	-	-
Financial liabilities of Margin Funds on derivatives contracts (note 30)	-	3	271	-	-	-
Financial liabilities of						
Corporate Funds:						
Financial liabilities at fair value through profit or loss (note (a))	2,074	26,254	6,149	-	-	-
Financial guarantee contracts (note (b))	19,909	19,909	19,909	11,390	11,390	11,390
	21,983	46,163	26,058	11,390	11,390	11,390
	42,174	118,485	37,139	11,390	11,390	11,390

(a) Financial liabilities at fair value through profit or loss

	Group		
	At	At	At
	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000
Held for trading			
Derivative financial instruments:			
– equity index futures contracts, listed outside Hong Kong (note (i))	42	627	-
– forward foreign exchange contracts (note 50(b))	2,032	25,627	6,149
	2,074	26,254	6,149

(i) The total notional value of the equity index futures contracts outstanding was \$6,028,000 (31 December 2008 and 1 January 2008: \$26,963,000 and \$Nil respectively).

(b) Financial guarantee contracts

(i) Group

The amount represented the carrying value of a financial guarantee provided by the Stock Exchange to the Collector of Stamp Revenue, details of which are disclosed in note 45(a)(ii).

(ii) HKEx

The amount represented the carrying value of an undertaking provided by HKEx in favour of HKSCC amounting to \$50 million, details of which are disclosed in note 45(b)(i). The financial guarantee was eliminated on consolidation.

34. Provisions

(a) Group

	Reinstatement costs \$'000	Employee benefit costs \$'000	Total \$'000
At 1 Jan 2009	26,669	35,104	61,773
Provision for the year	1,113	40,595	41,708
Amount used during the year	–	(41,078)	(41,078)
Amount paid during the year	(1,940)	(1,224)	(3,164)
At 31 Dec 2009	25,842	33,397	59,239
	At 31 Dec 2009 \$'000	At 31 Dec 2008 \$'000	At 1 Jan 2008 \$'000
Analysis of provisions:			
Current	33,397	36,290	29,630
Non-current	25,842	25,483	24,128
	59,239	61,773	53,758

(b) HKEx

	Reinstatement costs \$'000	Employee benefit costs \$'000	Total \$'000
At 1 Jan 2009	634	35,104	35,738
Provision for the year	–	40,595	40,595
Amount used during the year	–	(41,078)	(41,078)
Amount paid during the year	–	(1,224)	(1,224)
At 31 Dec 2009	634	33,397	34,031
	At 31 Dec 2009 \$'000	At 31 Dec 2008 \$'000	At 1 Jan 2008 \$'000
Analysis of provisions:			
Current	33,397	35,104	29,630
Non-current	634	634	575
	34,031	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 five 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.

35. 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 (2008: 16.5 per cent).

- (a) The movements on the deferred tax liabilities/(assets) account were as follows:

	Group		HKEx	
	2009 \$'000	As restated 2008 \$'000	2009 \$'000	2008 \$'000
At 1 Jan, as previously reported	26,346	33,263	(4,393)	(3,610)
Effect of changes in accounting policies (note 2(b))	(101)	(58)	–	–
At 1 Jan, as restated	26,245	33,205	(4,393)	(3,610)
Charged/(credited) to income statement (note 16(a))	7,250	(15,525)	852	(805)
(Credited)/charged to other comprehensive income (note (b))	(19,104)	8,565	(22)	22
At 31 Dec (note (e))	14,391	26,245	(3,563)	(4,393)

- (b) The deferred taxation relating to each component of other comprehensive income (credited)/charged to other comprehensive income during the year was as follows:

	Group		HKEx	
	2009 \$'000	As restated 2008 \$'000	2009 \$'000	2008 \$'000
Available-for-sale financial assets (note 39)	(19,104)	8,565	(22)	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 \$315,394,000 as at 31 December 2009 (31 December 2008 and 1 January 2008: \$224,612,000 and \$239,773,000 respectively) that may be carried forward for offsetting against future taxable income indefinitely.

35. 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	
	As restated		As restated								As restated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
At 1 Jan, as previously reported	32,409	39,843	264	257	(19,639)	(12,191)	19,104	10,539	(5,792)	(5,185)	26,346	33,263
Effect of changes in accounting policies (note 2(b))	163	199	(264)	(257)	-	-	-	-	-	-	(101)	(58)
At 1 Jan, as restated	32,572	40,042	-	-	(19,639)	(12,191)	19,104	10,539	(5,792)	(5,185)	26,245	33,205
(Credited)/charged to income statement	(9,910)	(7,470)	-	-	16,879	(7,448)	-	-	281	(607)	7,250	(15,525)
(Credited)/charged to other comprehensive income	-	-	-	-	-	-	(19,104)	8,565	-	-	(19,104)	8,565
At 31 Dec	22,662	32,572	-	-	(2,760)	(19,639)	-	19,104	(5,511)	(5,792)	14,391	26,245

	HKEx									
	Accelerated tax depreciation		Revaluation of available-for-sale financial assets		Employee benefits		Total			
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 Jan			1,377	1,575	22	-	(5,792)	(5,185)	(4,393)	(3,610)
Charged/(credited) to income statement			571	(198)	-	-	281	(607)	852	(805)
(Credited)/charged to other comprehensive income			-	-	(22)	22	-	-	(22)	22
At 31 Dec			1,948	1,377	-	22	(5,511)	(5,792)	(3,563)	(4,393)

35. Deferred Taxation (continued)

- (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		
	At	As restated	As restated	At	At	At
	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000
Net deferred tax assets recognised on the statement of financial position	(3,563)	(4,429)	(3,610)	(3,563)	(4,393)	(3,610)
Net deferred tax liabilities recognised on the statement of financial position	17,954	30,674	36,815	-	-	-
	14,391	26,245	33,205	(3,563)	(4,393)	(3,610)

36. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity

- (a) Investments in subsidiaries

	HKEx		
	At	At	At
	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000
Investments in unlisted shares, at cost	4,145,198	4,145,198	4,145,198
Financial guarantee granted to a subsidiary (note 33(b)(ii))	11,390	11,390	11,390
	4,156,588	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 2009, the amount charged for such funding was \$Nil (2008: \$578,000).

36. 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 2009, 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%
HKEx Property Limited (formerly HKEC Nominees Limited)	Ordinary \$2	Investment holding	100%
HKEx (China) Limited	\$2	Promotes HKEx products and services	100%

36. 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	Dormant (dissolved on deregistration on 12 February 2010)	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%
HKSCC Nominees Limited	\$20	Acting as common nominee in respect of securities held in the CCASS depository	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 38(c))

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 2009, HKEx had contributed \$44,078,000 (31 December 2008 and 1 January 2008: \$56,946,000 and \$43,635,000 respectively) 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.

37. Share Capital, Share Premium and Shares Held for Share Award Scheme

	HKEx				
			At	At	At
			31 Dec 2009	31 Dec 2008	1 Jan 2008
		\$'000	\$'000	\$'000	\$'000
Authorised:					
2,000,000,000 shares of \$1 each			2,000,000	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 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 38)	-	-	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
At 1 Jan 2009	1,073,939,532	1,074,886	346,902	(65,254)	1,356,534
Shares issued under employee share option schemes (note (a))	1,304,000	1,304	21,934	-	23,238
Transfer from employee share-based compensation reserve (note 38)	-	-	6,759	-	6,759
Shares purchased for Share Award Scheme (note (b))	(89,700)	-	-	(8,568)	(8,568)
Vesting of shares of Share Award Scheme (note (c))	360,749	-	-	22,121	22,121
At 31 Dec 2009	1,075,514,581	1,076,190	375,595	(51,701)	1,400,084

37. 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 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 38)	–	–	18,800	18,800
At 31 Dec 2008	1,074,886,346	1,074,886	346,902	1,421,788
At 1 Jan 2009	1,074,886,346	1,074,886	346,902	1,421,788
Shares issued under employee share option schemes (note (a))	1,304,000	1,304	21,934	23,238
Transfer from employee share-based compensation reserve (note 38)	–	–	6,759	6,759
At 31 Dec 2009	1,076,190,346	1,076,190	375,595	1,451,785

- (a) During the year, employee share options granted under the Pre-Listing Scheme and the Post-Listing Scheme were exercised to subscribe for 1,304,000 shares (2008: 4,601,000 shares) in HKEx at an average consideration of \$17.82 per share (2008: \$14.46 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 Share Award Scheme (note 38(c)) acquired 89,700 HKEx shares (2008: 214,600 shares) through purchases on the open market. The total amount paid to acquire the shares during the year was \$8,568,000 (2008: \$32,494,000) and had been deducted from shareholders' equity.
- (c) During the year, the Share Award Scheme transferred 360,749 HKEx shares (2008: 324,418 shares) to the awardees upon vesting of certain Awarded Shares and the shares arising from related dividends reinvested. The total cost of the vested shares was \$22,121,000 (2008: \$15,043,000).

38. Employee Share-based Compensation Reserve

	Group and HKEx	
	2009 \$'000	2008 \$'000
At 1 Jan	47,032	49,669
Employee share-based compensation benefits (note (a) and note 10)	20,583	28,179
Transfer to share premium upon exercise of employee share options (note 37)	(6,759)	(18,800)
Vesting of shares of Share Award Scheme	(17,777)	(12,016)
At 31 Dec	43,079	47,032

- (a) The Group operates two 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 Pre-Listing Scheme and 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 second to the fifth 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 in respect of the nominal value of the shares issued with the balance credited to share premium. The original estimated fair value of the relevant share options is then transferred from employee share-based compensation reserve to share premium.

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.

38. Employee Share-based Compensation Reserve (continued)

(b) Share options (continued)

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

	2009		2008	
	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	130,000	6.88	379,000
Exercised	6.88	(16,000)	6.88	(249,000)
Outstanding at 31 Dec	6.88	114,000	6.88	130,000
Post-Listing Scheme				
Outstanding at 1 Jan	18.30	4,555,500	16.67	9,089,500
Exercised	17.96	(1,288,000)	14.89	(4,352,000)
Forfeited	19.25	(25,000)	18.53	(182,000)
Outstanding at 31 Dec	18.43	3,242,500	18.30	4,555,500
Total	18.03	3,356,500	17.98	4,685,500

At 31 December 2009, out of the 3,356,500 outstanding options (31 December 2008: 4,685,500), 2,201,500 options (31 December 2008: 887,000) were vested and exercisable at a weighted average exercise price of \$17.40 (31 December 2008: \$16.22) per share.

During the year, employee share options granted under the Pre-Listing Scheme and the Post-Listing Scheme were exercised to subscribe for 1,304,000 shares (2008: 4,601,000 shares). The weighted average closing share price on the dates on which the options were exercised was \$97.90 (2008: \$139.06) per share.

- (iii) Share options outstanding as at 31 December had the following remaining contractual lives and exercise prices:

	2009		2008	
	Remaining contractual life	Number of shares issuable under options granted	Remaining contractual life	Number of shares issuable under options granted
Exercise price				
\$6.88	0.41 year	114,000	1.41 years	130,000
\$17.30	N/A	–	5.04 years	273,500
\$16.96	4.24 years	1,020,000	5.24 years	1,514,500
\$15.91	4.37 years	100,000	5.37 years	100,000
\$19.25	5.07 years	2,122,500	6.07 years	2,667,500
	4.64 years	3,356,500	5.60 years	4,685,500

38. Employee Share-based Compensation Reserve (continued)

(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 HKEx 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 second to the fifth 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 set up by the Scheme.

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 Scheme 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.

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 of the Scheme who may award such shares to the remaining awardees taking into consideration recommendations of the Board.

Details of the Awarded Shares awarded during 2008 and 2009 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
12 Dec 2007	4 Feb 2008	26,300	151,000	150,965	163.72	12 Dec 2009 – 12 Dec 2012
18 Feb 2008	7 Apr 2008	612	4,200	4,200 ^Ω	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

^Ω Awarded to the Chief Executive of HKEx

38. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

Details of the Awarded Shares vested during 2008 and 2009 are as follows:

Vesting date	Date of award	Number of Awarded Shares vested	Average fair value per share \$	Cost of related Awarded Shares (including acquisition transaction costs) \$'000
30 Apr 2008	19 Dec 2005	8,925	31.20	280
15 Dec 2008	15 Jan 2007	66,281*	72.28	4,790
19 Dec 2008	19 Dec 2005	221,550	31.20	6,946
31 Mar 2009	15 Jan 2007	4,020	72.28	290
31 Mar 2009	4 Feb 2008	1,361	163.72	223
16 Apr 2009	7 Jun 2007	1,750	81.33	142
18 Jun 2009	17 Jul 2007	1,375	102.29	141
14 Dec 2009	15 Jan 2007	61,403*	72.28	4,438
14 Dec 2009	4 Feb 2008	34,951	163.72	5,722
21 Dec 2009	19 Dec 2005	217,550	31.20	6,821

* 2,882 of the shares vested on 15 December 2008 and 14 December 2009 were for the Chief Executive of HKEx

During the year ended 31 December 2009, 29,800 HKEx shares (2008: 59,400 shares) were acquired by the Scheme through reinvesting dividends received at a total cost (including related transaction costs) of \$3,658,000 (2008: \$7,167,000), of which 26,878 shares (2008: 56,377 shares) were subsequently allocated to awardees.

During the year ended 31 December 2009, 38,339 HKEx shares (2008: 27,662 shares) (including 303 shares (2008: 212 shares) for the Chief Executive of HKEx) at a cost of \$4,344,000 (2008: \$3,027,000) (including \$34,000 (2008: \$23,000) for the Chief Executive of HKEx) acquired from reinvesting dividends received were vested and transferred to the employees at nil consideration.

38. 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:

	2009	2008
	Number of shares awarded/ allocated	Number of shares awarded/ allocated
Outstanding at 1 Jan	876,813	1,024,262
Awarded *	59,900	155,165
Forfeited	(26,288)	(32,798)
Vested	(322,410)	(296,756)
Dividends reinvested:		
– allocated to awardees	26,878	56,377
– allocated to awardees but subsequently forfeited	(2,146)	(1,775)
– vested	(38,339)	(27,662)
Outstanding at 31 Dec	574,408	876,813

* Average fair value per share of \$81.96 (2008: \$163.19)

- (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:

	2009		2008	
	Remaining vesting period	Number of shares awarded/ allocated outstanding	Remaining vesting period	Number of shares awarded/ allocated outstanding
Fair value				
\$31.20	0.97 year	217,550	0.97 year to 1.97 years	443,100
\$72.28	0.95 year to 1.95 years	122,904	0.95 year to 2.95 years	198,943
\$81.33	0.29 year to 2.29 years	5,250	0.29 year to 3.29 years	7,000
\$102.29	0.47 year to 2.47 years	4,125	0.47 year to 3.47 years	5,500
\$163.72	0.95 year to 2.95 years	104,974	0.95 year to 3.95 years	148,958
\$144.18	1.13 years to 3.13 years	4,200	1.13 years to 4.13 years	4,200
\$81.96	1.00 year to 4.00 years	59,900	N/A	–
Dividends reinvested	0.29 year to 4.00 years	55,505	0.29 year to 4.13 years	69,112
		574,408		876,813

- (iv) As at 31 December 2009, 101,357 forfeited or unallocated shares (31 December 2008: 70,001 shares) were held by the Scheme and would be allocated to awardees in future.

39. Revaluation Reserves

	Group		Total \$'000
	Leasehold land and buildings revaluation reserve \$'000	Investment revaluation reserve (note (b)) \$'000	
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 up to 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 35(b))	–	(8,565)	(8,565)
Transfer to retained earnings on disposal of a leasehold property (notes 28 and 42)	(3,155)	–	(3,155)
At 31 Dec 2008	–	96,681	96,681
At 1 Jan 2009	–	96,681	96,681
Change in fair value of available-for-sale financial assets up to maturity	–	(113,265)	(113,265)
Realised gains on available-for-sale financial assets reclassified to profit or loss on disposal	–	(2,520)	(2,520)
Deferred tax for available-for-sale financial assets (note 35(b))	–	19,104	19,104
At 31 Dec 2009	–	–	–

	HKEx Investment revaluation reserve \$'000
At 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 35(b))	(22)
At 31 Dec 2008	111
At 1 Jan 2009	111
Change in fair value of available-for-sale financial assets up to maturity	(133)
Deferred tax for available-for-sale financial assets (note 35(b))	22
At 31 Dec 2009	–

39. Revaluation Reserves (continued)

- (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 and \$496,000 as at 31 December 2008 and 1 January 2008, which was attributable to investments of the Clearing House Funds.

40. Designated Reserves

Clearing House Funds reserves (note 29)

	Group			Total \$'000
	HKSCC Guarantee Fund reserve \$'000	SEOCH Reserve Fund reserve \$'000	HKCC Reserve Fund reserve \$'000	
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 (note 42)	(150,326)	3,818	4,038	(142,470)
At 31 Dec 2008	119,309	106,646	326,428	552,383
At 1 Jan 2009	119,309	106,646	326,428	552,383
Surplus of net investment income net of expenses of Clearing House Funds transferred from retained earnings	2,285	2,207	6,196	10,688
Surplus of reversal of provision for closing-out losses caused by a defaulting Clearing Participant transferred from retained earnings	330	–	–	330
Transfer from retained earnings (note 42)	2,615	2,207	6,196	11,018
At 31 Dec 2009	121,924	108,853	332,624	563,401

41. 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 42(c).

42. Retained Earnings (Including Proposed Dividend)

	Group		HKEx	
	2009 \$'000	As restated 2008 \$'000	2009 \$'000	2008 \$'000
At 1 Jan, as previously reported	5,242,692	6,288,138	1,538,834	355,652
Effect of changes in accounting policies (note 2(b))	(1,708)	(1,415)	–	–
At 1 Jan, as restated	5,240,984	6,286,723	1,538,834	355,652
Profit attributable to shareholders (notes (a) and (b))	4,704,044	5,128,631	4,333,023	7,507,331
Transfer (to)/from Clearing House Funds reserves (note 40)	(11,018)	142,470	–	–
Transfer from leasehold buildings revaluation reserve on disposal of a leasehold property (note 39)	–	3,155	–	–
	(11,018)	145,625	–	–
Dividends:				
2008/2007 final dividend	(1,932,993)	(3,634,850)	(1,934,795)	(3,638,970)
Dividend on shares issued for employee share options exercised after 31 Dec 2008/31 Dec 2007	(1,715)	(11,309)	(1,715)	(11,309)
	(1,934,708)	(3,646,159)	(1,936,510)	(3,650,279)
2009/2008 interim dividend	(1,977,861)	(2,670,320)	(1,979,728)	(2,673,381)
Dividend on shares issued for employee share options exercised after 30 Jun 2009/30 Jun 2008	(249)	(3,055)	(249)	(3,055)
	(1,978,110)	(2,673,375)	(1,979,977)	(2,676,436)
Unclaimed dividends forfeited (note 32(b))	3,914	2,566	3,914	2,566
Vesting of shares of Share Award Scheme	(4,344)	(3,027)	–	–
At 31 Dec	6,020,762	5,240,984	1,959,284	1,538,834
Representing:				
Retained earnings	3,772,936	3,307,893	(289,954)	(395,961)
Proposed dividend	2,247,826	1,933,091	2,249,238	1,934,795
At 31 Dec	6,020,762	5,240,984	1,959,284	1,538,834

- (a) Profit attributable to shareholders included a profit of \$4,333,023,000, of which \$4,308,836,000 was dividends from subsidiaries (2008: \$7,507,331,000, of which \$7,481,800,000 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 surplus attributable to the net investment income net of expenses and reversal of provision for closing-out losses of the Clearing House Funds of \$11,018,000 (2008: net deficit attributable to the net investment income net of expenses less provision for closing-out losses of the Clearing House Funds of \$142,470,000).
- (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 41) and retained earnings of \$1,119,321,000.

43. Notes to the Consolidated Statement of Cash Flows

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

	2009 \$'000	As restated 2008 \$'000
Profit before taxation	5,542,091	5,928,137
Adjustments for:		
Net interest income	(288,143)	(1,051,451)
Net realised and unrealised (gains)/losses and interest income on financial assets measured at fair value through profit or loss, and financial assets and financial liabilities at fair value through profit or loss	(329,636)	57,892
Realised gains on available-for-sale financial assets of Corporate Funds	–	(23)
Dividend income	(2,411)	(3,769)
Interest expenses on bank overdrafts	27	268
Depreciation	101,173	109,646
Employee share-based compensation benefits (Reversal of provision for)/provision for impairment losses of trade receivables	(1,548)	164,960
Provision for impairment losses of club debenture	–	5
Provision for impairment loss of leasehold improvements	754	–
Changes in provisions	(1,707)	5,474
Gain on disposal of properties	–	(68,641)
Gain on disposal of fixed assets	(476)	(2,367)
Net decrease in Margin Fund financial assets	21,508,329	13,639,237
Net decrease in Margin Fund financial liabilities	(21,597,056)	(13,589,165)
Net (increase)/decrease in Clearing House Fund financial assets	(506,223)	967,021
Net increase/(decrease) in Clearing House Fund financial liabilities	497,078	(985,826)
Net (decrease)/increase in cash collateral received from HKSCC Clearing Participants	(168,177)	880,314
Net increase in financial assets measured at fair value through profit or loss, and financial assets and financial liabilities at fair value through profit or loss	(41,699)	(201,428)
(Increase)/decrease in accounts receivable, prepayments and deposits	(2,808,728)	9,655,462
Increase/(decrease) in other current liabilities	2,940,249	(9,738,900)
Net cash inflow from operations	4,864,480	5,795,025
Interest received from bank deposits	110,832	561,809
Dividends received	2,424	3,833
Interest received from financial assets measured at fair value through profit or loss and financial assets at fair value through profit or loss	110,905	127,021
Interest paid	(3,394)	(77,127)
Hong Kong Profits Tax paid	(711,249)	(1,361,246)
Net cash inflow from operating activities	4,373,998	5,049,315

44. Commitments

- (a) Commitments in respect of capital expenditures:

	Group		HKEx	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Contracted but not provided for	930	16,908	930	2,390
Authorised but not contracted for	64,806	66,982	25,733	18,935
	65,736	83,890	26,663	21,325

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, at 31 December 2008, office and data centre consolidation.

- (b) Commitments for total future minimum lease payments under non-cancellable operating leases

	Group		HKEx	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Land and buildings				
– within one year	173,228	73,302	1,221	2,738
– in the second to fifth years	169,805	98,967	228	1,447
	343,033	172,269	1,449	4,185
Computer systems, software and equipment				
– within one year	4,846	9,362	2,538	7,057
– in the second to fifth years	90	369	90	369
	4,936	9,731	2,628	7,426
	347,969	182,000	4,077	11,611

As at 31 December 2009, in respect of computer systems, software and equipment, the majority of the leases would mature within one year (2008: one year) and the Group did not have any purchase options.

- (c) Commitments in respect of financial contributions to Financial Reporting Council

The Financial Reporting Council (“FRC”) is 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. Since the establishment of the FRC in 2006, the Group has been providing funding for the FRC’s operations.

Under a memorandum of understanding signed in December 2009, the Group has further agreed to make recurrent contributions to the FRC from 2010 to 2014. The first contribution of \$4 million was made in January 2010. The contributions shall be increased by 5 per cent per annum from 2011 to 2014.

45. Contingent Liabilities

As at 31 December 2009, 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 Securities and Futures Commission ("SFC") to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$72 million. Up to 31 December 2009, 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 33(b)(i)).

In 2008, Lehman Brothers Securities Asia Limited 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 462 trading Participants as at 31 December 2009 (31 December 2008 and 1 January 2008: 448 and 439 respectively) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to \$92,400,000 (31 December 2008 and 1 January 2008: \$89,600,000 and \$87,800,000 respectively).

(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 33(b)(ii)).

46. 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	
	2009 \$'000	2008 \$'000
Land and buildings		
– within one year	1,118	1,086
– in the second to fifth years	945	1,980
	2,063	3,066
Trading booths and related facilities		
– within one year	15,444	15,088
– in the second to fifth years	12,870	28,171
	28,314	43,259
Total	30,377	46,325

47. 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.

47. Connected Transactions and Material Related Party Transactions (continued)

(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.

(i) Transactions with subsidiaries and a controlled special purpose entity

	HKEx	
	2009 \$'000	2008 \$'000
Dividend income	4,308,836	7,481,800
Interest income	–	578
Management fee and equipment rental fee charged	380,592	369,236
Expenses recharged	926,307	885,225
Dividend paid	(3,669)	(7,181)

(ii) Key management personnel compensation

	Group		HKEx	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Salaries and other short-term employee benefits	82,257	79,270	66,806	63,005
Employee share-based compensation benefits	6,686	10,277	5,094	8,018
Retirement benefit costs	6,658	6,573	5,406	5,214
	95,601	96,120	77,306	76,237

47. Connected Transactions and Material Related Party Transactions (continued)

(b) Material related party transactions (continued)

(iii) Balances with related parties

	HKEx		
	At 31 Dec 2009 \$'000	At 31 Dec 2008 \$'000	At 1 Jan 2008 \$'000
Amounts due from subsidiaries (note 36(b))	2,798,007	1,839,066	1,171,921
Amounts due to subsidiaries (note 36(b))	(483,565)	(32,269)	(522,218)
Financial guarantee granted to a subsidiary (maximum amount guaranteed) (note 45(b)(i))	50,000	50,000	50,000

(iv) Post-retirement benefit plans

Details of transactions with the Group's post-retirement benefit plans are included in note 10(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.

48. Banking Facilities with Assets Pledged

The Group did not have any assets pledged as at 31 December 2009, 31 December 2008 and 1 January 2008.

49. 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 2009, the Group had set aside \$3,100 million of shareholders' funds (31 December 2008 and 1 January 2008: \$3,100 million) for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

49. Capital Management (continued)

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, if any. The adjusted capital of the Group at 31 December 2009 was \$7,463,925,000 (31 December 2008 and 1 January 2008: \$6,740,551,000 (as restated) and \$7,680,671,000 (as restated) respectively).

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

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

Investment and fund management is governed by investment policy and risk management guidelines approved by the Board. Investment restrictions and guidelines form an integral part of risk control. Fund-specific restrictions and guidelines are set according to the investment objectives of each fund. 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 USD10 billion under management.

50. Financial Risk Management (continued)

(a) Market risk management (continued)

(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 bank deposits have been used to hedge the currency exposure of the Group's non-HKD investments 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.

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 were as follows:

50. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

		Group		
		At 31 Dec 2009		
	Foreign currency	Gross open position \$'000	Forward foreign exchange contracts and economic hedges \$'000	Net open position \$'000
Financial assets/(financial liabilities)				
Financial assets measured at amortised cost	RMB	609	–	609
	USD	220,252	–	220,252
Accounts receivable and deposits	USD	139	–	139
Financial assets measured at fair value through profit or loss [@]	AUD	144,975	(119,031)	25,944
	CAD	8,701	–	8,701
	CHF	6,357	–	6,357
	EUR	384,083	(321,432)	62,651
	GBP	129,061	(99,505)	29,556
	JPY	31,380	–	31,380
	RMB	18,319	–	18,319
	USD	2,377,940	(357,124)	2,020,816
Cash and cash equivalents*	AUD	964	–	964
	CAD	894	–	894
	EUR	3,268	–	3,268
	GBP	566	–	566
	JPY	545,107	(541,415)	3,692
	NZD	1	–	1
	RMB	1,124	–	1,124
	SGD	869	–	869
	USD	784,560	(31,208)	753,352
Margin deposits from Clearing Participants on derivatives contracts*	JPY	(541,415)	541,415	–
	USD	(31,208)	31,208	–
Accounts payable, accruals and other liabilities	MYR	(2)	–	(2)
	RMB	(1,723)	–	(1,723)
	USD	(39,149)	–	(39,149)
Other financial liabilities	USD	(16)	–	(16)
Non-financial assets/(non-financial liabilities)				
Net non-financial liabilities	USD	(8,195)	–	(8,195)
Total net open position for the Group				
	AUD			26,908
	CAD			9,595
	CHF			6,357
	EUR			65,919
	GBP			30,122
	JPY			35,072
	MYR			2
	NZD			1
	RMB			18,329
	SGD			869
	USD			2,947,199
				3,140,373

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

@ Forward foreign exchange contracts have been used in economic hedges of the currency exposure of the Group's investments by external fund managers.

50. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

	Foreign currency	Group		
		At 31 Dec 2008		
		Gross open position \$'000	Forward foreign exchange contracts and economic hedges \$'000	Net open position \$'000
Financial assets/(financial liabilities)				
Financial assets at amortised cost	RMB	609	–	609
Accounts receivable and deposits	EUR	162	–	162
	GBP	(76)	–	(76)
	SGD	72	–	72
	USD	8,232	–	8,232
Financial assets at fair value through profit or loss [@]	AUD	101,788	(27,475)	74,313
	CHF	5,119	–	5,119
	EUR	353,091	(301,292)	51,799
	GBP	143,063	(140,276)	2,787
	JPY	25,315	–	25,315
	NZD	11,963	–	11,963
	SGD	6,988	–	6,988
Cash and cash equivalents*	USD	2,304,350	(413,555)	1,890,795
	AUD	5,538	–	5,538
	CAD	3	–	3
	CHF	136	–	136
	EUR	688	–	688
	GBP	1,081	–	1,081
	JPY	4,977,127	(4,959,317)	17,810
	NZD	1	–	1
	RMB	976	–	976
	SGD	7,411	–	7,411
	USD	4,535,051	(23,223)	4,511,828
Margin deposits from Clearing Participants on derivatives contracts*	JPY	(4,959,317)	4,959,317	–
	USD	(23,223)	23,223	–
Accounts payable, accruals and other liabilities	GBP	(49)	–	(49)
	MYR	(2)	–	(2)
	RMB	(1,211)	–	(1,211)
	USD	(29,718)	–	(29,718)
Other financial liabilities	EUR	(106)	–	(106)
	JPY	(222)	–	(222)
	USD	(299)	–	(299)
Non-financial assets/(non-financial liabilities)				
Net non-financial liabilities	USD	(8,147)	–	(8,147)
Total net open position for the Group	AUD			79,851
	CAD			3
	CHF			5,255
	EUR			52,543
	GBP			3,743
	JPY			42,903
	MYR			2
	NZD			11,964
	RMB			374
	SGD			14,471
	USD			6,372,691
				6,583,800

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

@ Forward foreign exchange contracts have been used in economic hedges of the currency exposure of the Group's investments by external fund managers.

50. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

		Group		
		At 1 Jan 2008		
	Foreign currency	Gross open position \$'000	Forward exchange contracts and hedges \$'000	Net open position \$'000
Financial assets/(financial liabilities)				
Financial assets at amortised cost	RMB	342	–	342
	USD	39,114	–	39,114
Accounts receivable and deposits	USD	1,687	–	1,687
Financial assets at fair value through profit or loss [@]	AUD	52,075	(3,413)	48,662
	CAD	6,003	–	6,003
	EUR	263,173	(194,821)	68,352
	GBP	109,795	(91,384)	18,411
	JPY	46,418	(23,170)	23,248
	SGD	11,362	–	11,362
	USD	2,424,810	(537,532)	1,887,278
Cash and cash equivalents*	AUD	240	–	240
	CAD	3	–	3
	CHF	8,932	–	8,932
	EUR	5,825	–	5,825
	GBP	1,366	–	1,366
	JPY	7,871,973	(7,863,052)	8,921
	NZD	1	–	1
	RMB	526	–	526
	SEK [#]	623	(253)	370
	SGD	7,458	–	7,458
	USD	2,629,456	(39)	2,629,417
Margin deposits from Clearing Participants on derivatives contracts*	JPY	(7,863,052)	7,863,052	–
	USD	(39)	39	–
Accounts payable, accruals and other liabilities	GBP	(8)	–	(8)
	MYR	(2)	–	(2)
	RMB	(1,602)	–	(1,602)
	SEK [#]	(257)	253	(4)
	USD	(32,294)	–	(32,294)
Non-financial assets/(non-financial liabilities)				
Net non-financial liabilities	USD	(8,138)	–	(8,138)
Total net open position for the Group				
	AUD			48,902
	CAD			6,006
	CHF			8,932
	EUR			74,177
	GBP			19,769
	JPY			32,169
	MYR			2
	NZD			1
	RMB			734
	SEK			366
	SGD			18,820
	USD			4,517,064
				4,726,942

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

@ Forward foreign exchange contracts have been used in economic hedges of 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.

50. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

		HKEx		
		At 31 Dec 2009		
	Foreign currency	Gross open position \$'000	Forward foreign exchange contracts and economic hedges \$'000	Net open position \$'000
Financial assets/(financial liabilities)				
Financial assets measured at amortised cost	RMB	609	–	609
Accounts receivables and deposits	USD	44	–	44
Cash and cash equivalents	RMB	1,118	–	1,118
Accounts payable, accruals and other liabilities	RMB	(1,723)	–	(1,723)
	USD	(10,575)	–	(10,575)
Total net open position for HKEx	RMB			4
	USD			10,531
				10,535
		HKEx		
		At 31 Dec 2008		
	Foreign currency	Gross open position \$'000	Forward foreign exchange contracts and economic hedges \$'000	Net open position \$'000
Financial assets/(financial liabilities)				
Financial assets at amortised cost	RMB	609	–	609
Accounts receivables and deposits	EUR	162	–	162
	USD	44	–	44
Cash and cash equivalents	RMB	969	–	969
Accounts payable, accruals and other liabilities	GBP	(1)	–	(1)
	RMB	(1,211)	–	(1,211)
	USD	(16,877)	–	(16,877)
Total net open position for HKEx	EUR			162
	GBP			1
	RMB			367
	USD			16,833
				17,363

50. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

		HKEx		
		At 1 Jan 2008		
	Foreign currency	Gross open position \$'000	Forward exchange contracts and hedges \$'000	Net open position \$'000
Financial assets/(financial liabilities)				
Financial assets at amortised cost	RMB	342	–	342
	USD	44	–	44
Cash and cash equivalents	RMB	520	–	520
	SEK #	623	(253)	370
Accounts payable, accruals and other liabilities	RMB	(1,602)	–	(1,602)
	SEK #	(257)	253	(4)
	USD	(14,140)	–	(14,140)
Total net open position for HKEx	RMB			740
	SEK			366
	USD			14,096
				15,202

Foreign currency cash and bank deposits have been used to hedge the currency exposure of HKEx's liabilities.

(ii) Equity and commodity price risk management

The Group is exposed to equity price risk as mutual funds, equities, equity 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 sets prudent investment limits and restrictions to control investment in equity securities. The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's investment policy.

(iii) Interest rate risk 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. The Group manages its interest rate risks by setting limits on the residual maturity of the investments and on the fixed and floating rate mismatches of its assets and liabilities.

50. Financial Risk Management (continued)

(a) Market risk management (continued)

(iv) Risk management techniques

Value-at-Risk (“VaR”) based on historical simulation and portfolio stress testing are used to identify, measure, monitor and control foreign exchange risk, equity price risk and interest rate risks of the Group’s investments. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (one year is used by the Group). The Board sets a limit on total VaR of the Group and VaR is monitored on a weekly basis.

VaR is a statistical measure of risks and has limitations associated with the assumptions employed. Historical simulation assumes that actual observed historical changes in market indices, such as interest rates, foreign exchange rates and equity prices, reflect possible future changes. This implies that the approach is vulnerable to sudden changes in market behaviour. The use of a 10-day holding period assumes that the positions can be unwound in 10 trading days and the holding period may be insufficient at times of severe illiquidity. Also, VaR does not necessarily reflect all aspects of risks that affect the price of financial instruments and may underestimate real market risk exposure. In addition, VaR does not factor in the possibility of catastrophic risk but the use of stress testing for abnormal market conditions can mitigate this limitation.

The VaR for each risk factor and the total VaR of the investments and related economic hedges of the Group and HKEx during the year were as follows:

	Group					
	2009			2008		
	Average \$'000	Highest \$'000	Lowest \$'000	Average \$'000	Highest \$'000	Lowest \$'000
Foreign exchange risk	9,915	14,993	5,386	7,463	16,487	4,448
Equity price risk	20,898	31,543	10,413	12,972	16,821	9,394
Interest rate risk	47,747	66,464	27,885	35,074	48,699	27,290
Total VaR	48,522	69,650	31,356	33,295	45,653	25,135

	HKEx					
	2009			2008		
	Average \$'000	Highest \$'000	Lowest \$'000	Average \$'000	Highest \$'000	Lowest \$'000
Foreign exchange risk	–	–	–	4	19	–
Interest rate risk	244	466	45	114	212	26
Total VaR	244	466	45	114	212	26

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.

50. Financial Risk Management (continued)

(b) Liquidity risk management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset, and it results from amount and maturity mismatches of assets and liabilities.

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.

Surplus cash of the Group is invested by the Treasury team, and the investments of the Group are kept sufficiently liquid to meet the operating needs and possible liquid requirements of the Clearing House Funds, Margin Funds and cash collateral. 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. All cash collateral received are held in savings accounts.

The table below analyses the Group's and HKEx's financial assets into the relevant maturity buckets based on the following criteria:

- the expected amounts, subject to costs to liquidate that are expected to be immaterial, that could be realised from the investments, bank deposits and cash and cash equivalents within one month to meet cash outflows on financial liabilities if required are allocated to the up to 1 month bucket;
- other financial assets are allocated based on their contractual maturity dates.

	Group				
	At 31 Dec 2009				
	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
Non-current assets					
Financial assets measured at fair value through profit or loss	1,559,405	-	-	-	1,559,405
Financial assets measured at amortised cost	718,450	-	164	49,319	767,933
Current assets					
Accounts receivable and deposits [#]	11,271,343	48,207	140	-	11,319,690
Financial assets measured at fair value through profit or loss	12,465,473	-	-	-	12,465,473
Financial assets measured at amortised cost	4,157,247	-	-	-	4,157,247
Cash and cash equivalents	14,738,083	-	-	-	14,738,083
Total	44,910,001	48,207	304	49,319	45,007,831

50. Financial Risk Management (continued)**(b) Liquidity risk management (continued)**

	Group				
	At 31 Dec 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
Non-current assets					
Financial assets at amortised cost	23,520	3,764	282	19,606	47,172
Current assets					
Accounts receivable and deposits [#]	8,467,934	47,283	3,241	–	8,518,458
Financial assets at fair value through profit or loss	3,020,035	–	–	–	3,020,035
Available-for-sale financial assets	19,394,095	–	–	–	19,394,095
Financial assets at amortised cost	3,664,012	–	–	–	3,664,012
Cash and cash equivalents	27,783,692	–	–	–	27,783,692
Total	62,353,288	51,047	3,523	19,606	62,427,464
Group					
At 1 Jan 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
Non-current assets					
Available-for-sale financial assets	481,666	–	–	–	481,666
Financial assets at amortised cost	–	–	6,374	12,803	19,177
Current assets					
Accounts receivable and deposits [#]	18,291,575	57,826	432	–	18,349,833
Financial assets at fair value through profit or loss	2,996,555	–	–	–	2,996,555
Available-for-sale financial assets	19,681,853	–	–	–	19,681,853
Financial assets at amortised cost	3,190,733	–	–	–	3,190,733
Cash and cash equivalents	42,768,745	–	–	–	42,768,745
Total	87,411,127	57,826	6,806	12,803	87,488,562

* Amounts included \$9,618,053,000 (31 December 2008 and 1 January 2008: \$Nil and \$481,666,000 respectively) of financial assets with contractual maturity over one year. They could readily be liquidated whenever liquid funds are required.

Amounts excluded prepayments of \$14,680,000 (31 December 2008 and 1 January 2008: \$16,934,000 and \$17,512,000 respectively).

50. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	HKEx				
	At 31 Dec 2009				
	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
Non-current assets					
Financial assets measured at amortised cost	8,350	–	164	1,522	10,036
Current assets					
Accounts receivable and deposits [^]	1	–	–	–	1
Amounts due from subsidiaries	2,798,007	–	–	–	2,798,007
Financial assets measured at amortised cost	92,728	–	–	–	92,728
Cash and cash equivalents	27,486	–	–	–	27,486
Total	2,926,572	–	164	1,522	2,928,258
	HKEx				
	At 31 Dec 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
Non-current assets					
Financial assets at amortised cost	–	–	49	671	720
Current assets					
Accounts receivable and deposits [^]	728	–	–	–	728
Amounts due from subsidiaries	1,839,066	–	–	–	1,839,066
Available-for-sale financial assets	8,220	–	–	–	8,220
Financial assets at amortised cost	142,167	–	–	–	142,167
Cash and cash equivalents	31,680	–	–	–	31,680
Total	2,021,861	–	49	671	2,022,581
	HKEx				
	At 1 Jan 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
Non-current assets					
Financial assets at amortised cost	–	–	121	360	481
Current assets					
Accounts receivable and deposits [^]	113	–	–	–	113
Amounts due from subsidiaries	1,171,921	–	–	–	1,171,921
Financial assets at amortised cost	46,880	–	–	–	46,880
Cash and cash equivalents	20,184	–	–	–	20,184
Total	1,239,098	–	121	360	1,239,579

[^] Amounts included \$8,021,000 (31 December 2008 and 1 January 2008: \$Nil) of financial assets with contractual maturity over one year. They could readily be liquidated whenever liquid funds are required.

[^] Amounts excluded prepayments of \$14,574,000 (31 December 2008 and 1 January 2008: \$16,706,000 and \$17,023,000 respectively).

50. Financial Risk Management (continued)**(b) Liquidity risk management (continued)**

In addition, banking facilities have been put in place for contingency purposes. As at 31 December 2009, the Group's total available banking facilities amounted to \$9,050 million (31 December 2008 and 1 January 2008: \$3,850 million and \$3,058 million respectively), of which \$9,000 million (31 December 2008 and 1 January 2008: \$3,000 million) were repurchase facilities. As at 31 December 2009, 31 December 2008 and 1 January 2008, the repurchase facilities had not been drawn down.

The table below analyses the Group's and HKEx's non-derivative financial liabilities and net-settled derivative financial liabilities as at 31 December into relevant maturity buckets based on their contractual maturity dates. Derivative financial liabilities are included in the analysis where their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Group				
	At 31 Dec 2009				
	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	546,426	124,500	51,800	-	722,726
Margin deposits from Clearing Participants on derivatives contracts	20,242,938	-	-	-	20,242,938
Cash collateral from HKSCC Clearing Participants	3,431,725	-	-	-	3,431,725
Accounts payable, accruals and other liabilities	11,719,491	2,671	104,309	540	11,827,011
Other financial liabilities:					
Other financial liabilities of Clearing House Funds	19,991	50	150	-	20,191
Other financial liabilities of Corporate Funds:					
Financial liabilities at fair value through profit or loss (derivative financial liabilities - futures contracts)	-	42	-	-	42
Financial guarantee contract (maximum amount guaranteed) (note 45(a)(ii))	92,400	-	-	-	92,400
	36,052,971	127,263	156,259	540	36,337,033
Non-current liabilities					
Participants' contributions to Clearing House Funds	-	-	-	276,000	276,000
Total	36,052,971	127,263	156,259	276,540	36,613,033

50. Financial Risk Management (continued)**(b) Liquidity risk management (continued)**

	Group				Total \$'000
	As restated At 31 Dec 2008				
	Up to 1 month \$'000	>1 month to 3 months \$'000	>3 months to 1 year \$'000	>1 year to 5 years \$'000	
Current liabilities					
Participants' contributions to Clearing House Funds	52,570	101,500	43,450	–	197,520
Margin deposits from Clearing Participants					
on derivatives contracts	41,839,991	–	–	–	41,839,991
Cash collateral from HKSCC Clearing Participants	3,599,902	–	–	–	3,599,902
Accounts payable, accruals and other liabilities	8,781,555	4,499	107,508	540	8,894,102
Other financial liabilities:					
Other financial liabilities of Clearing House Funds	64,778	150	7,391	–	72,319
Other financial liabilities of Margin Funds					
on derivatives contracts	3	–	–	–	3
Other financial liabilities of Corporate Funds:					
Financial liabilities at fair value through profit or loss (derivative financial liabilities – futures contracts)	627	–	–	–	627
Financial guarantee contract (maximum amount guaranteed) (note 45(a)(ii))	89,600	–	–	–	89,600
	54,429,026	106,149	158,349	540	54,694,064
Non-current liabilities					
Participants' contributions to Clearing House Funds	–	–	–	252,000	252,000
Total	54,429,026	106,149	158,349	252,540	54,946,064

50. Financial Risk Management (continued)**(b) Liquidity risk management (continued)**

	Group				
	As restated At 1 Jan 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	1,116,555	93,500	42,300	–	1,252,355
Margin deposits from Clearing Participants					
on derivatives contracts	55,428,888	–	–	–	55,428,888
Cash collateral from HKSCC Clearing Participants	2,719,588	–	–	–	2,719,588
Accounts payable, accruals and other liabilities	18,633,361	3,354	105,206	–	18,741,921
Other financial liabilities:					
Other financial liabilities of Clearing House Funds	9,700	–	1,110	–	10,810
Other financial liabilities of Margin Funds					
on derivatives contracts	271	–	–	–	271
Other financial liabilities of Corporate Funds:					
Financial guarantee contract					
(maximum amount guaranteed) (note 45(a)(ii))	87,800	–	–	–	87,800
	77,996,163	96,854	148,616	–	78,241,633
Non-current liabilities					
Participants' contributions to Clearing House Funds	–	–	–	244,500	244,500
Total	77,996,163	96,854	148,616	244,500	78,486,133
HKEx					
At 31 Dec 2009					
	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	174,899	1,847	3,588		180,334
Amounts due to subsidiaries	483,565	–	–		483,565
Other financial liabilities:					
Other financial liabilities of Corporate Funds:					
Financial guarantee contract					
(maximum amount guaranteed) (note 45(b)(i))	50,000	–	–		50,000
Total	708,464	1,847	3,588		713,899

50. Financial Risk Management (continued)**(b) Liquidity risk management (continued)**

	HKEx			
	As restated At 31 Dec 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
Other financial liabilities:				
Other financial liabilities of Corporate Funds:				
Financial guarantee contract (maximum amount guaranteed) (note 45(b)(i))	50,000	-	-	50,000
Total	251,034	2,988	3,458	257,480
	HKEx			
	As restated At 1 Jan 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	165,213	1,813	18	167,044
Amounts due to subsidiaries	522,218	-	-	522,218
Other financial liabilities:				
Other financial liabilities of Corporate Funds:				
Financial guarantee contract (maximum amount guaranteed) (note 45(b)(i))	50,000	-	-	50,000
Total	737,431	1,813	18	739,262

As at 31 December 2009, the maximum gross nominal value of outstanding forward foreign exchange contracts held by the Group was \$3,405,465,000 (31 December 2008 and 1 January 2008: \$3,219,344,000 and \$2,926,473,000 respectively). 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 contractual maturity dates. The amounts disclosed in the table are contractual undiscounted cash flows, which are different from the carrying amounts (ie, fair values) in the consolidated statement of financial position.

50. Financial Risk Management (continued)**(b) Liquidity risk management (continued)**

	Group								
	At 31 Dec 2009			At 31 Dec 2008			At 1 Jan 2008		
	Up to 1 month	>1 month to 3 months	Total	Up to 1 month	>1 month to 3 months	Total	Up to 1 month	>1 month to 3 months	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Forward foreign exchange contracts									
- outflows	2,048,621	1,341,746	3,390,367	2,343,600	875,744	3,219,344	2,078,860	847,613	2,926,473
- inflows	2,050,064	1,355,401	3,405,465	2,336,746	875,720	3,212,466	2,076,152	847,685	2,923,837

(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 2009, 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 (31 December 2008 and 1 January 2008: Aa2 and Aa1 respectively), and there were no financial assets whose terms were renegotiated (31 December 2008 and 1 January 2008: \$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, SEOC 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.

50. Financial Risk Management (continued)

(c) Credit risk management (continued)

(ii) Clearing and settlement-related risk management (continued)

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, cash collateral and contribute to the Clearing House Funds set up by HKSCC, SEOCH and HKCC. After the default of Lehman Brothers Securities Asia Limited in September 2008, 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 2009, bank guarantees of \$2,003,100,000 (31 December 2008 and 1 January 2008: \$4,534,000,000 and \$5,509,200,000 respectively) were accepted for such purpose.

In addition to the above, the Group had set aside \$3,100 million of shareholders' funds (31 December 2008 and 1 January 2008: \$3,100 million) for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

50. 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					
	At 31 Dec 2009		At 31 Dec 2008		At 1 Jan 2008	
	Carrying amount in consolidated statement of financial position \$'000	Maximum exposure to credit risk \$'000	Carrying amount in consolidated statement of financial position \$'000	Maximum exposure to credit risk \$'000	Carrying amount in consolidated statement of financial position \$'000	Maximum exposure to credit risk \$'000
Financial assets						
(current and non-current)						
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
Financial assets mandatorily measured at fair value through profit or loss (excluding equity securities and mutual funds)	13,769,956	13,769,956	-	-	-	-
Available-for-sale financial assets	-	-	19,394,095	19,394,095	20,163,519	20,163,519
Financial assets at amortised cost	-	-	3,711,184	3,711,184	3,209,910	3,209,910
Financial assets measured at amortised cost	4,925,180	4,925,180	-	-	-	-
Cash and cash equivalents	14,738,083	14,738,083	27,783,692	27,783,692	42,768,745	42,768,745
Accounts receivable and deposits #	11,319,690	11,319,690	8,518,458	8,518,458	18,349,833	18,349,833
Financial guarantee contract						
Undertaking to indemnify the Collector of Stamp Revenue (note 45(a)(ii))	(19,909)	92,400	(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.

50. Financial Risk Management (continued)

(c) Credit risk management (continued)

(iii) Exposure to credit risk (continued)

	HKEx					
	At 31 Dec 2009		At 31 Dec 2008		At 1 Jan 2008	
	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	Carrying amount in statement of financial position \$'000	Maximum exposure to credit risk \$'000
Financial assets (current and non-current)						
Accounts receivable and deposits	1	1	728	728	113	113
Amounts due from subsidiaries	2,798,007	2,798,007	1,839,066	1,839,066	1,171,921	1,171,921
Available-for-sale financial assets	-	-	8,220	8,220	-	-
Financial assets at amortised cost	-	-	142,887	142,887	47,361	47,361
Financial assets measured at amortised cost	102,764	102,764	-	-	-	-
Cash and cash equivalents	27,486	27,486	31,680	31,680	20,184	20,184
Financial guarantee contract						
Financial guarantee granted to HKSCC (note 45(b)(i))	(11,390)	50,000	(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		
	At 31 Dec 2009 \$'000	At 31 Dec 2008 \$'000	At 1 Jan 2008 \$'000
	Up to six months	294,873	206,847
Over six months to one year	-	-	1
Over one year to three years	-	-	2
Over three years	141	141	8,651
Total	295,014	206,988	279,850

The fair value of cash deposits placed by the related trade debtors with the Group was \$11,817,000 (31 December 2008 and 1 January 2008: \$10,117,000 and \$12,643,000 respectively).

No financial assets of HKEx were past due as at 31 December 2009, 31 December 2008 and 1 January 2008.

50. 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 2009, trade receivables of the Group amounting to \$164,047,000 (31 December 2008 and 1 January 2008: \$167,449,000 and \$4,608,000 respectively) 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(q)(vi). No cash deposits had been received in relation to the impaired trade receivables (31 December 2008 and 1 January 2008: \$Nil).

No financial assets of HKEx were impaired as at 31 December 2009, 31 December 2008 and 1 January 2008.

(vi) Outstanding balances from debtors which were not recognised as income

As soon as a trade receivable becomes impaired, the Group may continue to allow the debtors concerned to participate in its markets but no further accounts receivable will be recognised in 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. As at 31 December 2009, the amount of doubtful deferred revenue amounted to \$45,264,000 (31 December 2008 and 1 January 2008: \$49,455,000 and \$48,955,000 respectively).

As at 31 December 2009, the amount of doubtful deferred revenue of HKEx was \$Nil (31 December 2008 and 1 January 2008: \$Nil).

(d) Fair values of financial assets and financial liabilities

(i) Financial assets and financial liabilities carried at fair value

The following table presents the carrying value of financial assets and financial liabilities measured at fair value as at 31 December 2009 according to the levels of the fair value hierarchy defined in HKFRS 7: Financial Instruments: Disclosures, with the fair value of each financial asset and financial liability categorised based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

50. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities (continued)

(i) Financial assets and financial liabilities carried at fair value (continued)

	Group		
	At 31 Dec 2009		
	Level 1 \$'000	Level 2 \$'000	Total \$'000
Assets			
Financial assets measured at fair value through profit or loss:			
– equity securities	179,734	–	179,734
– debt securities	–	11,646,021	11,646,021
– mutual funds	75,188	–	75,188
– equity index futures contracts	741	–	741
– forward foreign exchange contracts	17,130	–	17,130
– bank deposits with embedded derivatives	–	2,106,064	2,106,064
	272,793	13,752,085	14,024,878
Liabilities			
Other financial liabilities of Corporate Funds:			
Financial liabilities at fair value through profit or loss:			
– equity index futures contracts	42	–	42
– forward foreign exchange contracts	2,032	–	2,032
	2,074	–	2,074

During the year, there were no transfers between instruments in Level 1 and Level 2.

In 2009, no financial assets or financial liabilities were classified under Level 3.

50. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities (continued)

(ii) 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 (eg, accounts receivable, deposits and cash and cash equivalents) and short-term payables (eg, 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			Fair value		
	consolidated statement of financial position					
	At 31 Dec 2009 \$'000	At 31 Dec 2008 \$'000	At 1 Jan 2008 \$'000	At 31 Dec 2009 \$'000	At 31 Dec 2008 \$'000	At 1 Jan 2008 \$'000
Financial assets						
Financial assets at amortised cost:						
- other financial assets maturing over one year *	-	47,172	19,177	-	42,465	18,076
Financial assets measured at amortised cost:						
- debt securities ^Ω	1,295,912	-	-	1,294,329	-	-
- other financial assets maturing over one year *	1,099,733	-	-	1,087,817	-	-
Financial liabilities						
Financial guarantee contract ^Δ	19,909	19,909	19,909	44,698	89,600	25,412
Participants' contributions to Clearing House Funds included in non-current liabilities *	276,000	252,000	244,500	274,299	247,544	236,575

50. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities (continued)

(ii) Fair values of financial assets and financial liabilities not reported at fair values (continued)

	HKEx					
	Carrying amount in statement of financial position			Fair value		
	At	At	At	At	At	At
	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000	31 Dec 2009 \$'000	31 Dec 2008 \$'000	1 Jan 2008 \$'000
Financial assets						
Financial assets at amortised cost:						
– other financial assets maturing over one year *	-	720	481	-	700	455
Financial assets measured at amortised cost:						
– debt securities ^Ω	71,930	-	-	72,387	-	-
– other financial assets maturing over one year *	2,015	-	-	2,005	-	-
Financial liabilities						
Financial guarantee contract [^]	11,390	11,390	11,390	24,187	50,000	14,472

* 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 0.62 per cent to 1.42 per cent as at 31 December 2009 (31 December 2008 and 1 January 2008: 1.80 per cent to 2.72 per cent and 3.35 per cent to 3.76 per cent respectively).

^Ω The fair values are provided by the custodian of the investments, a reputable independent third party custodian bank, or by the banks from whom the investments were purchased.

[^] 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 2.58 per cent as at 31 December 2009 (31 December 2008 and 1 January 2008: 1.18 per cent and 3.46 per cent respectively).

51. Post Balance Sheet Events

HKEx has received approval from Hong Kong Science & Technology Parks Corporation to acquire a site in Hong Kong's Tseung Kwan O Industrial Estate and plans to construct a building to consolidate the primary data centres for all HKEx's markets and clearing houses systems, as well as certain information technology development and support staff. HKEx aims to take possession of the site in the first half of this year. The tentative target period for completion of the entire project is the middle of 2013. The initial cost estimate, which covers land premium and costs for construction, facilities, office fittings, relocation and technology upgrades, is approximately \$700 million over the next three years and HKEx will fund the project by its internal resources. However, the building and facility design and other details are not yet final so the cost estimate will be subject to change.

GLOSSARY

2009 AGM	Annual general meeting held on 23 April 2009
2010 AGM	Annual general meeting to be held on 22 April 2010
AGM	Annual general meeting of HKEx
AMS/3	The Automatic Order Matching and Execution System/ Third Generation
Awarded Shares	Shares awarded under the Share Award Scheme
BBS	Bronze Bauhinia Star
Board	Board of HKEx
CBBC(s)	Callable Bull/Bear Contract(s)
CCASS	The Central Clearing and Settlement System
CCASS/3	The Latest Generation of CCASS
CG Code	Code on Corporate Governance Practices
CNS	Continuous Net Settlement
CSR	Corporate Social Responsibility
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
Elected Director(s)	Director(s) 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 Hong Kong Special Administrative Region of the People's Republic of China
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
FRC	Financial Reporting Council
FSTB	Financial Services and the Treasury Bureau
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKAS	Hong Kong Accounting Standard
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	HKEx's Articles of Association
HKFRS(s)	Hong Kong Financial Reporting Standard(s)
HKICL	Hong Kong Interbank Clearing Limited
HKICPA	Hong Kong Institute of Certified Public Accountants
HKICS	The Hong Kong Institute of Chartered Secretaries
HKIoD	The Hong Kong Institute of Directors
HKMA	The Hong Kong Management Association
HKSCC	Hong Kong Securities Clearing Company Limited
HKSI	Hong Kong Securities Institute
Hong Kong Government	Government of the Hong Kong Special Administrative Region of the People's Republic of China
H-shares Index or HSCEI	Hang Seng China Enterprises Index

HSI	Hang Seng Index
ICAC	Independent Commission Against Corruption
INED(s)	Independent Non-executive Director(s)
IP(s)	Investor Participant(s)
IPO(s)	Initial Public Offering(s)
ISI(s)	Investor SI(s)
IT	Information Technology
IV(s)	Information Vendor(s)
JP	Justice of the Peace
Listing Committees	Listing Committee and GEM Listing Committee
Listing Rules	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDF	The Market Datafeed System
MH	Medal of Honour
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MOU	Memorandum of Understanding
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)
PRC	People's Republic of China
PRS	The Price Reporting System
REIT(s)	Real Estate Investment Trust(s)
RMB	Renminbi
ROM	Register of Members
Senior Management	Senior executives of HKEx as referred to in the section "Senior Management" as set out on pages 30 to 33 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
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
UK	United Kingdom
US	United States
USD	US Dollar
WFE	World Federation of Exchanges
\$/HKD	Hong Kong Dollar

Hong Kong Exchanges and Clearing Limited

12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong

Tel: +852 2522 1122

Fax: +852 2295 3106

Website: www.hkex.com.hk

E-mail: info@hkex.com.hk

