



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

Quarterly Report 2009

For the three months ended 31 March

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(Financial figures in this quarterly report are expressed in HKD unless otherwise stated)

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FINANCIAL HIGHLIGHTS

	Three months ended 31 Mar 2009	Three months ended 31 Mar 2008	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	\$44.7 billion	\$98.7 billion	(55%)
Average daily number of derivatives contracts traded on the Futures Exchange	195,499	205,853	(5%)
Average daily number of stock options contracts traded on the Stock Exchange	194,279	266,199	(27%)

	Unaudited Three months ended 31 Mar 2009 \$'000	Unaudited Three months ended 31 Mar 2008 \$'000	Change
RESULTS			
Revenue and other income	1,341,335	2,284,644	(41%)
Operating expenses	354,407	382,559	(7%)
Profit before taxation	986,928	1,902,085	(48%)
Taxation	(152,689)	(252,344)	(39%)
Profit attributable to shareholders	834,239	1,649,741	(49%)
Basic earnings per share	\$0.78	\$1.54	(49%)
Diluted earnings per share	\$0.77	\$1.53	(50%)

	Unaudited at 31 Mar 2009	Audited at 31 Dec 2008	Change
KEY ITEMS IN CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds (\$'000)	8,082,240	7,295,322	11%
Total assets* (\$'000)	46,574,394	62,823,921	(26%)
Net assets per share [#]	\$7.53	\$6.79	11%

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

[#] Based on 1,074,005,378 shares as at 31 March 2009, being 1,075,006,346 shares issued and fully paid less 1,000,968 shares held for the Share Award Scheme (31 December 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)

BOARD AND COMMITTEES

Board of Directors

Independent Non-executive Chairman

ARCULLI, Ronald Joseph* GBS, JP

Executive Director, Chief Executive

CHOW Man Yiu, Paul SBS, JP

INEDs

CHA May-Lung, Laura* SBS, JP

CHAN Tze Ching, Ignatius¹ BBS, JP

CHENG Mo Chi, Moses* GBS, JP

CHEUNG Kin Tung, Marvin*² GBS, JP

FAN Hung Ling, Henry*³ & Note SBS, JP

FONG Hup*³ MH

HUI Chiu Chung, Stephen*⁴ JP

KWOK Chi Piu, Bill

LEE Kwan Ho, Vincent Marshall

LEE Tze Hau, Michael*⁴

LOH Kung Wai, Christine³

STRICKLAND, John Estmond GBS, JP

WILLIAMSON, John Mackay McCulloch¹

WONG Sai Hung, Oscar

Committees

Audit Committee

CHEUNG Kin Tung, Marvin⁵ (Chairman)

LEE Kwan Ho, Vincent Marshall⁶
(Deputy Chairman)

FONG Hup³ (ex-Deputy Chairman)

CHAN Tze Ching, Ignatius⁶

CHENG Mo Chi, Moses

WILLIAMSON, John Mackay McCulloch⁵

Executive Committee

ARCULLI, Ronald Joseph (Chairman)

CHOW Man Yiu, Paul

FONG Hup³

KWOK Chi Piu, Bill

LEE Kwan Ho, Vincent Marshall

WILLIAMSON, John Mackay McCulloch⁶

Investment Advisory Committee

STRICKLAND, John Estmond (Chairman)

WONG Sai Hung, Oscar (Deputy Chairman)

CHA May-Lung, Laura⁷

HUI Chiu Chung, Stephen⁶

LEE Tze Hau, Michael⁶

SUN Tak Kei, David

WILLIAMSON, John Mackay McCulloch³

Committees (continued)

Nomination Committee

ARCULLI, Ronald Joseph (Chairman)

CHAN Tze Ching, Ignatius⁶

CHENG Mo Chi, Moses⁶

FAN Hung Ling, Henry³ & Note

LEE Kwan Ho, Vincent Marshall⁷

STRICKLAND, John Estmond

WONG Sai Hung, Oscar

Panel Member Nomination Committee

CHA May-Lung, Laura (Chairman)

FONG Hup³

KWOK Chi Piu, Bill

LEE Kwan Ho, Vincent Marshall

LEE Tze Hau, Michael⁶

WONG Sai Hung, Oscar

Remuneration Committee

ARCULLI, Ronald Joseph (Chairman)

CHA May-Lung, Laura

CHENG Mo Chi, Moses

LEE Kwan Ho, Vincent Marshall

LOH Kung Wai, Christine³

WILLIAMSON, John Mackay McCulloch⁶

Risk Management Committee[△]

ARCULLI, Ronald Joseph (Chairman)

CHAN Ka-lok**

CHEUNG Kin Tung, Marvin⁵

FONG Hup**

HUNG Pi Cheng, Benjamin**

KWOK Chi Piu, Bill

LAU Ying Pan, Edmond**

LUI Kei Kwong, Keith**

Corporate Social Responsibility Committee

CHOW Man Yiu, Paul (Chairman)

CHOW Lok Sum, Eddie

CURLEY, Peter Joseph

MAU Kam Shing, Joseph

WONG Kwok Kuen, Alfred

YEN Tai Mui, Brenda

Company Secretary

MAU Kam Shing, Joseph

* Government Appointed Directors

1 Elected on 23 April 2009

4 Appointment effective 23 April 2009

** Appointed by the Financial Secretary

2 Re-appointment effective 23 April 2009

5 Re-appointment effective 24 April 2009

△ Established under Section 65 of the SFO

3 Retired on 23 April 2009

6 Appointment effective 24 April 2009

7 Appointment ceased on 24 April 2009

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

Board of Directors

Messrs Ignatius T C Chan and John M M Williamson were elected as Directors by Shareholders at the 2009 AGM each for a term of approximately 3 years from 23 April 2009 until the conclusion of the annual general meeting to be held in 2012. On the same day, 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 annual general meeting to be held in 2011.

The Board would like to express its sincere gratitude to Messrs Henry H L Fan and Fong Hup and Dr Christine K W Loh for their invaluable contributions, advice and support rendered to HKEx over the past years.

Committees and Consultative Panels

Following the changes in the Board composition that took effect on 23 April 2009, the Board considered and appointed members to various Committees and Consultative Panels on 24 April 2009. The updated member list is available on the HKEx website.

The term of service of each Director with each Committee or Consultative Panel shall be coterminous with the individual's term of directorship with HKEx.

Other Changes in Directors' Information

Other changes in Directors' information since the date of the 2008 Annual Report are set out below.

	Appointment (effective)	Cessation of Office (effective)
Ronald J Arculli		
• The Hong Kong Mortgage Corporation Limited – non-executive director	–	16 Apr 2009
Laura M L Cha		
• Baoshan Iron & Steel Co Ltd (listed on the Shanghai Stock Exchange) – non-executive director	–	28 Apr 2009
Moses M C Cheng		
• Education Commission – chairman	1 May 2009	–
Henry H L Fan		
• Mandatory Provident Fund Schemes Authority – chairman	–	17 Mar 2009
• SFC – chairman of Takeovers and Mergers Panel, ex-officio member of Nominations Committee and member of Takeovers Appeal Committee	–	1 Apr 2009
• CITIC Pacific Limited – managing director	–	8 Apr 2009
• Cathay Pacific Airways Limited – deputy chairman	–	9 Apr 2009
Stephen C C Hui		
• SEHK – member of Listing Committee and GEM Listing Committee	–	24 Apr 2009
Bill C P Kwok		
• HSBC Gyuertzeller Bank AG – non-executive director	–	1 Apr 2009
• Securities and Futures Appeals Tribunal – member	–	1 Apr 2009
Vincent K H Lee		
• Kingway Brewery Holdings Limited – non-executive director	13 Mar 2009	–
• Securities and Futures Appeals Tribunal – member	–	1 Apr 2009
John E Strickland		
• Yoma Strategic Holdings Ltd (listed on the Singapore Exchange) – non-executive director	–	4 May 2009

Directors' updated biographies are available on the HKEx website.

Save for the information disclosed in this section "Board and Committees", there is no other information required to be disclosed pursuant to Rule 13.51B (1) of the Main Board Listing Rules.

Listing

Combined Consultation on Proposed Changes to the Listing Rules

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

Report on CG Code Implementation

On 20 February 2009, the Exchange published its findings on its third review of issuers' corporate governance practices. The review included an analysis of the disclosure of corporate governance practices of 1,213 issuers in their 2007 annual reports. The findings revealed that issuers have continued to improve their corporate governance practices by not only choosing to comply with the code provisions in the CG Code but also adopting many of the recommended best practices.

Consultation on Periodic Reporting

The Listing Committee views quarterly financial reporting as a long-term goal to ensure a regular flow of timely information of issuers' financial performance and position. In the interim, the Exchange will explore various approaches and undertake a further consultation with stakeholders on the alternatives to quarterly financial reporting.

Review of Chapter 18 of the Main Board Listing Rules ("Chapter 18")

The Exchange has engaged external mineral consultants to review the listing requirements and disclosure obligations for mineral companies, as contained in Chapter 18. Market consultation on the proposed amendments, based on the consultants' recommendations, would be released in the first half of 2009.

WPIP Implementation

The Exchange continues working with the SFC with a view to consulting the market on codifying the requirement in the Listing Rules to post a WPIP on the HKEx website prior to the issue of an IPO prospectus.

Listing Rules and Related Process Review

An action plan has been drawn up for the Listing Committee to consider in detail the recommendations of the consultant engaged by the Board to conduct a strategic review of the Listing Rules and their application. The objective of the review is to identify possible means of enhancing the competitiveness of the Exchange as an international listing venue without sacrificing the quality of Hong Kong's securities market. Initiatives endorsed by the Listing Committee will be pursued as a high priority.

In addition, the Exchange is considering a number of issues relating to the Listing Rules, namely: (i) possible streamlining of the Main Board IPO process and the current documentary requirements; (ii) the continuing disclosure obligation; (iii) a framework for acceptance of PRC accounting and auditing standards and audit firms for PRC companies listed in Hong Kong; (iv) a review of CG Code in relation to the role of company secretaries and standing board committees; and (v) the various proposals made by investment banks to streamline the rights issues process and timetable.

Cash Market

Market Performance

In the first three months of 2009, 7 companies were newly listed on the Main Board (none on GEM) and 2 Main Board companies were delisted. Total capital raised, including post-listing funds, reached \$16.2 billion. As at 31 March 2009, 1,092 and 174 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about \$10,127.7 billion. In addition, there were 2,510 DWs, 1,513 CBBCs, 7 REITs, 24 ETFs and 171 debt securities listed as at 31 March 2009. The average daily turnover in the first three months of 2009 was about \$44.7 billion on the Main Board and about \$70 million on GEM.

Suspension of CAS

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

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, including improvements to the 2 per cent price control mechanism. Any future proposals concerning the CAS will be put forward for public consultation before implementation.

Expansion of Market Education on Securities Products

HKEx expanded the education materials on its 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.

Derivatives Market

Market Performance

On 31 March 2009, the open interest for all futures and options was 4,799,594 contracts, up 11 per cent from 31 December 2008. The Mini-HSI Options posted a record open interest of 7,929 contracts on 27 March 2009. On 25 March 2009, the total futures and options turnover volume surpassed the 1 million contract mark for the first time in 2009, to 1,041,593 contracts, against the record high of 1,180,005 contracts achieved on 26 March 2008.

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 the HSCEI. With the relief, EPs may now offer and sell mini futures contracts based on the HSI and HSCEI in the US by observing the relevant CFTC rules. The liquidity for both contracts is likely to increase with the participation of US investors. Similar no-action reliefs were granted to HSI Futures and H-shares Index Futures by the CFTC in June 1994 and September 2006 respectively.

Change in Closing Hours for Stock Index Futures and Options

Following the suspension of the CAS in the securities market effective 23 March 2009, the closing time for stock index futures and options (“SIFO”) was reset to 4:15 pm for full-day trading and 12:30 pm for half-day trading, ie, on the eves of Christmas, the New Year and Chinese New Year. The closing time of SIFO on the last trading day is 4:00 pm and 12:30 pm for full-day and half-day trading respectively. The typhoon arrangements for HKFE products were also revised accordingly such that trading will cease 15 minutes after the hoisting of typhoon signal number 8 or above during the morning session or afternoon session. There is no change to the method of determining the final settlement price for SIFO, which is the average of quotations of the underlying index taken at (i) 5-minute intervals from 5 minutes after the beginning of, and up to 5 minutes before the end of, the continuous trading session of the Stock Exchange; and (ii) the close of trading in the Stock Exchange on the last trading day.

Clearing

Participation Opens to Overseas Clearing Houses and Central Depositories

Overseas clearing houses and central depositories (collectively known as CSDs) can now apply to become HKSCC’s Clearing Agency Participants as custodians for Hong Kong-listed securities. Overseas CSDs will manage their account activities in CCASS electronically through CCASS terminals installed in their jurisdictions. For due diligence purposes, HKSCC will follow the international standard practice and require overseas CSDs to submit advice from their external lawyers in support of their applications to confirm that the overseas CSD seeking admission to HKSCC has the capacity under the laws of its jurisdiction to become an HKSCC Participant and will be subject to Hong Kong laws and the participant agreement executed with HKSCC.

Allowing overseas CSDs to open their own accounts in CCASS will provide an additional and lower cost option for the safe-keeping of overseas market participants’ Hong Kong-listed securities and may facilitate more order flow to Hong Kong.

Participant Services

Participant Training and Market Education

During the period under review, a total of 7 courses on AMS/3 and HKATS were held to familiarise EPs with the operation of the trading devices and the relevant rules and procedures. In addition, HKEx conducted 9 EP in-house briefing sessions and 2 seminars on products and services, which were attended by over 800 individuals.

To raise market awareness and to increase retail participation in Stock Options and Gold Futures, HKEx joined forces with 11 EPs to sponsor a series of promotional activities organised by a commercial radio station in the first quarter of 2009. The activities included air-time for advertisements on the radio, newspaper write-ups and a finale which was a one-day investment expo comprising of seminars, workshops and exhibition. It was held on 15 March 2009 and was attended by over 3,000 people.

EP Recruitment

Including the 4 and 9 Participants newly admitted to the Stock Exchange and the Futures Exchange respectively in the first three months of 2009, there were a total of 489 SEHK Participants and 157 HKFE Participants as at the end of March 2009.

Promotional Activities

Promoting Hong Kong Listings

In the first quarter of 2009, HKEx continued marketing activities on the Mainland and Taiwan to promote listings in Hong Kong.

Visits were made to Anhui, Chongqing, Fujian, Guangdong, Hebei, Hubei, Inner Mongolia, Jiangsu, Shanghai, Shanxi and Zhejiang in the Mainland to meet with prospective issuers and government-related organisations. Presentations were delivered at 9 events to promote listings in Hong Kong. HKEx co-organised with the local government a roundtable meeting in Wuhu on fund raising through the capital market. It also organised a workshop in Zhangjiang for fast-growing hi-tech enterprises.

Our market focus in Taiwan was on companies seeking funds to expand their Mainland-related operations. In March 2009, our team visited individual prospective issuers and intermediaries in Taipei and Taichung to promote the Exchange as an effective fund-raising platform.

On 31 March 2009, HKEx participated in a panel discussion at an international conference in Hong Kong to explain the increasing importance of the Hong Kong securities market for Mongolia's metals and mining companies to tap international funds.

Information Services

Pilot Programme for the Provision of Free Real-time Market Prices on Websites

The evaluation of proposals from the 12 companies short-listed from the Request for Expression of Interest process for the provision of free real-time market prices from the HKEx securities market on websites was completed and 3 Hong Kong and 3 Mainland companies have been further short-listed. Further discussion with those further short-listed companies to finalise the terms of the service is about to complete. It remains our plan to introduce the new service in the second half of 2009.

Mainland Market Data Collaboration Programme

The Mainland Market Data Collaboration Programme between HKEx and the Shanghai Stock Exchange ("SSE") came into effect on 1 January 2009. The aim of the programme is to raise the transparency of issuers whose shares are dually listed in the two markets, thereby increasing investor protection.

At the end of March 2009, there were a total of 18 HKEx real-time MDF vendors and 14 SSE Level-2 vendors under the programme. The services offered by the participating MDF information vendors include real-time and snapshot data services delivered via leased-lines, the Internet, mobile phones, personal digital assistants (PDAs), and pagers.

PRS Enhancement

In response to the findings of a survey conducted by HKEx in 2008, which indicated broad interest in additional derivatives market data among PRS subscribers, HKEx is in the process of improving the PRS data content and will roll out the enhanced system in the third quarter of 2009.

Information Technology

System Stability and Reliability

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

System Capacity Planning and Upgrade

In the Cash Market, although market turnover slowed down in the past few months, the AMS/3 order processing rate still remained at a relatively high level, as in early 2008, probably due to the active market-making activities of structured products. In this connection, the AMS/3 technical revamp and a new AMS/3 satellite system interface architecture are in progress for the further increase in the order processing rate by 100 per cent to about 3,000 orders per second. Correspondingly, CCASS/3 and MDF technical revamps are also being conducted to align with the AMS/3 technical revamp.

In the Derivatives Market, a further 50 per cent increase in HKATS capacity to about 8,100 orders per second was completed on 6 April 2009 to support active market-making activities in stock options. The capacity of PRS will also be upgraded correspondingly in the latter part of this year.

Independent Review of Derivatives Market Systems

Further to the completion of the independent reviews of its IT Governance and EDS in September 2008, HKEx is preparing for an independent review of its Derivatives Market systems, namely HKATS, DCASS and PRS, in the second quarter of 2009 for the purpose of the continued improvement of the robustness of HKEx's mission critical systems.

System Consolidation and Operational Efficiency

During the period under review, HKEx successfully implemented a number of internal workflow enhancements, including the e-Securities Declaration and Approval System, to further improve operational efficiency and quality. In order to be environmentally friendly, distribution of data centre reports has been made by electronic means as far as practicable.

HKEx Website Revamp

The revamp of the HKEx website under external advice is proceeding. The revamped website is planned for launch in the fourth quarter of 2009.

HKEx Data Centre and IT Office Consolidation

As part of the first phase to consolidate the IT infrastructure and various IT offices, the HKATS/DCASS primary data centre and the Derivatives IT office are being relocated from Central to Quarry Bay. The relocation will be completed in mid-2009.

Risk Management

Market Surveillance and Enforcement of Unusual Market Activities during CAS

To maintain an orderly, fair and transparent market, HKEx actively monitors unusual market activity. This included any unusual order input activities during the CAS before its suspension in March 2009. If the situation warrants, non-compliance cases are brought to the relevant disciplinary committee for appropriate action.

Under the Memorandum of Understanding 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 codes, rules and regulations made by the SFC relating to HKEx's Cash and Derivatives Markets and the SFC might make possible criminal prosecution and/or disciplinary action against licensed persons under its jurisdiction in respect of market misconduct matters.

The total number of market surveillance cases which have been referred to the SFC dropped from 40 cases in the fourth quarter of 2008 to 35 in the first quarter of 2009, including 18 cases relating to the CAS in both periods.

Treasury

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling \$46.3 billion on average for the three months ended 31 March 2009 (31 March 2008: \$82.5 billion).

As compared with 31 December 2008, the overall size of funds available for investment as at 31 March 2009 decreased by 29 per cent or \$15.7 billion to \$38.1 billion (31 December 2008: \$53.8 billion). Details of the asset allocation of the investments as at 31 March 2009 against those as at 31 December 2008 are set out below.

	Investment Fund Size \$ billion		Bonds		Cash or Bank Deposits		Global Equities	
	Mar 2009	Dec 2008	Mar 2009	Dec 2008	Mar 2009	Dec 2008	Mar 2009	Dec 2008
Corporate Funds	13.0	10.8	46%	50%	53%	48%	1%	2%
Margin Funds	23.8	41.8	39%	39%	61%	61%	0%	0%
Clearing House Funds	1.3	1.2	27%	30%	73%	70%	0%	0%
Total	38.1	53.8	41%	41%	59%	59%	0%	0%

BUSINESS REVIEW

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the Clearing House Funds and Margin Funds. Excluding equities and mutual funds held under the Corporate Funds (\$0.2 billion as at 31 March 2009 and at 31 December 2008), which have no maturity date, the maturity profiles of the remaining investments as at 31 March 2009 (\$37.9 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	
	Mar	Dec	Mar	Dec	Mar	Dec	Mar	Dec	Mar	Dec	Mar	Dec
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Corporate Funds	12.8	10.6	42%	42%	8%	4%	33%	37%	11%	11%	6%	6%
Margin Funds	23.8	41.8	41%	32%	11%	35%	47%	33%	1%	0%	0%	0%
Clearing House Funds	1.3	1.2	66%	66%	4%	13%	30%	21%	0%	0%	0%	0%
Total	37.9	53.6	43%	35%	10%	28%	41%	34%	4%	2%	2%	1%

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 31 March 2009, had a weighted average credit rating of Aa2 (31 December 2008: Aa2) and a weighted average maturity of 0.8 year (31 December 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 the first quarter of 2009 and the fourth quarter of 2008 was as follows:

	Average VaR \$ million		Highest VaR \$ million		Lowest VaR \$ million	
	Jan-Mar	Oct-Dec	Jan-Mar	Oct-Dec	Jan-Mar	Oct-Dec
	2009	2008	2009	2008	2009	2008
Corporate Funds	23.2	19.5	28.5	22.0	20.8	17.4
Margin Funds	20.2	27.9	22.2	31.3	17.9	24.5
Clearing House Funds	0.4	0.6	0.6	0.7	0.3	0.4

Details of the Group's net investment income are set out in the Revenue and Other Income section under the Financial Review and note 7 to the condensed consolidated accounts of this quarterly report.

FINANCIAL REVIEW

Overall Performance

	Note	Unaudited Three months ended 31 Mar 2009 \$'000	Unaudited Three months ended 31 Mar 2008 \$'000
RESULTS			
Revenue and other income:			
Income affected by market turnover	(A)	814,645	1,351,136
Stock Exchange listing fees	(B)	153,593	191,112
Income from sale of information	(C)	154,820	185,061
Other revenue	(D)	84,407	120,624
Net investment income	(E)	133,870	368,070
Gain on disposal of properties	(F)	–	68,641
		1,341,335	2,284,644
Operating expenses		354,407	382,559
Profit before taxation		986,928	1,902,085
Taxation		(152,689)	(252,344)
Profit attributable to shareholders		834,239	1,649,741

The Group recorded a profit attributable to shareholders of \$834 million in the first quarter of 2009 compared with \$1,650 million for the same period in 2008.

The drop in profit in the first quarter of 2009 was primarily attributable to lower turnover-related income resulting from the decrease in activities in the Cash and Derivatives Markets, and the lower net investment income due to the decrease in net interest income. Moreover, the one-off gain on the disposal of two properties in 2008 was not repeated in 2009.

Total operating expenses fell by 7 per cent during the period mainly due to lower staff costs but were partly offset by an increase in premises expenses.

Revenue and Other Income

(A) Income Affected by Market Turnover

	Unaudited Three months ended 31 Mar 2009 \$'000	Unaudited Three months ended 31 Mar 2008 \$'000	Change
Trading fees and trading tariff	495,831	866,110	(43%)
Clearing and settlement fees	256,828	420,807	(39%)
Depository, custody and nominee services fees	61,986	64,219	(3%)
Total	814,645	1,351,136	(40%)

The decrease in trading fees and trading tariff was mainly due to the lower market turnover in the Cash and Derivatives Markets in the first quarter of 2009 against the corresponding period last year.

Clearing and settlement fees are derived predominantly from Cash Market transactions. The decrease in clearing and settlement fees in 2009 was mainly due to the lower market turnover on the Cash Market. Despite being mostly ad valorem fees, clearing and settlement fees are also affected by the volume of settlement instructions and are subject to a minimum and a maximum fee per transaction and therefore may not always move exactly with changes in the turnover of the Cash Market. In 2009, clearing and settlement fees did not decrease by the same percentage as the turnover on the Cash Market since the drop in transaction value of settlement instructions was smaller, and a lower proportion of the value of exchange-traded transactions settled was subject to the maximum fee and a higher proportion of the value of exchange-traded transactions settled was subject to the minimum fee.

Depository, custody and nominee services fees decreased mainly due to lower eIPO handling fees and dividend collection fees, but the decrease was partly offset by the increase in corporate action fees and stock withdrawal fees. Other than the eIPO handling fees which are affected by the number of newly listed companies, the other fees are influenced by the level of Cash Market activity but do not move proportionately with changes in the turnover on the Cash Market as they vary mostly with the number of board lots rather than the value or turnover of the securities concerned, and many are subject to a maximum fee. Moreover, scrip fees are only chargeable on the net increase in individual Participants' aggregate holdings of the securities from one book closing date to the next, and thus are unusually large on the first book closing date after a new listing.

Key Market Indicators

	Three months ended 31 Mar 2009	Three months ended 31 Mar 2008	Change
Average daily turnover value on the Stock Exchange	\$44.7 billion	\$98.7 billion	(55%)
Average daily number of derivatives contracts traded on the Futures Exchange	195,499	205,853	(5%)
Average daily number of stock options contracts traded on the Stock Exchange	194,279	266,199	(27%)

(B) Stock Exchange Listing Fees

	Unaudited Three months ended 31 Mar 2009 \$'000	Unaudited Three months ended 31 Mar 2008 \$'000	Change
Annual listing fees	87,519	84,046	4%
Initial and subsequent issue listing fees	65,125	105,779	(38%)
Others	949	1,287	(26%)
Total	153,593	191,112	(20%)

The increase in annual listing fees was attributable to the higher number of listed companies. The drop in initial listing and subsequent issue listing fees was due to the decrease in the number of newly listed companies and DWs but was partly offset by the increase in the number of newly listed CBBCs.

Key Drivers for Annual Listing Fees

	As at 31 Mar 2009	As at 31 Mar 2008	Change
Number of companies listed on Main Board	1,092	1,055	4%
Number of companies listed on GEM	174	189	(8%)
Total	1,266	1,244	2%

Key Drivers for Initial and Subsequent Issue Listing Fees

	Three months ended 31 Mar 2009	Three months ended 31 Mar 2008	Change
Number of newly listed DWs	569	1,719	(67%)
Number of newly listed CBBCs	1,628	323	404%
Number of newly listed companies on Main Board	7	10	(30%)
Total equity funds raised on Main Board	\$16.0 billion	\$73.9 billion	(78%)
Total equity funds raised on GEM	\$0.2 billion	\$2.1 billion	(90%)

(C) Income from Sale of Information

	Unaudited Three months ended 31 Mar 2009 \$'000	Unaudited Three months ended 31 Mar 2008 \$'000	Change
Income from sale of information	154,820	185,061	(16%)

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

(D) Other Revenue

	Unaudited Three months ended 31 Mar 2009 \$'000	Unaudited Three months ended 31 Mar 2008 \$'000	Change
Network, terminal user, dataline and software sub-license fees	62,533	89,851	(30%)
Participants' subscription and application fees	8,779	8,528	3%
Brokerage on direct IPO allotments	205	3,734	(95%)
Trading booth user fees	3,581	2,397	49%
Accommodation income	1,524	8,916	(83%)
Sales of Trading Rights	3,500	3,000	17%
Miscellaneous revenue	4,285	4,198	2%
Total	84,407	120,624	(30%)

Network, terminal user, dataline and software sub-license fees dropped due to a decrease in sales of additional throttle.

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

Trading booth user fees rose as the monthly user fees were increased in 2009 to reflect the rental increase of the Trading Hall.

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

(E) Net Investment Income

	Unaudited Three months ended 31 Mar 2009 \$'000	Unaudited Three months ended 31 Mar 2008 \$'000	Change
Investment income	134,737	438,111	(69%)
Interest rebates to Participants	(867)	(70,041)	(99%)
Net investment income	133,870	368,070	(64%)

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

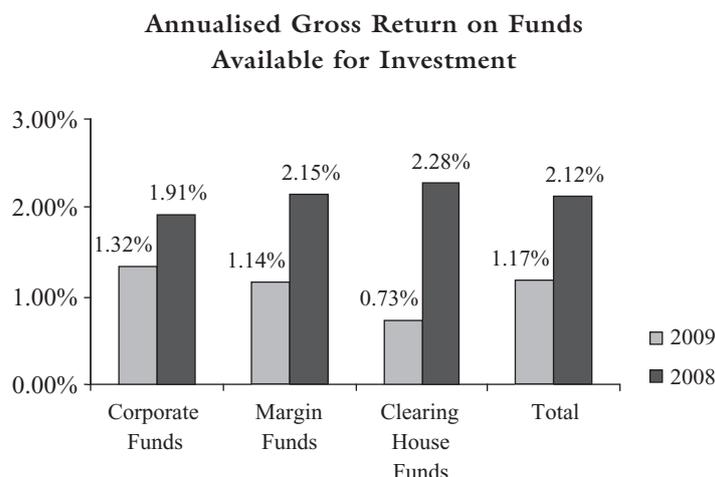
	Three months ended 31 Mar 2009 \$ billion	Three months ended 31 Mar 2008 \$ billion	Change
Corporate Funds	10.0	10.3	(3%)
Margin Funds	35.0	70.3	(50%)
Clearing House Funds	1.3	1.9	(32%)
Total	46.3	82.5	(44%)

The significant drop in average amount of Margin Funds available for investment during the period was primarily caused by decreased open interest in futures contracts and the lower margin rate required per contract.

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

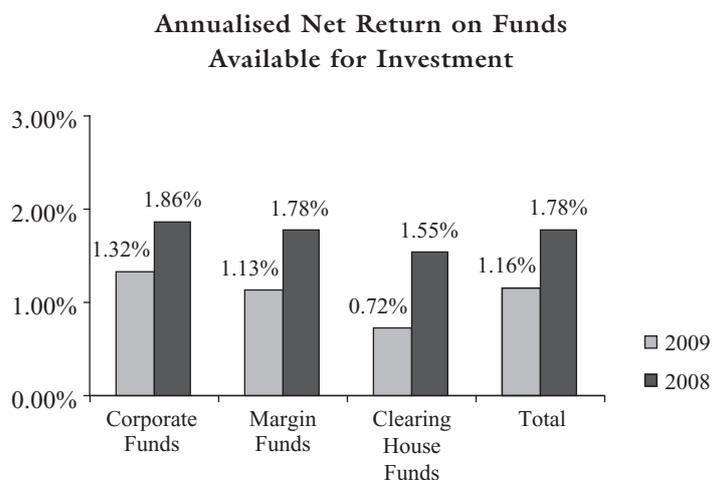
The lower net investment income was primarily due to the significant drop in net interest income of Corporate Funds and Margin Funds arising from the decrease in interest rates and the lower fund size during the first quarter of 2009 as compared with the corresponding period in 2008, but was partly offset by the increase in fair value gains of Corporate Fund investments, reflecting market movements.

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



The decrease in gross return of all funds was due to lower interest rates. The drop in gross return of the Corporate Funds was partly reduced by fair value gains of the Corporate Fund investments during the first quarter of 2009, as opposed to the fair value losses of the Corporate Fund investments in the corresponding previous period, reflecting market movements.

The annualised net return on funds available for investment after the deduction of interest rebates to Participants during the first quarter is set out below.



The net returns of all funds in 2009 were similar to the gross returns as very small amounts of interest rebates were paid to Participants since the rates of interest rebates (predominantly savings rate) fell to almost zero.

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

(F) Gain on Disposal of Properties

	Unaudited Three months ended 31 Mar 2009 \$'000	Unaudited Three months ended 31 Mar 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

	Unaudited Three months ended 31 Mar 2009 \$'000	Unaudited Three months ended 31 Mar 2008 \$'000	Change
Staff costs and related expenses	182,588	228,900	(20%)
Information technology and computer maintenance expenses	59,086	61,583	(4%)
Premises expenses	53,803	33,960	58%
Product marketing and promotion expenses	2,969	3,560	(17%)
Legal and professional fees	3,891	3,590	8%
Depreciation	24,843	23,663	5%
Other operating expenses	27,227	27,303	(0%)
Total	354,407	382,559	(7%)

Staff costs and related expenses decreased by \$46 million, primarily due to the reduction in performance bonus accrual on account of the lower profit of the Group in 2009.

Information technology and computer maintenance expenses of the Group, excluding costs of services and goods directly consumed by the Participants of \$25 million (2008: \$24 million), were \$34 million (2008: \$38 million). The lower costs of services and goods consumed by the Group were mainly due to a decrease in maintenance costs for AMS/3 following the expiry of one of the maintenance contracts. 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.

Taxation

	Unaudited Three months ended 31 Mar 2009 \$'000	Unaudited Three months ended 31 Mar 2008 \$'000	Change
Taxation	152,689	252,344	(39%)

Taxation fell mainly attributable to a drop in profit before taxation, but was partly offset by the decrease in non-taxable investment income.

Working Capital

Working capital increased by \$414 million or 6 per cent to \$7,611 million as at 31 March 2009 (31 December 2008: \$7,197 million). The increase was primarily due to the profit generated during the first quarter of 2009 of \$834 million but was offset by the increase in available-for-sale financial assets maturing over 1 year of \$150 million and the increase in Margin Fund financial assets maturing over 1 year of \$245 million, and the decrease in other working capital of \$25 million.

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 32(a)(i) – Foreign exchange risk management to the condensed consolidated accounts of this quarterly report.

Contingent Liabilities

Details of contingent liabilities are included in note 29 to the condensed consolidated accounts of this quarterly report.

Changes since 31 December 2008

There were no other significant changes in the Group's financial position and from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2008.

It is the Group's plan to declare dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the first quarter ended 31 March 2009 (first quarter of 2008: \$Nil).

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

Review of Accounts

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2009 in conjunction with HKEx's external auditor.

Management has appointed the external auditor to carry out certain agreed-upon procedures in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated financial statements for the three months ended 31 March 2009.

OPERATIONAL REVIEW

Organisational Changes

Mr Richard Williams, Head of Listing, left HKEx at the end of February 2009 for family reasons after joining HKEx for more than 6 years, and Mr Stewart Shing, who had been the Head of Clearing since December 2003, retired on 1 April 2009. We would like to thank them for their many noteworthy contributions to HKEx and their relentless effort in developing respectively the primary market and clearing services in Hong Kong during their service. Messrs Mark Dickens and Derrick Fung were appointed as their successors effective 1 March 2009 and 1 April 2009 respectively. Mr Gerald Greiner was appointed as the Chief Executive of HKSCC effective 1 April 2009 to succeed Mr Stewart Shing. The updated organisation chart is posted on the HKEx website.

Share Option Schemes

Details of the Share Option Schemes are set out in note 23(b) to the condensed consolidated accounts of this quarterly report. The share options granted under the two schemes, which remained outstanding as at 31 March 2009 are set out below.

Pre-Listing Scheme

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

No further options can be, or have been, granted under the Pre-Listing Scheme as from 27 June 2000, the date of listing of the HKEx shares on the Exchange.

Post-Listing Scheme

Date of Grant	Exercise Price (\$)	Number of Shares Issuable Under the Options				Exercise Period (Note 5)
		As at 1 Jan 2009	Issued upon Subscription during the three months ended 31 Mar 2009 (Note 4)	Lapsed during the three months ended 31 Mar 2009	As at 31 Mar 2009	
Employees (Note 3) 15 Jan 2004	17.30	273,500	–	–	273,500	15 Jan 2006 – 14 Jan 2014
31 Mar 2004	16.96	1,514,500	13,500 (Note 6)	–	1,501,000	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	90,500	–	2,577,000	26 Jan 2007 – 25 Jan 2015

Since the adoption of the Share Award Scheme on 14 September 2005, no further options have been granted under the Post-Listing Scheme.

No options granted under the Share Option Schemes were cancelled during the three months ended 31 March 2009.

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 \$66.02.
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. This excluded 41,500 shares which were exercised on 31 March 2009 but allotted on 1 April 2009.

Share Award Scheme

Details of the Share Award Scheme and the awards are set out in note 23(c) to the condensed consolidated accounts of this quarterly report.

Corporate Governance

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 governed by Section 77 of the SFO and HKEx’s Articles of Association respectively. Save as disclosed in this paragraph, HKEx has complied with all the code provisions and, where appropriate, adopted the recommended best practices, as set out in the CG Code contained in Appendix 14 to the Main Board Listing Rules throughout the review period.

As of 15 February 2009, HKEx’s Global Rating and Home Market Rating assigned by GovernanceMetrics International, a corporate governance ratings and research firm, were 8.0 and 10.0 respectively out of the maximum of 10.0.

We continue our commitment to make further progress in the evolution of our corporate governance practice and welcome comments from our stakeholders, which can be sent to us in writing or by email to ssd@hkex.com.hk.

CSR Development

In March 2009, we established a CSR section (www.hkex.com.hk/exchange/csr/csr.htm) on the HKEx website to disclose our CSR philosophy and related activities as well as the latest CSR developments within the Company. Our first stand alone CSR Report was published in March 2009 to provide a highlight of the most important CSR achievements in 2008, which is posted on the HKEx website under the CSR section. Our stakeholders are invited to give their comments on the 2008 CSR Report by completing the feedback form on the HKEx website at www.hkex.com.hk/exchange/csr/csr_reporting.htm to enable us to improve our future reports.

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

PROSPECTS

The persistence of negative market sentiment had a significant impact on both the primary and secondary markets in the first quarter of 2009. The total funds raised and the average daily turnover value during this period on the Stock Exchange dropped by 93 per cent and 12 per cent respectively from the last quarter of 2008. The plunge in global consumption was magnified by worsening unemployment and tighter credit conditions which caused aggressive business retrenchment in most economies. There seems little doubt that but for massive intervention by many governments, conditions would have been far worse. The latest news does not indicate that the grip of a deep contraction has yet to ease. The Financial Secretary in his Budget Speech forecast a 2 to 3 per cent decrease in Hong Kong's GDP (Gross Domestic Product) for 2009 and the first negative growth for the whole year since the Asian financial turmoil in 1998. Despite glimmers of hope that global fiscal policy stimulus may be working, with the economy sinking into recession, HKEx's financial performance is likely to be adversely affected.

Despite the difficulties ahead, HKEx continues to work hard to ensure it operates a quality market built on a solid financial infrastructure with sound products and services to bolster confidence in our marketplace. Internally, we adhere to prudent risk management practices to safeguard our stakeholders' interests. Additionally, we have conducted a strategic review of the Listing Rules and their application to enhance our competitiveness. Externally, HKEx is continuing to explore new opportunities, including introducing innovative products such as options with flexible features and emissions-related products. Amid the global financial turmoil, the number of IPOs slightly increased from 5 in the last quarter of 2008 to 7 during the first quarter of 2009. It is particularly encouraging that HKEx was named in February 2009 as the "Stock Exchange of the Year" in *The Asset* Triple A Transaction Banking Awards 2009.

HKEx signed a Closer Cooperation Agreement with the Shanghai Stock Exchange and the Shenzhen Stock Exchange respectively in January and April 2009. We are committed to working together more closely towards the common goals of meeting the domestic and international fund-raising needs of Chinese enterprises for their continued development, and contributing to the greater development of China's economy. The Central Government has demonstrated its strong support of Hong Kong, and is taking active steps to stimulate growth. HKEx will work more closely with the Mainland authorities and exchanges to seek closer cooperation and mutual benefits for our securities markets.

While our 2007-2009 Strategic Plan remains in place to achieve sustainable organic growth, we are developing our third Three-Year Strategic Plan for 2010-2012, which will include reaffirming our focus on market quality, our core businesses and system excellence to prepare ourselves to take advantage of new opportunities that may emerge from the new financial order.

Ronald Joseph ARCULLI
Chairman

Hong Kong, 13 May 2009

DISCLOSURE OF INTERESTS

Compliance with Model Code

HKEx has adopted the Model Code as its own code of conduct regarding Directors' securities transactions for compliance by Directors. In response to the specific enquiry by the Company, all Directors confirmed that they complied with the required standard set out in the Model Code throughout the three-month period ended 31 March 2009.

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

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

Long Positions in Shares and Underlying Shares of HKEx

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

Notes:

1. It is based on 1,075,006,346 shares of HKEx in issue as at 31 March 2009.
2. It included Mr Chow's interests in 12,846 Awarded Shares and 847 shares further acquired by reinvesting the dividends received therefrom according to the Share Award Scheme. Details of Mr Chow's Awarded Shares are set out in note 23(c) to the condensed consolidated accounts of this quarterly report.
3. Such shares were held by Mr Strickland as beneficial owner.

Save for those disclosed above, as at 31 March 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 Option Schemes and the Share Award Scheme, at no time during the period was HKEx or 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. Save for the disclosed, none of the Directors or the Chief Executive (including their spouses and children under the age of 18), during the three months ended 31 March 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 the SFO, or had exercised any such rights.

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

As at 31 March 2009, the interests and short positions of other persons in the shares and underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange are set out below.

Long Positions in Shares and Underlying Shares of HKEx

Name	Capacity	Number of Shares/ Underlying Shares Held	Total	% of the Issued Share Capital (Note 1)
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	62,919,500 (Note 2)	62,919,500	5.85

Notes:

1. It is based on 1,075,006,346 shares of HKEx in issue as at 31 March 2009.
2. This is based on a Disclosure of Interests filing made by the Government on 10 September 2007 which it stated was voluntary.

Save for those disclosed above, as at 31 March 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.

Minority Controllers

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

In March 2009, an entity obtained the SFC's approval for it to become a Minority Controller. As at the date of this quarterly report, the SFC has only granted approval to 6 entities to be the 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 March 2009, the 6 (31 March 2008: 5) approved Minority Controllers in aggregate held 62.20 per cent of HKEx's issued share capital (31 March 2008: 56.34 per cent).

Purchase, Sale or Redemption of HKEx's Listed Securities

During the three months ended 31 March 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 59,900 HKEx shares at a total consideration of about \$4.9 million.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Three months ended 31 Mar 2009 \$'000	Unaudited Three months ended 31 Mar 2008 \$'000
Trading fees and trading tariff	4	495,831	866,110
Stock Exchange listing fees	5	153,593	191,112
Clearing and settlement fees		256,828	420,807
Depository, custody and nominee services fees		61,986	64,219
Income from sale of information		154,820	185,061
Other revenue	6	84,407	120,624
REVENUE		1,207,465	1,847,933
Investment income		134,737	438,111
Interest rebates to Participants		(867)	(70,041)
Net investment income	7	133,870	368,070
Gain on disposal of properties	8	-	68,641
	3	1,341,335	2,284,644
OPERATING EXPENSES			
Staff costs and related expenses	9	182,588	228,900
Information technology and computer maintenance expenses	10	59,086	61,583
Premises expenses		53,803	33,960
Product marketing and promotion expenses		2,969	3,560
Legal and professional fees		3,891	3,590
Depreciation		24,843	23,663
Other operating expenses	11	27,227	27,303
	3	354,407	382,559
PROFIT BEFORE TAXATION	3	986,928	1,902,085
TAXATION	12	(152,689)	(252,344)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	26	834,239	1,649,741
Basic earnings per share	13(a)	\$0.78	\$1.54
Diluted earnings per share	13(b)	\$0.77	\$1.53

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Three months ended 31 Mar 2009 \$'000	Unaudited Three months ended 31 Mar 2008 \$'000
Profit attributable to shareholders	834,239	1,649,741
Other comprehensive income:		
Available-for-sale financial assets:		
Change in fair value during the period	(46,933)	56,821
Change in fair value on maturity	(15,029)	(15,155)
Less: Reclassification adjustment:		
Gains included in profit or loss on disposal	-	(4,678)
Deferred tax	10,223	(5,828)
Other comprehensive income attributable to shareholders, net of tax	(51,739)	31,160
Total comprehensive income attributable to shareholders	782,500	1,680,901

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Share capital, share premium and shares held for Share Award Scheme (note 22) \$'000	Employee share-based compensation reserve (note 23) \$'000	Other comprehensive income Revaluation reserve (note 24) \$'000	Designated reserves (note 25) \$'000	Retained earnings (note 26) \$'000	Total equity \$'000
At 1 Jan 2009	1,356,534	47,032	96,681	552,383	5,242,692	7,295,322
Total comprehensive income attributable to shareholders	-	-	(51,739)	-	834,239	782,500
Shares issued under employee share option schemes	2,081	-	-	-	-	2,081
Shares purchased for Share Award Scheme	(4,909)	-	-	-	-	(4,909)
Vesting of shares of Share Award Scheme	553	(513)	-	-	(40)	-
Employee share-based compensation benefits	-	7,246	-	-	-	7,246
Transfer of reserves	479	(479)	-	2,545	(2,545)	-
At 31 Mar 2009	1,354,738	53,286	44,942	554,928	6,074,346	8,082,240

	Unaudited					
	Share capital, share premium and shares held for Share Award Scheme \$'000	Employee share-based compensation reserve \$'000	Other comprehensive income Revaluation reserves \$'000	Designated reserves \$'000	Retained earnings \$'000	Total equity \$'000
At 1 Jan 2008	1,288,652	49,669	56,036	694,853	6,288,138	8,377,348
Total comprehensive income attributable to shareholders	-	-	31,160	-	1,649,741	1,680,901
Shares issued under employee share option schemes	18,806	-	-	-	-	18,806
Shares purchased for Share Award Scheme	(25,298)	-	-	-	-	(25,298)
Employee share-based compensation benefits	-	6,278	-	-	-	6,278
Transfer of reserves	5,102	(5,102)	(3,155)	7,162	(4,007)	-
At 31 Mar 2008	1,287,262	50,845	84,041	702,015	7,933,872	10,058,035

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited at 31 Mar 2009 \$'000	Audited at 31 Dec 2008 \$'000
NON-CURRENT ASSETS			
Fixed assets	14	291,712	311,179
Lease premium for land		60,071	60,199
Financial assets of Margin Funds on derivatives contracts	15(b)	245,207	–
Available-for-sale financial assets	16	150,176	–
Time deposit with maturity over one year		206	–
Deferred tax assets		4,177	4,429
Other financial assets		48,479	47,172
Other assets		3,207	3,207
		803,235	426,186
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	17	8,056,699	8,526,557
Lease premium for land		509	509
Tax recoverable		26,752	–
Financial assets of Clearing House Funds	18	417,219	393,202
Cash and cash equivalents of Clearing House Funds	18	903,350	843,109
		1,320,569	1,236,311
Financial assets of Margin Funds on derivatives contracts	15(b)	12,455,711	19,655,161
Cash and cash equivalents of Margin Funds on derivatives contracts	15	11,058,744	22,184,833
		23,514,455	41,839,994
Financial assets at fair value through profit or loss	19	3,167,630	3,020,035
Available-for-sale financial assets	16	2,921,573	2,581,683
Time deposits with original maturities over three months		606,904	436,896
Cash and cash equivalents		6,156,068	4,755,750
		45,771,159	62,397,735
CURRENT LIABILITIES			
Participants' contributions to Clearing House Funds	18	308,877	197,520
Other financial liabilities of Clearing House Funds	18	35,891	72,319
Margin deposits from Clearing Participants on derivatives contracts	15	23,759,662	41,839,991
Other financial liabilities of Margin Funds on derivatives contracts	15	–	3
Accounts payable, accruals and other liabilities	20	13,508,675	12,410,854
Financial liabilities at fair value through profit or loss	19	12,712	26,254
Participants' admission fees received		83,800	83,150
Deferred revenue		336,320	392,688
Taxation payable		81,033	141,363
Provisions	21	33,391	36,290
		38,160,361	55,200,432
NET CURRENT ASSETS		7,610,798	7,197,303
TOTAL ASSETS LESS CURRENT LIABILITIES		8,414,033	7,623,489

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited at 31 Mar 2009 \$'000	Audited at 31 Dec 2008 \$'000
NON-CURRENT LIABILITIES			
Participants' contributions to Clearing House Funds	18	259,500	252,000
Deferred tax liabilities		26,542	30,775
Financial guarantee contract	29(b)	19,909	19,909
Provisions	21	25,842	25,483
		331,793	328,167
NET ASSETS			
		8,082,240	7,295,322
CAPITAL AND RESERVES			
Share capital	22	1,075,006	1,074,886
Share premium	22	349,342	346,902
Shares held for Share Award Scheme	22	(69,610)	(65,254)
Employee share-based compensation reserve	23	53,286	47,032
Revaluation reserve	24	44,942	96,681
Designated reserves	25	554,928	552,383
Retained earnings	26	6,074,346	5,242,692
SHAREHOLDERS' FUNDS			
		8,082,240	7,295,322
TOTAL ASSETS			
	3(c)	46,574,394	62,823,921
TOTAL LIABILITIES			
		38,492,154	55,528,599
SHAREHOLDERS' FUNDS PER SHARE			
		\$7.53	\$6.79

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited Three months ended 31 Mar 2009 \$'000	Unaudited Three months ended 31 Mar 2008 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	27	1,846,950	1,103,410
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		(19,945)	(140,354)
Net proceeds from sales of properties		-	132,733
Increase in time deposits with original maturities more than three months		(170,214)	(708,054)
Net (increase)/decrease in available-for-sale financial assets of the Corporate Funds:			
Payments for purchases of available-for-sale financial assets		(509,703)	(1,215,868)
Net proceeds from maturity of available-for-sale financial assets		173,000	1,331,000
Interest received from available-for-sale financial assets		83,097	172,046
Net cash outflow from investing activities		(443,765)	(428,497)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		2,081	18,806
Purchase of shares for Share Award Scheme		(4,909)	(25,298)
Dividends paid		(39)	(3)
Net cash outflow from financing activities		(2,867)	(6,495)
Net increase in cash and cash equivalents		1,400,318	668,418
Cash and cash equivalents at 1 Jan		4,755,750	4,744,711
Cash and cash equivalents at 31 Mar		6,156,068	5,413,129
Analysis of cash and cash equivalents			
Time deposits with original maturities within three months		852,766	3,178,941
Cash at bank and in hand		5,303,302	2,234,188
Cash and cash equivalents at 31 Mar		6,156,068	5,413,129

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 CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED)

1. Basis of Preparation and Accounting Policies

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

These unaudited condensed consolidated accounts should be read in conjunction with the 2008 annual accounts. The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2008.

2. Turnover

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

3. Operating Segments

Hong Kong Exchanges and Clearing Limited (“HKEx”) and its subsidiaries (“Group”) determine their operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group has four reportable segments. The segments are managed separately as each business offers different products and services and requires different information technology systems and marketing strategies. The following summary describes the operations in each of the Group’s reportable segments:

The **Cash Market** business mainly refers to the operations of the Stock Exchange, which covers all products traded on the Cash Market platforms, such as equities, debt securities, unit trusts, callable bull/bear contracts (“CBCBs”), 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 5.

The **Derivatives Market** business refers to the derivatives products traded on the Futures Exchange and stock options traded on the Stock Exchange, which includes the provision and maintenance of trading platforms for a range of derivatives products, such as stock and equity index futures and options, and interest rate, 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 Hong Kong Securities Clearing Company Limited (“HKSCC”), The SEHK Options Clearing House Limited (“SEOCH”) and HKFE Clearing Corporation Limited (“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.

3. Operating Segments (continued)

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

	Three months ended 31 Mar 2009					Group \$'000
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Inter-segment elimination (note b) \$'000	
Income from external customers	537,525	166,722	348,218	155,000	-	1,207,465
Net investment income	15,328	101,206	20,013	77	(2,754)	133,870
	552,853	267,928	368,231	155,077	(2,754)	1,341,335
Operating expenses						
Direct costs	142,632	37,843	81,738	11,388	(2,754)	270,847
Indirect costs	39,464	13,586	24,239	6,271	-	83,560
	182,096	51,429	105,977	17,659	(2,754)	354,407
Reportable segment profit before taxation	370,757	216,499	262,254	137,418	-	986,928

	Three months ended 31 Mar 2008					Group \$'000
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000		
Income from external customers	961,489	181,793	519,451	185,200		1,847,933
Net investment income	30,081	318,757	19,134	98		368,070
Gain on disposal of properties	33,442	11,580	19,116	4,503		68,641
	1,025,012	512,130	557,701	189,801		2,284,644
Operating expenses						
Direct costs	148,621	36,967	89,726	14,094		289,408
Indirect costs	45,405	15,893	25,918	5,935		93,151
	194,026	52,860	115,644	20,029		382,559
Reportable segment profit before taxation	830,986	459,270	442,057	169,772		1,902,085

- (a) The accounting policies of the reportable segments are the same as the Group's accounting policies. Central income (mainly net investment income of the Corporate Funds) and central costs (mainly costs of support functions that centrally provide services to all of the operating segments) are allocated to the operating segments as they are included in the measure of the segments' profit that is used by the chief operating decision-makers for the purposes of resource allocation and assessment of segment performance. Performance is measured based on segment profit before taxation. Taxation charge/(credit) is not allocated to reportable segments.
- (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 ("LBSA"). There were no inter-segment sales and charges during the three-month period ended 31 March 2008.

3. Operating Segments (continued)

(c) Reportable segment assets

The assets of the Group are allocated based on the operations of the segments. Central assets are generally allocated to the segments, but deferred tax assets and tax recoverable are not allocated to the segments. An analysis of the Group's reportable segment assets by operating segment is as follows:

	At 31 Mar 2009				
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Group \$'000
Reportable segment assets	4,608,173	24,445,961	17,378,173	111,158	46,543,465

	At 31 Dec 2008				
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Group \$'000
Reportable segment assets	6,204,197	42,724,783	13,777,418	113,094	62,819,492

Reportable segment assets are reconciled to total assets of the Group as follows:

	At 31 Mar 2009 \$'000	At 31 Dec 2008 \$'000
Reportable segment assets	46,543,465	62,819,492
Unallocated assets:		
Tax recoverable	26,752	–
Deferred tax assets	4,177	4,429
Total assets per condensed consolidated statement of financial position	46,574,394	62,823,921

4. Trading Fees and Trading Tariff

	Three months ended 31 Mar 2009 \$'000	Three months ended 31 Mar 2008 \$'000
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	319,166	671,032
Derivatives contracts traded on the Derivatives Market	176,665	195,078
	495,831	866,110

5. Stock Exchange Listing Fees

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

	Three months ended 31 Mar 2009				Three months ended 31 Mar 2008			
	Equity		CBBCs, Derivative warrants and others	Total	Equity		CBBCs, Derivative warrants and others	Total
	Main Board	GEM			Main Board	GEM		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Stock Exchange Listing Fees								
Annual listing fees	81,211	5,710	598	87,519	77,030	6,393	623	84,046
Initial and subsequent issue listing fees	18,659	340	46,126	65,125	15,869	1,170	88,740	105,779
Prospectus vetting fees	570	75	-	645	570	75	10	655
Other listing fees	288	16	-	304	406	226	-	632
Total	100,728	6,141	46,724	153,593	93,875	7,864	89,373	191,112
Costs of Listing Function								
<u>Direct costs</u>								
Staff costs and related expenses	39,791	8,337	2,788	50,916	47,640	9,278	3,617	60,535
Information technology and computer maintenance expenses	1,460	288	57	1,805	1,107	225	74	1,406
Premises expenses	7,859	1,696	382	9,937	4,518	863	208	5,589
Legal and professional fees	1,062	365	-	1,427	1,483	18	-	1,501
Depreciation	1,039	291	418	1,748	991	267	240	1,498
Other operating expenses	1,604	465	103	2,172	1,547	402	209	2,158
Total direct costs	52,815	11,442	3,748	68,005	57,286	11,053	4,348	72,687
Total indirect costs	8,551	1,475	1,684	11,710	9,056	1,596	2,780	13,432
Total costs	61,366	12,917	5,432	79,715	66,342	12,649	7,128	86,119
Contribution to Cash Market								
Segment Profit before Taxation	39,362	(6,776)	41,292	73,878	27,533	(4,785)	82,245	104,993

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 Initial Public Offerings (“IPOs”) and enforcing the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Main Board Listing Rules”) and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and disseminating information relating to listed companies. Indirect costs comprise costs of support services and other central overheads attributable to the Listing Function.

6. Other Revenue

	Three months ended 31 Mar 2009 \$'000	Three months ended 31 Mar 2008 \$'000
Network, terminal user, dataline and software sub-license fees	62,533	89,851
Participants' subscription and application fees	8,779	8,528
Brokerage on direct IPO allotments	205	3,734
Trading booth user fees	3,581	2,397
Accommodation income on securities deposited by Participants as alternatives to cash deposits of Margin Funds	1,524	8,916
Sales of Trading Rights	3,500	3,000
Miscellaneous revenue	4,285	4,198
	84,407	120,624

7. Net Investment Income

	Three months ended 31 Mar 2009 \$'000	Three months ended 31 Mar 2008 \$'000
Interest income		
– bank deposits	28,846	247,454
– listed available-for-sale financial assets	3,138	2,526
– unlisted available-for-sale financial assets	88,569	189,001
	120,553	438,981
Interest rebates to Participants	(867)	(70,041)
Net interest income	119,686	368,940
Net realised and unrealised gains/(losses) and interest income on financial assets and financial liabilities at fair value through profit or loss, held for trading		
– listed securities	12,550	(25,429)
– unlisted securities	9,091	18,194
– exchange differences	(7,971)	1,906
	13,670	(5,329)
Realised gains on disposal of unlisted available-for-sale financial assets	–	1,437
Dividend income from listed financial assets at fair value through profit or loss	685	1,450
Other exchange differences on loans and receivables	(171)	1,572
Net investment income	133,870	368,070
Net investment income was derived from:		
Corporate Funds	32,769	48,234
Margin Funds	98,832	312,614
Clearing House Funds	2,269	7,222
	133,870	368,070

8. Gain on Disposal of Properties

The Group sold an investment property and one of the leasehold properties in the first quarter of 2008, generating a gain of \$68,641,000.

9. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Three months ended 31 Mar 2009 \$'000	Three months ended 31 Mar 2008 \$'000
Salaries and other short-term employee benefits	159,776	207,601
Employee share-based compensation benefits (note 23)		
– employee share options	364	1,961
– Awarded Shares	6,882	4,317
	7,246	6,278
Termination benefits	177	34
Retirement benefit costs (note a):		
– ORSO Plan	15,269	14,855
– MPF Scheme	120	132
	182,588	228,900

- (a) The Group has sponsored two defined contribution post-retirement benefit plans – the Hong Kong Exchanges and Clearing Provident Fund Scheme (“ORSO Plan”) and the AIA-JF Premium MPF Scheme (“MPF Scheme”). The retirement benefit costs charged to the condensed consolidated income statement represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees. No contribution to the MPF Scheme and the ORSO Plan was outstanding as at 31 March 2009 (31 December 2008: \$109,000 and \$Nil respectively).

10. Information Technology and Computer Maintenance Expenses

	Three months ended 31 Mar 2009 \$'000	Three months ended 31 Mar 2008 \$'000
Costs of services and goods:		
– consumed by the Group	34,359	37,666
– directly consumed by Participants	24,727	23,917
	59,086	61,583

11. Other Operating Expenses

	Three months ended 31 Mar 2009 \$'000	Three months ended 31 Mar 2008 \$'000
Reversal of provision for impairment losses of trade receivables	(279)	(96)
Insurance	1,145	1,172
Financial data subscription fees	1,275	1,119
Custodian and fund management fees	2,815	3,116
Bank charges	1,668	3,033
Repair and maintenance expenses	2,274	2,172
License fees	4,611	4,835
Communication expenses	1,223	1,096
Other miscellaneous expenses	12,495	10,856
	27,227	27,303

12. Taxation

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

	Three months ended 31 Mar 2009 \$'000	Three months ended 31 Mar 2008 \$'000
Provision for Hong Kong Profits Tax for the period (note a)	146,447	263,113
Deferred taxation	6,242	(10,769)
	152,689	252,344

- (a) Hong Kong Profits Tax has been provided for at 16.5 per cent (2008: 17.5 per cent) on the estimated assessable profit for the period.

13. Earnings Per Share

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

- (a) Basic earnings per share

	Three months ended 31 Mar 2009	Three months ended 31 Mar 2008
Profit attributable to shareholders (\$'000)	834,239	1,649,741
Weighted average number of shares in issue less shares held for Share Award Scheme	1,073,940,769	1,069,784,647
Basic earnings per share	\$0.78	\$1.54

- (b) Diluted earnings per share

	Three months ended 31 Mar 2009	Three months ended 31 Mar 2008
Profit attributable to shareholders (\$'000)	834,239	1,649,741
Weighted average number of shares in issue less shares held for Share Award Scheme	1,073,940,769	1,069,784,647
Effect of employee share options	3,368,753	7,873,868
Effect of Awarded Shares	906,239	1,118,822
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,078,215,761	1,078,777,337
Diluted earnings per share	\$0.77	\$1.53

14. Fixed Assets

The Group is heavily reliant on the capability and reliability of its computer systems for its business operations, including those required for its electronic trading platforms and for post-trading clearing and settlement services. The total cost of additions to fixed assets of the Group during the three months to 31 March 2009 was \$5,376,000 (2008: \$6,521,000). The total cost and net book value of disposals and write-offs of fixed assets during the three months to 31 March 2009 were \$1,963,000 and \$Nil respectively (2008: \$4,868,000 and \$Nil respectively).

15. Margin Funds on Derivatives Contracts

	At 31 Mar 2009 \$'000	At 31 Dec 2008 \$'000
The Margin Funds comprised (note a):		
SEOCH Clearing Participants' Margin Funds	3,825,079	3,735,254
HKCC Clearing Participants' Margin Funds	19,934,583	38,104,737
	23,759,662	41,839,991
The net assets of the Margin Funds comprised:		
Available-for-sale financial assets:		
Debt securities, at market value:		
– listed outside Hong Kong	276,225	324,301
– unlisted	9,002,885	16,116,617
Time deposits with original maturities over three months	3,411,337	3,205,408
Margin receivable from Clearing Participants	10,471	8,835
Financial assets of Margin Funds (note b)	12,700,918	19,655,161
Cash and cash equivalents	11,058,744	22,184,833
	23,759,662	41,839,994
Less: Other financial liabilities of Margin Funds	–	(3)
	23,759,662	41,839,991
The Group's liabilities in respect of the Margin Funds were as follows:		
Margin deposits from SEOCH and HKCC Participants on derivatives contracts	23,759,662	41,839,991

(a) Amounts excluded non-cash collateral received and utilised as alternative to cash margin (note 30).

(b) The maturity profile of the financial assets of Margin Funds was as follows:

	At 31 Mar 2009 \$'000	At 31 Dec 2008 \$'000
Amounts maturing after more than twelve months	245,207	–
Amounts maturing within twelve months	12,455,711	19,655,161
	12,700,918	19,655,161

16. Available-for-sale Financial Assets

	At 31 Mar 2009 \$'000	At 31 Dec 2008 \$'000
Debt securities, at market value		
– listed outside Hong Kong	159,440	160,601
– unlisted	2,912,309	2,421,082
	3,071,749	2,581,683
Analysis of available-for-sale financial assets:		
Non-current portion maturing after twelve months	150,176	–
Current portion maturing within twelve months	2,921,573	2,581,683
	3,071,749	2,581,683

17. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement ("CNS") money obligations receivable under the T+2 settlement cycle, which accounted for 93 per cent (31 December 2008: 93 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 30 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits would mature within three months.

18. Clearing House Funds

	At 31 Mar 2009 \$'000	At 31 Dec 2008 \$'000
The Clearing House Funds comprised the following Funds (notes a and b):		
HKSCC Guarantee Fund	215,838	215,573
SEOCH Reserve Fund	311,601	208,291
HKCC Reserve Fund	596,294	578,853
	1,123,733	1,002,717
The Clearing House Funds were composed of:		
Available-for-sale financial assets:		
Unlisted debt securities, at market value	353,284	371,494
Time deposits with original maturities over three months	63,935	21,708
Financial assets of Clearing House Funds (note c)	417,219	393,202
Cash and cash equivalents	903,350	843,109
	1,320,569	1,236,311
Less: Other financial liabilities of Clearing House Funds	(35,891)	(72,319)
	1,284,678	1,163,992
Provision for loss arising from closing-out losses of defaulting Participants (note d)	(160,945)	(161,275)
	1,123,733	1,002,717
The Clearing House Funds were funded by:		
Clearing Participants' cash contributions due within twelve months	308,877	197,520
Clearing Participants' cash contributions due after twelve months	259,500	252,000
Designated reserves (note 25 and note e):		
At 1 Jan	552,383	694,853
Transfer from/(to) retained earnings (note 26 and note f)	2,545	(142,470)
At 31 Mar 2009/31 Dec 2008	554,928	552,383
Revaluation reserve (note 24(b))	428	814
	1,123,733	1,002,717

18. Clearing House Funds (continued)

- (a) Amounts excluded bank guarantees received and utilised as alternatives to cash contributions (note 30).
- (b) The Clearing House Funds were established to support the respective clearing houses (ie, HKSCC, HKCC and SECH) 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 the Central Clearing and Settlement System (“CCASS”).
- (c) All financial assets mature within twelve months.
- (d) In December 2008, the Board resolved to recover the closing-out losses caused by defaulting Participants (less any contributions forfeited and recoveries from the liquidation process of the defaulting Participants concerned) from the Clearing House Funds. As at 31 March 2009, the losses to be recovered totalled \$160,945,000 (31 December 2008: \$161,275,000) and, subject to further recoveries, if any, will be paid to the clearing houses after the completion of the defaulting Participants’ liquidation. The provision has been eliminated against the amounts due from the defaulting Participants on consolidation.
- (e) In December 2008, the Board resolved that the closing-out losses caused by defaulting Participants incurred by the Clearing House Funds would not be allocated to any Clearing Participants except for the amounts contributed to the Clearing House Funds by the defaulting Clearing Participants. Consequently, the designated reserves of the Clearing House Funds were reduced by \$163,203,000 in the year ended 31 December 2008, which was attributable to firstly the forfeited contributions of the defaulting Clearing Participant and the accumulated net investment income net of expenses of the relevant Clearing House Funds recognised in profit or loss of the Group up to 31 December 2008 and then the clearing houses’ contributions.
- (f) The amount comprised net investment income net of expenses of \$2,215,000 (year ended 31 December 2008: \$20,733,000) and reversal of provision for closing-out losses of \$330,000 (year ended 31 December 2008: provision for closing-out losses \$163,203,000).

19. Financial Assets/Liabilities at Fair Value through Profit or Loss

	At 31 Mar 2009 \$'000	At 31 Dec 2008 \$'000
Analysis of financial assets at fair value through profit or loss:		
<u>Held for trading</u>		
Equity securities, at market value		
– listed in Hong Kong	18,172	12,701
– listed outside Hong Kong	104,453	94,680
	122,625	107,381
Debt securities, at market value		
– listed in Hong Kong	70,968	79,074
– listed outside Hong Kong	1,448,901	1,386,067
– unlisted	1,317,544	1,371,057
	2,837,413	2,836,198
Mutual funds, at market value		
– listed outside Hong Kong	51,279	57,707
Derivative financial instruments, at market value		
– equity index futures contracts, listed outside Hong Kong (note a)	1,327	–
– forward foreign exchange contracts	4,986	18,749
	6,313	18,749
<u>On designation</u>		
Unlisted debt security with embedded derivative, at market value (note b)	62,000	–
Bank deposits with embedded derivatives, at market value (note b)	88,000	–
	3,167,630	3,020,035
Analysis of financial liabilities at fair value through profit or loss:		
<u>Held for trading</u>		
Derivative financial instruments, at market value		
– equity index futures contracts, listed outside Hong Kong (note a)	–	627
– forward foreign exchange contracts	12,712	25,627
	12,712	26,254

(a) The total notional amount of the futures contracts outstanding was \$40,450,000 (31 December 2008: \$26,963,000).

(b) The maximum exposure to credit risk of the debt security and the bank deposits with embedded derivatives as at 31 March 2009 were \$62,000,000 and \$88,000,000 respectively (31 December 2008: \$Nil and \$Nil respectively). No related credit derivative or similar instrument was used to mitigate the maximum exposure to credit risk. There was no fair value change of the debt security and bank deposits with embedded derivatives attributable to changes in credit risk since their acquisition in 2009, which was determined as the amount of change in fair value that was not attributable to changes in market conditions that gave rise to market risk.

20. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's CNS money obligations payable under the T+2 settlement cycle, which accounted for 55 per cent (31 December 2008: 64 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

21. Provisions

	Reinstatement costs \$'000	Employee benefit costs \$'000	Total \$'000
At 1 Jan 2009	26,669	35,104	61,773
Provision for the period	359	10,790	11,149
Amount used during the period	–	(12,995)	(12,995)
Amount paid during the period	–	(694)	(694)
At 31 Mar 2009	27,028	32,205	59,233
		At 31 Mar 2009 \$'000	At 31 Dec 2008 \$'000
Analysis of provisions:			
Current		33,391	36,290
Non-current		25,842	25,483
		59,233	61,773

22. Share Capital, Share Premium and Shares Held for Share Award Scheme

		At 31 Mar 2009 \$'000	At 31 Dec 2008 \$'000		
Authorised:					
2,000,000,000 shares of \$1 each		2,000,000	2,000,000		
Issued and fully paid:					
	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 23)	–	–	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)	120,000	120	1,961	–	2,081
Transfer from employee share-based compensation reserve (note 23)	–	–	479	–	479
Shares purchased for Share Award Scheme (note b)	(59,900)	–	–	(4,909)	(4,909)
Vesting of shares of Share Award Scheme (note c)	5,746	–	–	553	553
At 31 Mar 2009	1,074,005,378	1,075,006	349,342	(69,610)	1,354,738

22. Share Capital, Share Premium and Shares Held for Share Award Scheme (continued)

- (a) During the period, employee share options granted under the first Share Option Scheme (“Pre-Listing Scheme”) and the second Share Option Scheme (“Post-Listing Scheme”) were exercised to subscribe for 120,000 shares (year ended 31 December 2008: 4,601,000 shares) in HKEx at an average consideration of \$17.34 per share (year ended 31 December 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 period, the HKEx Employees’ Share Award Scheme (“HKEx Employee Share Trust”) acquired 59,900 HKEx shares (year ended 31 December 2008: 214,600 shares) through purchases on the open market for the Share Award Scheme (note 23(c)). The total amount paid to acquire the shares during the period was \$4,909,000 (year ended 31 December 2008: \$32,494,000) and had been deducted from shareholders’ equity.
- (c) During the period, the HKEx Employee Share Trust transferred 5,746 HKEx shares (year ended 31 December 2008: 324,418 shares) to the awardees upon vesting of certain HKEx shares awarded (“Awarded Shares”) and the related shares arising from dividends reinvested. The total cost of the related vested shares was \$553,000 (year ended 31 December 2008: \$15,043,000).

23. Employee Share-based Compensation Reserve

	2009 \$'000	2008 \$'000
At 1 Jan	47,032	49,669
Employee share-based compensation benefits (note a and note 9)	7,246	28,179
Transfer to share premium upon exercise of employee share options (note 22)	(479)	(18,800)
Vesting of shares of Share Award Scheme	(513)	(12,016)
At 31 Mar 2009/31 Dec 2008	<u>53,286</u>	<u>47,032</u>

- (a) The Group operates two share option schemes and a share award scheme as part of the benefits to its employees.

23. Employee Share-based Compensation Reserve (continued)

(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 2nd to the 5th year after the grant provided that the relevant employee remained employed by the Group. Share options of the Pre-Listing Scheme are exercisable up to 30 May 2010 and share options for the Post-Listing Scheme are exercisable up to 10 years after the grant date.

The estimated fair value of share options granted is determined at the date of the grant and is charged as an expense over the projected vesting period being the period for which the services from the employees are rendered with a corresponding credit to Employee Share-based Compensation Reserve.

On exercising the share options, the consideration received is credited to Share Capital account in respect of the nominal value of the shares issued with the balance credited to Share Premium account. The original estimated fair value of the relevant share options is then transferred from Employee Share-based Compensation Reserve to Share Premium account.

When share options are not exercised on expiry, the original estimated fair value of such share options is transferred from Employee Share-based Compensation Reserve to retained earnings.

- (ii) Movements in the number of shares issuable under options granted and their related weighted average exercise prices were as follows:

	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 Mar 2009/ 31 Dec 2008	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	18.95	(104,000)	14.89	(4,352,000)
Forfeited	-	-	18.53	(182,000)
Outstanding at 31 Mar 2009/ 31 Dec 2008	18.28	4,451,500	18.30	4,555,500
Total	18.00	4,565,500	17.98	4,685,500

23. 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 2nd to the 5th year after the awards are granted, provided that the relevant awardee remained employed by the Group or retired on reaching normal retirement age. In the meantime, the Awarded Shares are held in a trust, HKEx Employee Share Trust.

Following the Board’s decision to award shares to eligible employees, the Awarded Shares are purchased from the market and the cost debited to Shares held for Share Award Scheme.

The cost of the Awarded Shares is charged to staff costs and related expenses over the projected vesting period being the period for which the services from the employees are rendered with a corresponding credit to Employee Share-based Compensation Reserve.

Dividends payable on the Awarded Shares held in the Trust are applied to acquire further shares (“dividend shares”) from the market and the payment is debited to Shares held for Share Award Scheme. The dividend shares are allocated to the awardees on a pro rata basis and have the same vesting periods as the related Awarded Shares.

Upon vesting and transfer to the awardees, an amount equivalent to the cost of the Awarded Shares and the dividend applied towards acquisition of any dividend shares is credited to Shares held for Share Award Scheme, with a corresponding debit to Employee Share-based Compensation Reserve and to retained earnings respectively.

For awardees who cease employment with the Group before vesting, the unvested shares are forfeited. The forfeited shares are held by the Trustee who may award such shares to the remaining awardees taking into consideration recommendations of the Board.

Details of the Awarded Shares awarded 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 [□]	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

[□] Awarded to the Chief Executive of HKEx

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

* 2,882 shares vested were for the Chief Executive of HKEx

23. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

During the year ended 31 December 2008, 59,400 HKEx shares were acquired by the Trustee through reinvesting dividends received at a total cost (including related transaction costs) of \$7,167,000, of which 56,377 shares were subsequently allocated to awardees.

During the period, 365 HKEx shares (year ended 31 December 2008: 27,662 shares, including 212 shares for the Chief Executive of HKEx) at a cost of \$40,000 (year ended 31 December 2008: \$3,027,000, including \$23,000 for the Chief Executive of HKEx) acquired from reinvesting dividends received were vested and transferred to the employees at nil consideration.

(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	(19,040)	(32,798)
Vested	(5,381)	(296,756)
Dividends reinvested:		
– allocated to awardees	–	56,377
– allocated to awardees but subsequently forfeited	(1,280)	(1,775)
– vested	(365)	(27,662)
Outstanding at 31 Mar 2009/31 Dec 2008	910,647	876,813

* Average fair value per share of \$81.96 (year ended 31 December 2008: \$163.19)

(iii) As at 31 March 2009, 90,321 forfeited or unallocated shares (31 December 2008: 70,001 shares) were held by the HKEx Employee Share Trust and would be allocated to awardees in future.

24. Revaluation Reserve

	At 31 Mar 2009 \$'000	At 31 Dec 2008 \$'000
Investment revaluation reserve	44,942	96,681

(a) The investment revaluation reserve is stated net of applicable deferred tax.

(b) Included gross investment revaluation surplus of \$428,000 (31 December 2008: \$814,000) which was attributable to investments of the Clearing House Funds.

25. Designated Reserves

Designated reserves are segregated for their respective purposes and comprised the following:

	At 31 Mar 2009 \$'000	At 31 Dec 2008 \$'000
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	120,325	119,309
– SEOCH Reserve Fund reserve	107,033	106,646
– HKCC Reserve Fund reserve	327,570	326,428
	554,928	552,383

26. Retained Earnings (Including Proposed Dividend)

	2009 \$'000	2008 \$'000
At 1 Jan	5,242,692	6,288,138
Profit for the period/year (note a)	834,239	5,128,924
Transfer (to)/from Clearing House Funds reserves (note 18)	(2,545)	142,470
Transfer from leasehold buildings revaluation reserve on disposal of a leasehold property	–	3,155
	(2,545)	145,625
Dividends:		
2007 final dividend	–	(3,634,850)
Dividend on shares issued for employee share options exercised after 31 Dec 2007	–	(11,309)
	–	(3,646,159)
2008 interim dividend	–	(2,670,320)
Dividend on shares issued for employee share options exercised after 30 Jun 2008	–	(3,055)
	–	(2,673,375)
Unclaimed dividend forfeited	–	2,566
Vesting of shares of Share Award Scheme	(40)	(3,027)
At 31 Mar 2009/31 Dec 2008	6,074,346	5,242,692
Representing:		
Retained earnings	4,141,136	3,309,601
Proposed dividend	1,933,210	1,933,091
At 31 Mar 2009/31 Dec 2008	6,074,346	5,242,692

- (a) The Group's profit for the period/year 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 \$2,545,000 (year ended 31 December 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).

27. Notes to the Condensed Consolidated Statement of Cash Flows

Reconciliation of profit before taxation to net cash inflow from operating activities:

	Three months ended 31 Mar 2009 \$'000	Three months ended 31 Mar 2008 \$'000
Profit before taxation	986,928	1,902,085
Adjustments for:		
Net interest income	(119,686)	(368,940)
Net realised and unrealised (gains)/losses and interest income on financial assets and financial liabilities at fair value through profit or loss	(13,670)	5,329
Dividend income from financial assets at fair value through profit or loss	(685)	(1,450)
Amortisation of lease premiums for land	128	128
Depreciation	24,843	23,663
Employee share-based compensation benefits	7,246	6,278
Reversal of provision for impairment losses of trade receivables	(279)	(96)
Changes in provisions	(2,899)	1,461
Gain on disposal of properties	-	(68,641)
Net (increase)/decrease in Clearing House Fund financial assets	(84,644)	528,154
Net increase/(decrease) in Clearing House Fund financial liabilities	82,429	(535,316)
Net decrease/(increase) in Margin Fund financial assets	18,023,990	(6,235,066)
Net (decrease)/increase in Margin Fund financial liabilities	(18,080,332)	6,276,164
Net decrease/(increase) in financial assets and financial liabilities at fair value through profit or loss	7,036	(408)
Net admission fees received from/ (refunded to) Participants	650	(650)
Decrease/(increase) in accounts receivable, prepayments and deposits	472,267	(1,293,416)
Increase in other current liabilities	716,136	760,778
Net cash inflow from operations	2,019,458	1,000,057
Interest received from bank deposits	28,846	247,454
Dividends received from financial assets at fair value through profit or loss	351	357
Interest received from financial assets at fair value through profit or loss	32,692	38,455
Interest paid	(868)	(70,450)
Hong Kong Profits Tax paid	(233,529)	(112,463)
Net cash inflow from operating activities	1,846,950	1,103,410

28. Commitments

Commitments in respect of capital expenditures:

	At 31 Mar 2009 \$'000	At 31 Dec 2008 \$'000
Contracted but not provided for	13,583	16,908
Authorised but not contracted for	61,675	66,982
	75,258	83,890

The commitments in respect of capital expenditures were mainly for the upgrade and enhancement of trading and clearing systems, development and purchases of various other computer systems, and office and data centre consolidation.

29. Contingent Liabilities

As at 31 March 2009, the Group's material contingent liabilities were as follows:

- (a) 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 March 2009, no calls had been made by the SFC in this connection.
- (b) 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.

In 2008, LBSA defaulted on its stamp duty payments. The Stock Exchange has accordingly paid \$200,000 to the Collector of Stamp Revenue in respect of the guarantee.

In the unlikely event that all of its remaining 451 trading Participants as at 31 March 2009 (31 December 2008: 448) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to \$90,200,000 (31 December 2008: \$89,600,000).

The carrying amount of the financial guarantee contract recognised in the condensed consolidated statement of financial position was \$19,909,000 (31 December 2008: \$19,909,000).

- (c) 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.

30. Non-cash Collateral for Clearing House Fund Contributions and Margin Fund Obligations for Derivatives Contracts

Under existing rules of the clearing houses, Participants may lodge cash or approved non-cash collateral to satisfy their Clearing House Fund contributions and Margin Fund obligations for derivatives contracts. In accordance with HKAS 39, only cash collateral is recognised as assets and liabilities on the condensed consolidated statement of financial position.

As at 31 March 2009, the amount of non-cash collateral received from Participants and the amount utilised for covering part of their Clearing House Fund contributions and Margin Fund obligations for derivatives contracts were as follows:

	At 31 Mar 2009		At 31 Dec 2008	
	Amount received \$'000	Amount utilised \$'000	Amount received \$'000	Amount utilised \$'000
Clearing House Funds				
Bank guarantees	1,225,970	33,336	1,226,940	26,940
Margin Funds				
Equity securities, listed in				
Hong Kong, at market value	1,263,208	–*	2,865,194	864,830*
US Treasury Bills, at market value	1,932,533	1,333,044	3,560,442	2,161,732
Bank guarantees	770,000	309,390	770,000	179,739
	3,965,741	1,642,434	7,195,636	3,206,301
	5,191,711	1,675,770	8,422,576	3,233,241

* Certain equity securities received were used to cover call options issued by SEOCH Participants whose underlying stocks were the same as the collateral received. Under the Operational Clearing Procedures for Options Trading Exchange Participants of SEOCH, such call options issued are not marginable positions (ie, no margin requirements). Hence, the amount is not treated as having been utilised for covering Margin Fund obligations. As at 31 March 2009, \$589,114,000 (31 December 2008: \$512,584,000) of equity securities received were used for such purpose (including those amounts decovered but not yet released of \$45,066,000 (31 December 2008: \$588,000)).

31. 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/or (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.

31. Material Related Party Transactions (continued)

In addition to the above, the Group has entered into the following transactions with related parties:

- (a) Key management personnel compensation

	Three months ended 31 Mar 2009 \$'000	Three months ended 31 Mar 2008 \$'000
Salaries and other short-term employee benefits	18,413	20,772
Employee share-based compensation benefits	2,107	2,499
Retirement benefit costs	1,806	1,546
	22,326	24,817

- (b) Post-retirement benefit plans

Details of transactions with the Group's post-retirement benefit plans are included in note 9.

- (c) Save as aforesaid, the Group has entered into other transactions in the ordinary course of business with companies that are related parties but the amounts were immaterial.

32. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, equity price risk and interest rate risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

- (a) Market risk management

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity and commodity prices and interest rates. The Group is exposed to market risk primarily through its investments held.

Funds available for investment comprise three main categories: Corporate Funds (mainly share capital and retained earnings of the Group), Clearing House Funds and Margin Funds received (which exclude non-cash collateral and contributions receivable from Participants).

- (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.

32. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

As at 31 March 2009, the aggregate net open foreign currency positions amounted to HK\$6,818 million, of which HK\$147 million were non-USD exposures (31 December 2008: HK\$6,584 million, of which HK\$211 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK\$3,356 million (31 December 2008: HK\$3,219 million). All forward foreign exchange contracts would mature within two months (31 December 2008: two months).

(ii) Equity and commodity price risk management

The Group is exposed to equity price risk as equities and 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. As a result, equity price risk of the Group is not significant. The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's investment policy.

(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 investments and on the fixed and floating interest rate mismatches of its assets and liabilities.

(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.

32. Financial Risk Management (continued)

(a) Market risk management (continued)

(iv) Risk management techniques (continued)

The VaR for each risk factor and the total VaR of the investments and related hedges of the Group during the period were as follows:

	Three months ended 31 Mar 2009			Three months ended 31 Mar 2008		
	Average \$'000	Highest \$'000	Lowest \$'000	Average \$'000	Highest \$'000	Lowest \$'000
Foreign exchange risk	13,997	14,993	12,467	6,231	7,480	5,175
Equity price risk	14,901	23,927	10,413	13,473	15,148	12,221
Interest rate risk	30,460	33,465	27,885	34,801	40,093	27,290
Total VaR	33,973	37,425	31,356	32,477	37,025	25,135

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 period, the highest and lowest VaRs in each market did not necessarily occur on the same day.

(b) Liquidity risk management

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. Investments of the Group are kept sufficiently liquid to meet the operating needs and possible liquidity requirements of the Clearing House Funds and Margin Funds. The Group also sets a limit on the minimum level of cash or bank deposits held for the Corporate Funds, and the minimum level of investments to be held that would mature the same day and the next day for the Clearing House Funds and Margin Funds.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. In addition, banking facilities have been put in place for contingency purposes. As at 31 March 2009, the Group's total available banking facilities amounted to \$9,850 million (31 December 2008: \$3,850 million), of which \$9,000 million (31 December 2008: \$3,000 million) were repurchase facilities and \$800 million (31 December 2008: \$800 million) was a facility to draw down against certain bank deposits.

(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 March 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: Aa2), and there were no financial assets whose terms were renegotiated (31 December 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.

32. Financial Risk Management (continued)

(c) Credit risk management (continued)

(ii) Clearing and settlement-related risk management

In the normal course of business, the clearing houses of the Group, HKSCC, SEOCH and HKCC, act as the counterparties to eligible trades concluded on the Stock Exchange and the Futures Exchange through the novation of the obligations of the buyers and sellers. HKSCC is also responsible for the good title to the securities deposited and accepted in the CCASS depository. As a result, the Group has considerable market risk and credit risk since the Participants' ability to honour their obligations in respect of their trades and securities deposited may be adversely impacted by economic conditions affecting the Cash and Derivatives Markets. If the Participants default on their obligations on settlement or there are defects in the title of securities deposited and accepted in the CCASS depository, the Group could be exposed to potential risks not otherwise accounted for in these accounts.

The Group mitigates its exposure to risks described above by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants, monitoring compliance with risk management measures such as position limits established by the Group and requiring Clearing Participants to deposit margins and cash marks and contribute to the Clearing House Funds set up by HKSCC, SEOCH and HKCC. After the LBSA default 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 March 2009, bank guarantees of \$3,263,500,000 (31 December 2008: \$4,534,000,000) were accepted for such purpose.

In addition to the above, the Group has set aside \$3,100 million of shareholders' funds (31 December 2008: \$3,100 million) for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

(iii) Financial assets that were past due but not impaired

As at 31 March 2009, the age analysis of the financial assets (which only related 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:

	At 31 Mar 2009 \$'000	At 31 Dec 2008 \$'000
Up to 6 months	82,084	206,847
Over 3 years	141	141
Total	82,225	206,988

The fair value of cash deposits placed by the related trade debtors with the Group was \$12,993,000 (31 December 2008: \$10,117,000).

32. Financial Risk Management (continued)

(c) Credit risk management (continued)

(iv) Financial assets that were impaired at the end of the reporting period

As at 31 March 2009, trade receivables of the Group amounting to \$167,170,000 (31 December 2008: \$167,449,000) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days as at the end of the reporting period or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired were disclosed in the 2008 annual accounts. No cash deposits had been received in relation to the impaired trade receivables (31 December 2008: \$Nil).

(v) Outstanding balances from debtors which were not recognised as income

As soon as a loan or receivable becomes impaired, the Group may continue to allow the debtors concerned to participate in our markets but no further accounts receivable will be recognised on the condensed 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 March 2009, the amount of doubtful deferred revenue amounted to \$51,431,000 (31 December 2008: \$49,455,000).

33. Comparative Figures

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

GLOSSARY

2009 AGM	The annual general meeting held on 23 April 2009
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
CAS	Closing Auction Session
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
CSR	Corporate Social Responsibility
DCASS	The Derivatives Clearing and Settlement System
Director(s)	Director(s) of HKEx
DW(s)	Derivative Warrant(s)
EDS	Electronic Disclosure System
eIPO	Electronic IPO
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 Hong Kong
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
Government	The Hong Kong Government
Government Appointed Directors	Directors appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKATS	The Hong Kong Futures Automated Trading System
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKSCC	Hong Kong Securities Clearing Company Limited
Hong Kong	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
INED(s)	Independent Non-executive Director(s)
IPO(s)	Initial Public Offering(s)
IT	Information Technology
JP	Justice of the Peace
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	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
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
PRC	The People's Republic of China
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by the Shareholders on 31 May 2000

GLOSSARY

PRS	Price Reporting System
REIT(s)	Real Estate Investment Trust(s)
SBS	Silver Bauhinia Star
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
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
USD	US Dollar
WPIP	Web Proof Information Pack
\$/HKD	Hong Kong Dollar

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