

Pursuant to Chapter 38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Securities and Futures Commission regulates Hong Kong Exchanges and Clearing Limited in relation to the listing of its shares on The Stock Exchange of Hong Kong Limited. The Securities and Futures Commission takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.



**(Incorporated in Hong Kong with limited liability)**  
**(Stock Code: 388)**

(Financial figures in this announcement are expressed in Hong Kong Dollar (“HKD”))

## **2010 FIRST QUARTER RESULTS**

The board of directors (“Board”) of Hong Kong Exchanges and Clearing Limited (“Company” or “HKE<sub>x</sub>”) submits the unaudited consolidated results of HKE<sub>x</sub> and its subsidiaries (“Group”) for the three months ended 31 March 2010 as follows:

### **FINANCIAL HIGHLIGHTS**

	Three months ended 31 Mar 2010	Three months ended 31 Mar 2009	Change
<b>KEY MARKET STATISTICS</b>			
Average daily turnover value on the Stock Exchange (\$bn)	64.8	44.7	45%
Average daily number of derivatives contracts traded on the Futures Exchange	211,724	195,499	8%
Average daily number of stock options contracts traded on the Stock Exchange	205,581	194,279	6%
	Three months ended 31 Mar 2010 \$m	As restated Three months ended 31 Mar 2009 \$m	Change
<b>RESULTS</b>			
Revenue and other income	1,714	1,341	28%
Operating expenses	385	354	9%
Profit before taxation	1,329	987	35%
Taxation	(202)	(153)	32%
Profit attributable to shareholders	1,127	834	35%
Basic earnings per share	\$1.05	\$0.78	35%
Diluted earnings per share	\$1.04	\$0.77	35%
	At 31 Mar 2010	At 31 Dec 2009	Change
<b>KEY ITEMS IN CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>			
Shareholders’ funds (\$m)	9,167	8,027	14%
Total assets <sup>1</sup> (\$m)	46,488	45,332	3%
Net assets per share <sup>2</sup>	\$8.52	\$7.46	14%

Notes:

- The Group’s total assets include the Margin Funds received from Participants on futures and options contracts.
- Based on 1,076,119,496 shares as at 31 March 2010, being 1,076,784,346 shares issued and fully paid less 664,850 shares held for the Share Award Scheme (31 December 2009: 1,075,514,581 shares, being 1,076,190,346 shares issued and fully paid less 675,765 shares held for the Share Award Scheme)

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### Listing

##### Review of Comments on Various Proposals

The Stock Exchange of Hong Kong Limited (“Exchange” or “Stock Exchange” or “SEHK”) is in the process of reviewing the responses to the various consultations in relation to the requirements of 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 (collectively, “Listing Rules”) conducted in 2009, namely (i) issue of paper application forms with electronic listing documents; (ii) acceptance of Mainland accounting and auditing standards and Mainland audit firms for Mainland incorporated companies listed in Hong Kong; (iii) new Listing Rules for mineral and exploration companies; (iv) changes to requirements for circulars and listing documents of listed issuers; and (v) changes to connected transaction rules. Consultation conclusions will be released later this year.

##### Review of Initial Eligibility Requirements

As undertaken in the announcement about granting profit test waivers to a listing applicant if its profit dropped temporarily because of the global financial crisis, the Exchange is currently reviewing the profit test and other listing eligibility requirements in the Listing Rules. A market consultation on the proposed changes will be conducted in due course.

##### Review of Property Valuation Requirements

The removal of the property valuation requirements in listing documents is under review. The intention is to remove the revaluation requirements for property interests that are not considered material, where strict compliance could be unduly burdensome and such information would not be beneficial to shareholders. In addition, the Exchange is considering streamlining the property valuation requirements for transactions by listed issuers. A market consultation on the proposed changes will be released later this year.

##### Enhancement of Continuing Disclosure Regime

HKEx welcomes the publication by the Government of the Hong Kong Special Administrative Region (“Hong Kong Government”) of the Consultation Paper on the Proposed Statutory Codification of Certain Requirements to Disclose Price Sensitive Information by Listed Corporations. Under the proposed statutory regime, the Exchange will continue to administer relevant disclosure requirements under the Listing Rules.

##### Consultation on Quarterly Financial Reporting

The Listing Committee and the Growth Enterprise Market (“GEM”) Listing Committee view quarterly financial reporting as a long-term goal to ensure regular disclosure of timely information of issuers’ financial performance and position. The Exchange will continue to explore various approaches and undertake consultations with stakeholders on possible alternatives to quarterly financial reporting.

## **Cash Market**

### **Market Performance**

In the first quarter of 2010, 13 companies were newly listed on the Main Board (none on GEM) with no record of delisting or transfers to Main Board. Total capital raised, including post-listing funds, reached \$87.1 billion. As at 31 March 2010, 1,158 and 174 companies were listed on the Main Board and GEM respectively with a total market capitalisation of \$18,055.6 billion. In addition, there were 3,974 Derivative Warrants (“DWs”), 1,331 Callable Bull/Bear Contracts (“CBBCs”), 7 Real Estate Investment Trusts, 61 Exchange Traded Funds (“ETFs”) and 160 debt securities listed as at 31 March 2010. The average daily turnover in the first quarter of 2010 was \$64.2 billion on the Main Board and \$516.4 million on GEM.

### **Automation of Stamp Duty Reporting and Payment**

The automation of stamp duty reporting and payment is scheduled for launch in the second half of this year, subject to market readiness and relevant rule amendments.

### **ETF Market Development**

During the first quarter of 2010, 18 ETFs were newly listed with 12 tracking Mainland A-share indices and 6 tracking overseas equity indices. The total number of ETFs listed on the Exchange increased by 42 per cent from the end of last year to 61, including 20 ETFs on Mainland A-share indices.

On 22 March 2010, HKEx co-organised with the Shanghai Stock Exchange a seminar entitled “The Development and Risk Management for ETFs” in Shanghai to share experience of the product innovation and risk management in developing the ETF market.

## **Derivatives Market**

### **Market Performance**

In the first quarter of 2010, the total number of futures and option contracts traded amounted to 25,455,596, about an 8 per cent increase from the fourth quarter of last year. On 31 March 2010, the open interest for all futures and options was 4,864,222 contracts, up 13 per cent from the end of 2009. The Mini Hang Seng China Enterprises Index (“H-shares Index”) Futures posted a record daily volume of 5,495 contracts on 27 January 2010.

### **Business Development**

In order to enhance the price transparency in the stock options market, the number of option series assigned to market makers to provide continuous quotes increased from not less than 18 to not less than 24 series per option class effective 1 February 2010.

With the launch of Flexible Index Options on 8 February 2010, Futures Exchange Participants can request HKEx to introduce customised strike prices and expiry months in Hang Seng Index (“HSI”) options and H-shares Index options for trading, subject to a volume threshold of 100 contracts. Flexible Index Options are bilaterally negotiated and executed as block trades. By providing central clearing and clearing house guarantee, Flexible Index Options allows HKEx to expand its services to the over-the-counter market for mitigating counterparty risk.

## **Clearing**

### **New Corporate Communications Arrangement**

In order to preserve the environment, Hong Kong Securities Clearing Company Limited (“HKSCC”) introduced effective 4 January 2010 a new arrangement for the delivery of corporate communications to non-registered holders whose listed securities are held in the Central Clearing and Settlement System (“CCASS”). Listed issuers can now send to their non-registered shareholders a notification of the publication of corporate communications on their websites together with a request form for a hard copy instead of sending them the printed corporate communications.

### **Derivatives Clearing and Settlement System (“DCASS”) Service Enhancement**

Effective 22 March 2010, DCASS was enhanced to allow Participants an additional option of using the Microsoft SQL Server software to improve the data storage capacity.

### **T+2 Finality for Stock Exchange Trades**

The 3-month market consultation on the proposed T+2 finality arrangement to bring finality of securities and money settlement for Stock Exchange Trades and Settlement Instructions on the same business day ended on 26 February 2010. The review of the 29 submissions received is underway and the consultation conclusions will be published later this year.

### **Scripless Securities Market**

Over 40 responses to the market consultation on the proposed operation model for implementing a scripless securities market in Hong Kong were received. The Working Group (which includes the Securities and Futures Commission (“SFC”) and the Federation of Share Registrars Limited) is analysing the submissions and will release the conclusions in due course.

## **Participant Services**

### **Participant Training and Market Education**

During the period under review, 3 courses on the Automatic Order Matching and Execution System/Third Generation (“AMS/3”) and the Hong Kong Futures Automated Trading System (“HKATS”) were held to familiarise the Exchange Participants (“EPs” or “Participants”) with the operation of the trading devices and the relevant rules and procedures. In addition, HKEx conducted 8 Continuous Professional Training courses on the CCASS and DCASS systems and operations for over 150 attendees as well as 14 EP briefing sessions on derivatives products for over 800 attendees.

Since March 2010, HKEx has, together with the sponsoring EPs, launched an 8-week programme which includes a series of promotional activities, such as radio interviews, workshops, advertorials and a 1-day investment expo to raise market awareness and increase retail participation in futures and options.

### **EP Recruitment**

Five SEHK Participants and 5 Hong Kong Futures Exchange Limited (“Futures Exchange” or “HKFE”) Participants from Japan, the Mainland, the United Kingdom and the United States were newly admitted during the first quarter of this year. As at the end of March 2010, there

were a total of 499 SEHK Participants and 171 HKFE Participants. For HKSCC, there were a total of 22,813 CCASS Participants, including 3 Direct Clearing Participants and 102 Investor Participants (“IPs”) newly admitted in the first quarter of 2010.

### **Non-transferability of Trading Rights**

Pursuant to the Scheme Document of the merger of the Stock Exchange and Futures Exchange and their clearing houses on 6 March 2000, all Trading Rights (“TRs”) conferred on the then shareholders of the 2 exchanges became non-transferable after 5 March 2010. New TRs issued after the merger are non-transferable at all times, and each TR is now issued at a fee of \$500,000. To fulfil the participantship requirement, every SEHK Participant or HKFE Participant is required to hold at least 1 TR of the respective Exchanges.

### **Market Data**

#### **Provision of Free Real-time Basic Market Prices on Websites**

The Free Real-time Basic Market Prices Website Service was officially launched on 1 January 2010 under the pilot programme that will last till the end of December 2011. Investors are now able to access the real-time basic prices of HKEx’s securities market free of charge on 6 designated websites (namely [www.aastocks.com](http://www.aastocks.com), [www.etnet.com.hk](http://www.etnet.com.hk) and [www.on.cc](http://www.on.cc) in Hong Kong, and [www.sohu.com](http://www.sohu.com), [www.jrj.com.cn](http://www.jrj.com.cn) and [www.qq.com](http://www.qq.com) in the Mainland).

#### **Promotion of Real-time HKEx Market Data on Mainland**

To promote the Hong Kong’s financial markets, HKEx introduced a programme on 1 April 2010 to televise its real-time securities market data on the Mainland (“Mainland TV Programme”). In lieu of adopting the current charging scale, which results in higher cost for densely populated markets such as the Mainland, the standard fee under the Mainland TV Programme is \$144,000 per quarter, and the subscriber fee is set at a flat rate of \$10,000 per month.

The Mainland TV Programme will last until the end of December 2012. Television stations that complete licence applications before 30 September 2010 will not be required to pay the standard fee and the subscriber fee for the first six months of the licence. Details of the Mainland TV Programme are available on the HKEx website.

#### **Mainland Market Data Collaboration Programme**

Following the commencement of the Mainland Market Data Collaboration Programme with the Shanghai Stock Exchange (“SHSE Programme”) last year, HKEx extended the programme to the Shenzhen Stock Exchange (“SZSE”) effective 1 May 2010, which will end on 31 December 2011. Similar to the SHSE Programme, HKEx and SZSE are now entitled to redistribute the other party’s basic real-time market data of companies dually listed on the 2 markets to their own authorised Information Vendors (“IVs”) for onward transmission to their subscribers for internal display purposes.

The SHSE Programme has been extended to end concurrently with that of the SZSE. At the end of March 2010, IVs of the HKEx and the Shanghai Stock Exchange were providing services to more than 370,000 subscribers in the 2 markets.

## **Risk Management**

### **Enhancements to Holiday Margin Arrangements**

Holiday margin is designed to help mitigate the potential cumulative market risks arising from movements of overseas markets which are open when Hong Kong markets are closed. The holiday margin arrangements of HKFE Clearing Corporation Limited (“HKCC”) and The SEHK Options Clearing House Limited (“SEOCH”) were revised effective 29 March 2010 to deliver margining-related benefits to the market without compromising the adequacy of the risk management protection of the derivatives clearing houses.

### **Market Surveillance**

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 SFC codes, rules and/or regulations relating to HKEx’s Cash and Derivatives Markets. The SFC might make criminal prosecutions and/or disciplinary actions against licensed persons in respect of market misconduct matters. During the three months ended 31 March 2010, 7 cases involving possible violation were referred.

## **Information Technology (“IT”)**

### **Production Systems Stability and Reliability**

During the first quarter of 2010, all major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets operated by HKEx continued to perform robustly. HKEx is committed to devoting its best effort and resources to uphold production system reliability, availability and stability.

### **System Capacity Planning and Upgrade**

HKEx works proactively to ensure IT system capacity readiness to make use of new business expansion opportunities and achieve sustainable competitiveness.

For the Cash Market, the AMS/3 technical revamp was successfully implemented on 18 January 2010 to double the system throughput to 3,000 orders per second. Corresponding design enhancements were also implemented for the Latest Generation of CCASS and Market Datafeed System (“MDF”) for capacity alignment with the revamped AMS/3. New AMS/3 interface architecture was also introduced at the same time to facilitate higher scalability of the satellite systems. HKEx is conducting a major software redevelopment and a hardware upgrade exercise for AMS/3 and MDF to further improve the system capacity and reduce order execution latency by 5 to 10 times. The enhancement is scheduled for completion by the end of 2011.

For the Derivatives Market, we are also upgrading the capacity and technology for HKATS, DCASS, Price Reporting System and their satellite applications.

### **Obsolete Technology Replacement and Upgrade**

HKEx is in the progress of replacing and upgrading to-be-obsolete CCASS IP Internet and the CCASS middle-tier servers installed since 2001-2003 in order to ensure the system’s continued reliability, availability and serviceability. The upgrade is scheduled for completion by the third quarter of 2010.

## **System Consolidation and Operational Efficiency**

HKEx is implementing an enterprise risk management (“ERM”) software tool to support and facilitate the ERM framework execution as well as related methodology and processes. We will explore opportunities from time to time to enhance various management information systems and support systems to improve the efficiency and environmental friendliness of our daily operations.

## **Independent Review of Cash and Derivatives Market Systems**

The independent review of the core application systems (including trading, clearing and settlement, and market data dissemination systems) serving the Derivatives Market completed in April 2010 re-affirmed that the core Derivatives Market systems are well managed and operated with a high standard of compliance to international best practices. The independent review of the clearing and settlement systems serving the Cash Market will commence in the second half of this year.

## **HKEx Website Revamp**

The revamped corporate website [www.hkex.com.hk](http://www.hkex.com.hk) was successfully launched on 14 March 2010, introducing a facility with a new look and streamlined navigation.

## **HKEx Data Centre and IT Office Consolidation**

In February 2010, HKEx accepted the offer of a land site in Tseung Kwan O Industrial Estate at a land premium of about \$26 million to build a next generation data centre (“NGDC”) which will be equipped with modernised facilities and infrastructure to host the existing Cash Market primary data centre, currently located at the Exchange Square, 2 other secondary data centres as well as IT development and support staff. The NGDC, scheduled for completion in 2013, will also provide additional space and facilities to cope with HKEx’s new business development and expansion.

The preliminary cost estimate including land premium and costs for construction, facilities, office fittings, relocation and technology upgrades, is approximately \$700 million.

## **Market Development**

### **New Cooperation Initiatives with the Shanghai Stock Exchange**

In January 2010, HKEx and the Shanghai Stock Exchange signed the Closer Cooperation Agreement under which the 2 organisations committed to working together more closely on new initiatives towards the common goals of mutual prosperity and contributing to the greater development of China’s economy. These initiatives include the establishment of a mechanism for regular exchange of views on listing issues, cooperation on IT and product development, and market data collaboration programme.

### **Promotion of New Listings**

As part of our 3-year Strategic Plan, we continued our proactive approach to promote listing on HKEx in the Mainland as well as other international markets during the first quarter of 2010.

Other than visiting Fujian, Guangdong, Hebei, Heilongjiang, Hunan, Jiangsu, Liaoning and Tianjin during the first quarter of 2010, we co-organised a workshop on Hong Kong listing in

Zhengzhou with the Zhengzhou Development and Reform Commission and a similar seminar in Hong Kong targeting listing interests of Hebei enterprises.

During the first quarter of this year, we continued our marketing effort in both emerging and developed markets with a focus on the mining and natural resources sectors. Our Chairman and members of the marketing team visited potential issuers and market participants in Moscow, Toronto and Vancouver, and participated in the first listing seminar organised by HKEx in Toronto for mining and natural resources companies. In addition, HKEx co-hosted a seminar at the “Mines and Money Asia” in Hong Kong for the third consecutive year. We will continue to explore other potential markets such as South America and Africa to expand our international reach.

### Overseas Investor and Retail Participation in HKEx’s Securities Market Remains High

In March 2010, HKEx published the Cash Market Transaction Survey 2008/09 and the Retail Investor Survey 2009 which respectively revealed that, among others, the contribution of overseas investors to the total securities market turnover value remained at a relatively high level of more than 40 per cent for the fourth consecutive year, and local retail investor participation remained high at 35 per cent of the Hong Kong adult population and they were generally positive about the various aspects of the HKEx securities and derivatives markets. The 2 reports are available on the HKEx website. We will keep track of the trends and characteristics of investors’ participation in and perceptions of the HKEx markets for product and service improvements and ensuring our competitiveness.

### Treasury

The Group’s funds available for investment comprise Corporate Funds, cash collateral, Margin Funds and Clearing House Funds, totalling \$37.1 billion on average for the three months ended 31 March 2010 (31 March 2009: \$46.3 billion).

As compared with 31 December 2009, the overall size of funds available for investment as at 31 March 2010 increased by 4 per cent or \$1.3 billion to \$34.9 billion (31 December 2009: \$33.6 billion). Details of the asset allocation of the investments as at 31 March 2010 against those as at 31 December 2009 are set out below.

	Investment Fund Size \$bn		Bonds *		Cash or Bank Deposits *		Global Equities	
	Mar 2010	Dec 2009	Mar 2010	Dec 2009	Mar 2010	Dec 2009	Mar 2010	Dec 2009
Corporate Funds	9.7	8.2	56%	69%	41%	28%	3%	3%
Cash collateral	4.4	3.4	0%	0%	100%	100%	0%	0%
Margin Funds	18.9	20.2	31%	34%	69%	66%	0%	0%
Clearing House Funds	1.9	1.8	22%	24%	78%	76%	0%	0%
<b>Total</b>	<b>34.9</b>	<b>33.6</b>	<b>34%</b>	<b>38%</b>	<b>65%</b>	<b>61%</b>	<b>1%</b>	<b>1%</b>

\* Include certain principal-guaranteed structured notes and principal-guaranteed structured deposits



Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the cash collateral, Clearing House Funds and Margin Funds. Excluding equities and mutual funds held under the Corporate Funds (\$0.3 billion as at 31 March 2010 and \$0.2 billion as at 31 December 2009), which have no maturity date, the maturity profiles of the remaining investments as at 31 March 2010 (\$34.6 billion) and 31 December 2009 (\$33.4 billion) were as follows:

	Investment Fund Size \$bn		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
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Corporate Funds	9.4	8.0	15%	16%	19%	1%	19%	24%	34%	45%	13%	14%
Cash collateral	4.4	3.4	100%	100%	0%	0%	0%	0%	0%	0%	0%	0%
Margin Funds	18.9	20.2	31%	33%	20%	10%	16%	23%	33%	34%	0%	0%
Clearing House Funds	1.9	1.8	71%	67%	6%	5%	1%	4%	22%	24%	0%	0%
Total	34.6	33.4	38%	37%	16%	7%	14%	20%	29%	33%	3%	3%

Credit exposure is well diversified. The Group's bond portfolio (which includes certain principal-guaranteed structured notes) held is of investment grade and, as at 31 March 2010, had a weighted average credit rating of Aa2 (31 December 2009: Aa2) and a weighted average maturity of 2.3 years (31 December 2009: 2.3 years). Deposits (which include certain principal-guaranteed structured 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 2010 and the fourth quarter of 2009 was as follows:

	Average VaR \$m		Highest VaR \$m		Lowest VaR \$m	
	Jan-Mar	Oct-Dec	Jan-Mar	Oct-Dec	Jan-Mar	Oct-Dec
	2010	2009	2010	2009	2010	2009
Corporate Funds	21.8	24.0	27.1	26.1	18.2	22.6
Cash collateral	0.0	0.0	0.0	0.1	0.0	0.0
Margin Funds	30.6	33.3	34.5	35.4	25.3	30.3
Clearing House Funds	2.2	2.5	2.3	3.3	2.0	2.3

Details of the Group's net investment income are set out in the Revenue and Other Income section under the Financial Review.

## FINANCIAL REVIEW

### Overall Performance

	Note	Three months ended 31 Mar 2010 \$m	As restated Three months ended 31 Mar 2009 \$m	Change
<b>RESULTS</b>				
Revenue and other income:				
Income affected by market turnover	(A)	1,091	815	34%
Stock Exchange listing fees	(B)	221	153	44%
Income from sale of information	(C)	169	155	9%
Other revenue	(D)	108	84	29%
Net investment income	(E)	125	134	(7%)
		1,714	1,341	28%
Operating expenses		385	354	9%
Profit before taxation		1,329	987	35%
Taxation		(202)	(153)	32%
Profit attributable to shareholders		1,127	834	35%

The Group recorded a profit attributable to shareholders of \$1,127 million in the first quarter of 2010 compared with \$834 million for the same period in 2009.

The increase in profit in the first quarter of 2010 was primarily attributable to higher turnover-related income resulting from the increase in activities in the Cash and Derivatives Markets, and higher Stock Exchange listing fees due to the increase in the number of newly listed DWs.

Total operating expenses rose by 9 per cent during the period mainly due to higher staff costs.

### Revenue and Other Income

#### (A) Income Affected by Market Turnover

	Three months ended 31 Mar 2010 \$m	Three months ended 31 Mar 2009 \$m	Change
Trading fees and trading tariff	653	496	32%
Clearing and settlement fees	365	257	42%
Depository, custody and nominee services fees	73	62	18%
Total	1,091	815	34%

The increase in trading fees and trading tariff was mainly due to the higher market turnover of the Cash and Derivatives Markets in the first quarter of 2010 against the corresponding period last year.

Clearing and settlement fees are derived predominantly from Cash Market transactions. The increase in clearing and settlement fees in 2010 was mainly due to the higher market turnover of 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 2010, clearing and settlement fees did not increase by the same percentage as the turnover of the Cash Market since the increase in transaction value of settlement instructions was smaller.

Depository, custody and nominee services fees increased mainly due to higher corporate action fees, scrip fees, stock custody fees and electronic initial public offering (“eIPO”) handling fees, but the increase was partly offset by the decrease in stock withdrawal fees. Other than the eIPO handling fees which are affected by the number of newly listed companies, the other fees are generally influenced by the level of Cash Market activity but do not move proportionately with changes in the turnover of the Cash Market as they vary mostly with the number of board lots rather than the value or turnover of the securities concerned, and many are subject to a maximum fee. Moreover, scrip fees are only chargeable on the net increase in individual Participants’ aggregate holdings of the securities between book closing dates, and thus are unusually large on the first book closing date after a new listing.

#### Key Market Indicators

	<b>Three months ended 31 Mar 2010</b>	Three months ended 31 Mar 2009	Change
Average daily turnover value on the Stock Exchange (\$bn)	<b>64.8</b>	44.7	45%
Average daily number of derivatives contracts traded on the Futures Exchange	<b>211,724</b>	195,499	8%
Average daily number of stock options contracts traded on the Stock Exchange	<b>205,581</b>	194,279	6%

#### (B) Stock Exchange Listing Fees

	<b>Three months ended 31 Mar 2010 \$m</b>	Three months ended 31 Mar 2009 \$m	Change
Annual listing fees	<b>96</b>	87	10%
Initial and subsequent issue listing fees	<b>124</b>	65	91%
Others	<b>1</b>	1	0%
<b>Total</b>	<b>221</b>	153	44%

The increase in annual listing fees was attributable to the higher number of listed companies. The rise in initial listing and subsequent issue listing fees was due to the increase in the number of newly listed companies and DWs, but was partly offset by the decrease in initial listing fees forfeited due to a lower number of lapsed and withdrawn initial public offering (“IPO”) applications not listed within 6 months of application.

**Key Drivers for Annual Listing Fees**

	At 31 Mar 2010	At 31 Mar 2009	Change
Number of companies listed on Main Board	1,158	1,092	6%
Number of companies listed on GEM	174	174	0%
<b>Total</b>	<b>1,332</b>	<b>1,266</b>	<b>5%</b>

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

	Three months ended 31 Mar 2010	Three months ended 31 Mar 2009	Change
Number of newly listed DWs	1,649	569	190%
Number of newly listed CBBCs	1,886	1,628	16%
Number of newly listed companies on Main Board	13	7	86%
Total equity funds raised on Main Board			
– through IPOs (\$bn)	34.0	1.6	2025%
– Post-IPO (\$bn)	50.8	14.4	253%
Total equity funds raised on GEM			
– Post-IPO (\$bn)	2.3	0.2	1050%

**(C) Income from Sale of Information**

	Three months ended 31 Mar 2010 \$m	Three months ended 31 Mar 2009 \$m	Change
Income from sale of information	169	155	9%

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

**(D) Other Revenue**

	Three months ended 31 Mar 2010 \$m	Three months ended 31 Mar 2009 \$m	Change
Network, terminal user, dataline and software sub-license fees	85	62	37%
Participants' subscription and application fees	9	9	0%
Trading booth user fees	4	4	0%
Sales of Trading Rights	4	3	33%
Miscellaneous revenue	6	6	0%
<b>Total</b>	<b>108</b>	<b>84</b>	<b>29%</b>

Network, terminal user, dataline and software sub-license fees rose mainly due to an increase in sales of additional throttle.

**(E) Net Investment Income**

	<b>Three months ended 31 Mar 2010 \$m</b>	Three months ended 31 Mar 2009 \$m	Change
Gross investment income	<b>126</b>	135	(7%)
Interest rebates to Participants	<b>(1)</b>	(1)	0%
Net investment income	<b>125</b>	134	(7%)

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

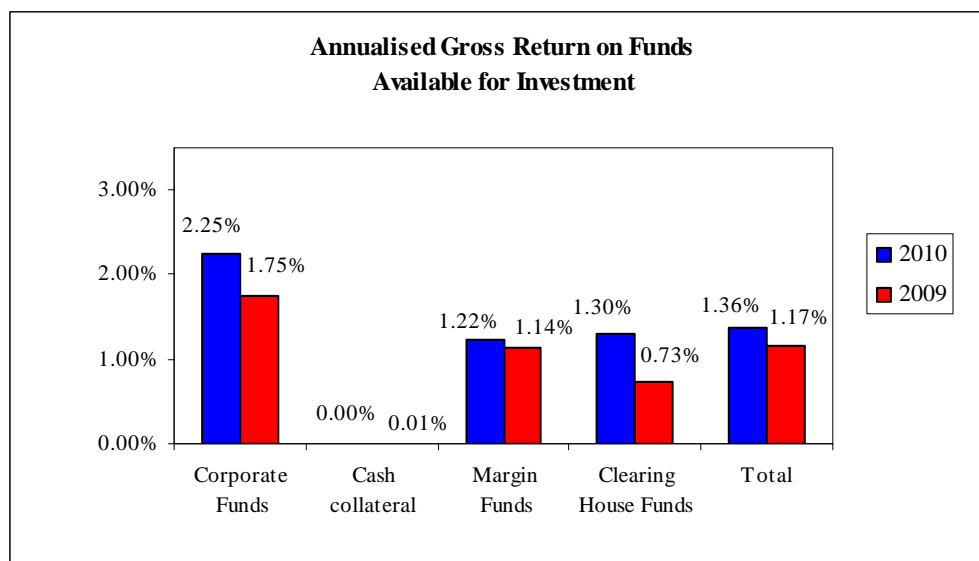
	<b>Three months ended 31 Mar 2010 \$bn</b>	Three months ended 31 Mar 2009 \$bn	Change
Corporate Funds	<b>9.2</b>	7.5	23%
Cash collateral	<b>3.6</b>	2.5	44%
Margin Funds	<b>22.3</b>	35.0	(36%)
Clearing House Funds	<b>2.0</b>	1.3	54%
Total	<b>37.1</b>	46.3	(20%)

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

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

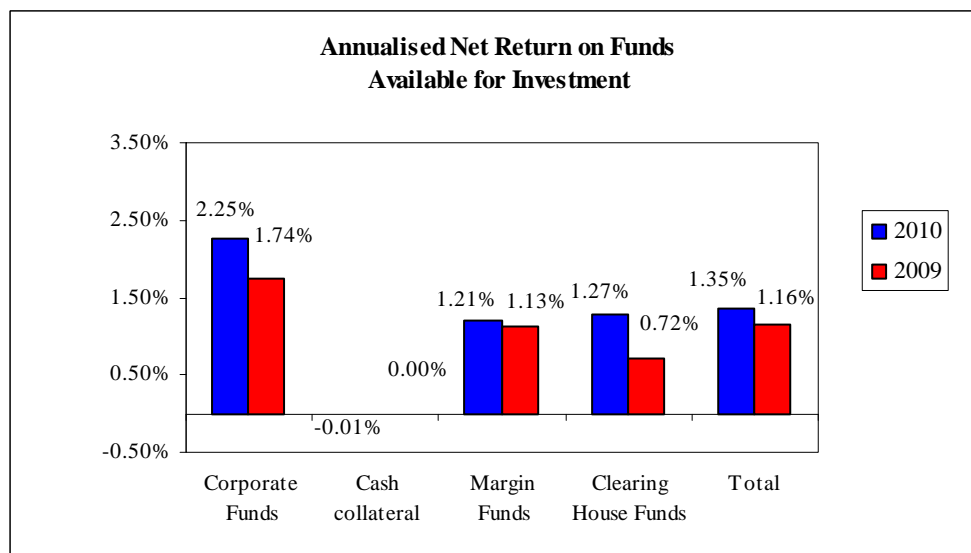
The lower net investment income was primarily due to the drop in net investment income attributable to the lower Margin Fund size during the first quarter of 2010 as compared with the corresponding period in 2009, but was partly offset by the increase in fair value gains of Corporate Fund and Margin Fund investments, reflecting market movements.

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



The increase in gross return of Corporate Funds, Margin Funds and Clearing House Funds was mainly attributable to higher unrealised fair value gains of the investments that are measured at fair value (including certain principal-guaranteed structured notes and principal-guaranteed structured deposits) of the Funds. As the valuation of the investments reflects movements in their market prices, unrealised gains or losses may fluctuate or reverse until the investments are sold or mature.

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 2010 and 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) were almost zero.

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

## Operating Expenses

	<b>Three months ended 31 Mar 2010 \$m</b>	As restated Three months ended 31 Mar 2009 \$m	Change
Staff costs and related expenses	<b>209</b>	182	15%
IT and computer maintenance expenses	<b>64</b>	59	8%
Premises expenses	<b>53</b>	54	(2%)
Product marketing and promotion expenses	<b>3</b>	3	0%
Legal and professional fees	<b>2</b>	4	(50%)
Depreciation	<b>27</b>	25	8%
Other operating expenses	<b>27</b>	27	0%
<b>Total</b>	<b>385</b>	354	9%

Staff costs and related expenses increased by \$27 million, primarily due to the increase in salary costs as a result of the salary adjustments to keep up with the market trend, and an increase in performance bonus accrual on account of the improved performance of the Group in 2010, but was partly offset by the decrease in share-based compensation expenses as certain employee share options and awarded shares became fully vested.

The Group's IT and computer maintenance expenses, excluding costs of services and goods directly consumed by the Participants of \$29 million (2009: \$25 million), were \$35 million (2009: \$34 million). The rise in costs of services and goods directly consumed by the Participants was due to the increase in AMS/3 line rentals and HKATS maintenance expenses incurred by the Participants. 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.

## Taxation

	<b>Three months ended 31 Mar 2010 \$m</b>	As restated Three months ended 31 Mar 2009 \$m	Change
Taxation	<b>202</b>	153	32%

Taxation increased mainly attributable to an increase in profit before taxation and a decrease in non-taxable investment income.

## Working Capital

Working capital increased by \$1,313 million or 23 per cent to \$7,023 million as at 31 March 2010 (31 December 2009: \$5,710 million). The increase was primarily due to the profit generated during the first quarter of 2010 of \$1,127 million, the decrease in financial assets maturing over one year of \$147 million, and the increase in other working capital of \$39 million.

## **Exposure to Fluctuations in Exchange Rates and Related Hedges**

When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency 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.

As at 31 March 2010, the aggregate net open foreign currency positions amounted to HK\$2,310 million, of which HK\$178 million were non-USD exposures (31 December 2009: HK\$3,140 million, of which HK\$193 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK\$3,530 million (31 December 2009: HK\$3,405 million). All forward foreign exchange contracts would mature within 5 months (31 December 2009: 2 months).

Foreign currency margin deposits received by the Group are mainly hedged by investments in the same currencies, but 25 per cent of the HKD liabilities may be invested in USD deposits for a maximum maturity of 2 weeks.

## **Contingent Liabilities**

There were no significant changes in the Group's contingent liabilities from the information disclosed in the annual report for the year ended 31 December 2009.

## **Changes since 31 December 2009**

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 2009.

It is the Group's plan to declare dividends only at the half-year and year-end. Therefore, no dividend will be proposed for the first quarter ended 31 March 2010 (first quarter of 2009: \$Nil).

Due to fluctuations in market conditions and changes in the operating environment, certain categories of 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.



## **OPERATIONAL REVIEW**

### **Organisational Changes**

Mr Charles X Li became the Chief Executive and the ex-officio member of the Board effective 16 January 2010.

HKEx has revised its organisation structure to align it with HKEx's strategic direction, as set forth in the 2010-2012 Strategic Plan which is available on the HKEx website.

Mr Romnesh Lamba joined HKEx in early February 2010 as Executive Vice President and Head of Market Development. The new Market Development Division comprises the Issuer Marketing, Corporate Strategy, and Research and Corporate Development departments, as well as the new Platform Development and Mainland Development departments. The Mainland Development Department includes HKEx's Beijing Representative Office. Mr Lawrence K M Fok, who was the Head of Issuer Marketing, has been appointed Chief Marketing Officer, acting as HKEx's ambassador to overseas markets. The selection of suitable candidates to be the Heads of the Issuer Marketing and Corporate Strategy departments as well as the other two new departments is underway.

Mr Stewart S C Shing, who was HKEx's Head of Clearing before he retired last year, re-joined HKEx on 1 February 2010 as an advisor to the Chief Executive in the new Advisory Services Department. Mr Peter J Curley, Head of Corporate Strategy, has also transferred to the department.

Ms Christine O M Wong will join HKEx on 10 June 2010 as the successor to Ms Mary M L Kao (who will retire on 1 August 2010) as the Chief Counsel and Head of Legal Services. Mr Samuel S F Wong will join HKEx on 2 July 2010 to succeed Mr Archie T C Tsim (who resigned on 1 April 2010) as the Chief Financial Officer and Head of Finance and Administration.

Mr Eddie L S Chow, Head of Administration, has informed the Company that he will retire on 1 June 2010. The selection of suitable candidate to fill his vacancy is underway.

HKEx takes this opportunity to express its gratitude to Messrs Tsim and Chow, and Ms Kao for their valuable contributions to HKEx and their distinguished and dedicated services over the past years.

### **Corporate Governance**

The Government Appointed Directors (the directors appointed by the Hong Kong Financial Secretary pursuant to Section 77 of the Securities and Futures Ordinance ("SFO")) and the Chief Executive in his capacity as a director of HKEx ("Director") are not subject to election or re-election by HKEx's shareholders ("Shareholders") as their appointments are 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 Code on Corporate Governance Practices (Appendix 14 to the Main Board Listing Rules) throughout the review period.

HKEx continued to be a constituent company in the FTSE4Good Index Series and maintained the Global Rating of 8 and Home Market Rating of 10 (out of 10) assigned by the GovernanceMetrics International Inc, a corporate governance ratings and research firm, as of 15 February 2010.

HKEx is committed to improving its corporate governance and welcomes stakeholders' comments which can be sent in writing or by email to [ssd@hkex.com.hk](mailto:ssd@hkex.com.hk).

## **Corporate Social Responsibility (“CSR”) Development**

On 23 April 2010, the Board resolved to donate \$1 million to support relief efforts in areas affected by the earthquake in Qinghai through the Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region.

We are pleased that HKEx continues to be assessed as one of the CSR leaders among the HSI constituent companies in the CSR Survey of HSI Constituent Companies in 2009 published by Oxfam Hong Kong in April 2010.

HKEx's 2009 CSR Report “Our Commitment to Sustainable Value” was published in March 2010 to depict HKEx's significant economic, environmental and social performances during 2009. To enhance the quality and standard of our CSR reporting, the Report was prepared in accordance with the Global Reporting Initiative (“GRI”) G3 Sustainability Reporting Guidelines and was qualified as GRI application level A+. The Report is published in electronic form only on the HKEx website in line with our objectives to protect the environment and to promote stakeholder inclusiveness and user-friendliness of the Report. Our stakeholders are invited to give their comments on the 2009 CSR Report by completing the online feedback form to facilitate the continual improvement of our CSR performance and reporting.

Under the new CSR Management System Framework formulated with reference to the ISO/DIS 26000 Guidance on Social Responsibility and ISO 14001 Environmental Management Systems Standard, a CSR Working Group comprising CSR Coordinators appointed by each division and department was set up effective 1 January 2010 to oversee the overall daily operation of the management system and implementation of CSR practices within individual division/department. A CSR Policy also became effective 1 January 2010, which serves to communicate to our stakeholders our commitment and management approach to various CSR issues under the 4 cornerstones: Marketplace, Workplace, Community and Environment, and to guide decisions that affect our CSR performance and the development of socially responsible practices. Details of the CSR Management System structure and CSR Policy are available on the HKEx website.

## **PROSPECTS**

The average daily turnover value on the Stock Exchange and the average daily turnover of derivatives contracts on the Futures Exchange in the first quarter of 2010 recorded significant improvements of 45 per cent to \$64.8 billion and 8 per cent to 211,724 contracts respectively against those of the first quarter of last year. IPOs continued to be active in the first quarter with 13 new listings against 7 in the corresponding period in 2009. The total equity funds raised (including post-listing funds) amounted to \$87.1 billion, which was more than 5 times a year ago.

While global economies are recuperating at varying paces, potential mounting protectionism to help revive economies and the apprehension over inflation in various countries create uncertainties in the bumpy road to recovery. Governments and central banks around the world are carefully planning exits from their stimulus measures, and their decisions will undoubtedly have a significant impact on the global economic performance ahead. Concurrently, there are also continuous discussions about reforms to the financial markets. As such, we remain vigilant about such situations and the impact it may have on international financial markets and developments. However, we continue to focus on maintaining an orderly, informed and fair market in Hong Kong. Investors are reminded to be cautious about their investment decisions and potential risks.

We are pleased to note that the Central Government, at the 11th National People's Congress meeting, indicated there would be continued efforts to boost Mainland consumption this year to sustain the country's economic growth. We will leverage on Hong Kong's unique position as a gateway to China and our established position as an international financial marketplace to support the continued growth of the Mainland financial market, and to support the progressive internationalisation of the renminbi. As laid down in our Strategic Plan 2010-2012, we will pursue the opportunities resulting from the further opening of the Mainland market while combating intensifying global competition. We will continue our close cooperation with the Mainland exchanges in various areas to further mutual development and prosperity and contribute to the country's economy.

Meanwhile, we welcome the Hong Kong Government's proposals to reduce the trading cost of some products listed on the Exchange and to give statutory backing to price sensitive disclosure requirements from listed issuers, which will enhance the competitiveness and quality of our market. We will keep building on our strengths to attract issuers globally and overseas investors to this part of the world and work closely with regulators and policymakers to enhance the competitiveness of Hong Kong's financial services industry.

We are honoured to receive the accolade of "The Exchange of the Year" in the Asian Banker Markets & Exchanges Achievement Awards and our former Chief Executive, Mr Paul M Y Chow, was accorded "The Leadership Achievement Award for Markets and Exchanges" organised by The Asian Banker in April 2010. Moving forward, we will continue to evaluate and implement the initiatives under the Strategic Plan 2010-2012 to generate organic growth and to expand our investor base and geographic coverage to boost HKEx's position as a leading global financial exchange. Our strategic and growth plans are phased and flexible in focus and scope as we recognise markets are continuing to evolve. Stakeholders will be kept informed of the latest developments in our key initiatives through our regular reporting channels.

**CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)**

	Note	Three months ended 31 Mar 2010 \$m	As restated Three months ended 31 Mar 2009 \$m
Trading fees and trading tariff		653	496
Stock Exchange listing fees		221	153
Clearing and settlement fees		365	257
Depository, custody and nominee services fees		73	62
Income from sale of information		169	155
Other revenue	4	108	84
<b>REVENUE</b>		<b>1,589</b>	<b>1,207</b>
Investment income		126	135
Interest rebates to Participants		(1)	(1)
Net investment income	5	125	134
	3	<b>1,714</b>	<b>1,341</b>
<b>OPERATING EXPENSES</b>			
Staff costs and related expenses		209	182
IT and computer maintenance expenses		64	59
Premises expenses		53	54
Product marketing and promotion expenses		3	3
Legal and professional fees		2	4
Depreciation		27	25
Other operating expenses		27	27
	3	<b>385</b>	<b>354</b>
<b>PROFIT BEFORE TAXATION</b>	3	<b>1,329</b>	<b>987</b>
<b>TAXATION</b>	6	<b>(202)</b>	<b>(153)</b>
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>1,127</b>	<b>834</b>
Basic earnings per share	7(a)	<b>\$1.05</b>	\$0.78
Diluted earnings per share	7(b)	<b>\$1.04</b>	\$0.77

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

	<b>Three months ended 31 Mar 2010 \$m</b>	<b>As restated Three months ended 31 Mar 2009 \$m</b>
Profit attributable to shareholders	<b>1,127</b>	834
Other comprehensive income:		
Available-for-sale financial assets:		
Change in fair value during the period	-	(53)
Change in fair value up to maturity	-	(15)
Deferred tax	-	11
Other comprehensive income attributable to shareholders, net of tax	-	(57)
<b>Total comprehensive income attributable to shareholders</b>	<b>1,127</b>	<b>777</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(UNAUDITED)**

	Note	At 31 Mar 2010 \$m	At 31 Dec 2009 \$m
<b>NON-CURRENT ASSETS</b>			
Fixed assets		281	303
Financial assets measured at fair value through profit or loss	8	1,191	1,559
Financial assets measured at amortised cost	8	989	768
Deferred tax assets		4	4
Other assets		3	3
		<b>2,468</b>	<b>2,637</b>
<b>CURRENT ASSETS</b>			
Accounts receivable, prepayments and deposits	8, 9	11,264	11,334
Financial assets measured at fair value through profit or loss	8	10,709	12,466
Financial assets measured at amortised cost	8	3,539	4,157
Cash and cash equivalents	8	18,508	14,738
		<b>44,020</b>	<b>42,695</b>
<b>CURRENT LIABILITIES</b>			
Participants' contributions to Clearing House Funds		863	723
Margin deposits from Clearing Participants on derivatives contracts		18,923	20,243
Cash collateral from HKSCC Clearing Participants		4,391	3,432
Accounts payable, accruals and other liabilities	10	12,099	11,827
Other financial liabilities		45	42
Deferred revenue		382	424
Taxation payable		264	261
Provisions		30	33
		<b>36,997</b>	<b>36,985</b>
<b>NET CURRENT ASSETS</b>		<b>7,023</b>	<b>5,710</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>9,491</b>	<b>8,347</b>
<b>NON-CURRENT LIABILITIES</b>			
Participants' contributions to Clearing House Funds		280	276
Deferred tax liabilities		15	18
Provisions		29	26
		<b>324</b>	<b>320</b>
<b>NET ASSETS</b>		<b>9,167</b>	<b>8,027</b>
<b>CAPITAL AND RESERVES</b>			
Share capital		1,077	1,076
Share premium		388	376
Shares held for Share Award Scheme		(51)	(52)
Employee share-based compensation reserve		42	43
Designated reserves		571	563
Retained earnings	11	7,140	6,021
<b>SHAREHOLDERS' FUNDS</b>		<b>9,167</b>	<b>8,027</b>
<b>TOTAL ASSETS</b>		<b>46,488</b>	<b>45,332</b>
<b>TOTAL LIABILITIES</b>		<b>37,321</b>	<b>37,305</b>

## NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED)

### 1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated accounts should be read in conjunction with the 2009 annual accounts. The accounting policies and methods of computation used in the preparation of these accounts and segment information are consistent with those used in the annual accounts and segment information for the year ended 31 December 2009.

As disclosed in the 2009 annual accounts, the Group adopted Hong Kong Financial Reporting Standard (“HKFRS”) 9: Financial Instruments and amended its accounting policy for measurement of leasehold building in the fourth quarter of 2009. The adoption of the new standard and the amended accounting policy had the following impact on the condensed consolidated statement of financial position as at 31 March 2009:

- (a) Revaluation reserve as at 31 March 2009 decreased by \$5 million as certain available-for-sale financial assets with revaluation surpluses were reclassified to financial assets measured at amortised cost under HKFRS 9. The decrease in revaluation reserve reflected the restatement of those assets from fair value to the lower amortised cost.
- (b) Prior to the fourth quarter of 2009, the leasehold building was measured at valuation less accumulated depreciation. In the fourth quarter of 2009, the accounting policy of leasehold building was changed to cost less accumulated depreciation and this change has been applied retrospectively. As a result, retained earnings as at 31 March 2009 decreased by \$2 million, as the accumulated depreciation charges were computed based on the cost of the leasehold building, which was higher than the valuation before the change in accounting policy.

The effect of adopting these accounting policies on each component of the condensed consolidated income statement and the aggregate impact on the condensed consolidated income statement for the three months ended 31 March 2009 were less than \$1 million. The impact on basic earnings per share and diluted earnings per share for the same period was less than \$0.01.

### 2. Turnover

The Group’s turnover comprises trading fees and trading tariff, Stock Exchange listing fees, clearing and settlement fees, depository, custody and nominee services fees, income from sale of information, net investment income (including investment income net of interest rebates to Participants of Clearing House Funds) and other revenue.

### 3. Operating Segments

The Group determines their operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group has 4 reportable segments. The segments are managed separately as each business offers different products and services and requires different IT 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, CBBCs and warrants. Currently, the Group operates 2 Cash Market platforms, the Main Board and the GEM. The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market.

The **Derivatives Market** business refers to the derivatives products traded on the Futures Exchange and stock options traded on the Stock Exchange, which includes the provision and maintenance of trading platforms for a range of derivatives products, such as stock and equity index futures and options. 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 3 clearing houses, namely HKSCC, SEOCH and HKCC, which are responsible for clearing, settlement and custodian activities of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from net investment income earned on the Clearing House Funds and fees from providing clearing, settlement, depository, custody and nominee services.

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

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

	Three months ended 31 Mar 2010					Group \$m
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Inter-segment elimination (note (a)) \$m	
Income from external customers	773	177	469	170	-	1,589
Net investment income	29	77	22	-	(3)	125
	802	254	491	170	(3)	1,714
Operating expenses						
Direct costs	154	40	80	14	(3)	285
Indirect costs	50	14	29	7	-	100
	204	54	109	21	(3)	385
Reportable segment profit before taxation	598	200	382	149	-	1,329

	As restated Three months ended 31 Mar 2009					Group \$m
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Inter-segment elimination (note (a)) \$m	
Income from external customers	537	167	348	155	-	1,207
Net investment income	16	101	20	-	(3)	134
	553	268	368	155	(3)	1,341
Operating expenses						
Direct costs	143	38	82	11	(3)	271
Indirect costs	39	13	24	7	-	83
	182	51	106	18	(3)	354
Reportable segment profit before taxation	371	217	262	137	-	987

- (a) The elimination adjustment represents the inter-segment interest charge from the Corporate Centre to the Clearing Business segment for funding the closing-out of market contracts of the defaulting Participant, Lehman Brothers Securities Asia Limited.

#### 4. Other Revenue

	Three months ended 31 Mar 2010 \$m	Three months ended 31 Mar 2009 \$m
Network, terminal user, dataline and software sub-license fees	85	62
Participants' subscription and application fees	9	9
Trading booth user fees	4	4
Sales of Trading Rights	4	3
Miscellaneous revenue	6	6
	108	84



**5. Net Investment Income**

	Three months ended 31 Mar 2010 \$m	As restated Three months ended 31 Mar 2009 \$m
Gross interest income	22	120
Interest rebates to Participants	(1)	(1)
Net interest income	21	119
Net realised and unrealised gains and interest income on financial assets measured at fair value through profit or loss, and financial assets and financial liabilities at fair value through profit or loss	102	14
Dividend income from financial assets measured at fair value through profit or loss and financial assets at fair value through profit or loss	1	1
Other exchange differences	1	–
Net investment income	125	134

**6. Taxation**

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

	Three months ended 31 Mar 2010 \$m	As restated Three months ended 31 Mar 2009 \$m
Provision for Hong Kong Profits Tax for the period (note (a))	205	147
Deferred taxation	(3)	6
	202	153

- (a) Hong Kong Profits Tax has been provided for at 16.5 per cent (2009: 16.5 per cent) on the estimated assessable profit for the period.

**7. 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 2010	As restated Three months ended 31 Mar 2009
Profit attributable to shareholders (\$m)	1,127	834
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,075,800	1,073,941
Basic earnings per share	\$1.05	\$0.78

(b) Diluted earnings per share

	Three months ended 31 Mar 2010	As restated Three months ended 31 Mar 2009
Profit attributable to shareholders (\$m)	1,127	834
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,075,800	1,073,941
Effect of employee share options (in '000)	2,668	3,369
Effect of Awarded Shares (in '000)	564	906
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,079,032	1,078,216
Diluted earnings per share	\$1.04	\$0.77

**8. Financial Assets**

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

	At 31 Mar 2010 \$m	At 31 Dec 2009 \$m
<b>Clearing House Funds</b>		
Financial assets measured at fair value through profit or loss	412	410
Financial assets measured at amortised cost	24	51
Cash and cash equivalents	1,458	1,280
	<b>1,894</b>	<b>1,741</b>
<b>Margin Funds</b>		
Financial assets measured at fair value through profit or loss	6,912	8,673
Financial assets measured at amortised cost	2,414	2,854
Accounts receivable, prepayments and deposits	1	9
Cash and cash equivalents	9,596	8,707
	<b>18,923</b>	<b>20,243</b>
	<b>20,817</b>	<b>21,984</b>

**9. 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 2009: 92 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within 2 days after the trade date. The majority of the remaining accounts receivable, prepayments and deposits were due within 3 months.

**10. 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 87 per cent (31 December 2009: 89 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within 2 days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within 3 months.

**11. Retained Earnings (Including Proposed Dividend)**

	2010 \$m	2009 \$m
At 1 Jan	6,021	5,241
Profit for the period/year	1,127	4,704
Transfer to Clearing House Funds reserves	(8)	(11)
Dividends:		
2008 final dividend	-	(1,933)
Dividend on shares issued for employee share options exercised after 31 Dec 2008	-	(2)
2009 interim dividend	-	(1,935)
Unclaimed dividend forfeited	-	4
Vesting of shares of Share Award Scheme	-	(4)
At 31 Mar 2010/31 Dec 2009	7,140	6,021
Representing:		
Retained earnings	4,891	3,773
Proposed dividend	2,249	2,248
At 31 Mar 2010/31 Dec 2009	7,140	6,021

**REVIEW OF ACCOUNTS**

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2010 in conjunction with HKEx's external auditor.

Management has appointed the external auditor to carry out certain agreed-upon procedures in accordance with the 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 2010.

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

During the three months ended 31 March 2010, neither HKEx nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

**PUBLICATION OF RESULTS AND QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2010**

The results announcement is published on the HKExnews website at [www.hkexnews.hk](http://www.hkexnews.hk) and the HKEx website at [www.hkex.com.hk/eng/exchange/invest/results/2010Results.htm](http://www.hkex.com.hk/eng/exchange/invest/results/2010Results.htm). The Quarterly Report for the three months ended 31 March 2010 will be available on the HKExnews and HKEx websites and despatched to Shareholders on or about Wednesday, 26 May 2010.

## **BOARD OF DIRECTORS**

Messrs John E Strickland and Oscar S H Wong were re-elected as Directors by Shareholders at the annual general meeting held on 22 April 2010 (“2010 AGM”) each for a term of approximately 3 years from 22 April 2010 until the conclusion of the annual general meeting to be held in 2013. On the same day, the Hong Kong Financial Secretary re-appointed Mr Ronald J Arculli, Mrs Laura M Cha and Dr Moses M C Cheng as Government Appointed Directors each for a term of approximately 2 years from close of the 2010 AGM until the conclusion of the annual general meeting to be held in 2012. The Board on 23 April 2010 re-appointed Mr Arculli as the Chairman and the Acting Chief Executive of the Hong Kong Special Administrative Region on 27 April 2010 approved the re-appointment.

On 23 April 2010, the Board resolved to change the composition of the Audit Committee. The terms of service of Directors with the Committees are coterminous with their respective terms of directorship with HKEx. The updated member lists of the various Committees are available on the HKEx website.

As at the date of this announcement, the Board of Directors of HKEx comprises 12 Independent Non-executive Directors, namely Mr Ronald Joseph ARCULLI (Chairman), Mrs CHA May-Lung, Laura, Mr CHAN Tze Ching, Ignatius, Dr CHENG Mo Chi, Moses, Dr CHEUNG Kin Tung, Marvin, Mr HUI Chiu Chung, Stephen, Dr KWOK Chi Piu, Bill, Mr LEE Kwan Ho, Vincent Marshall, Mr LEE Tze Hau, Michael, Mr John Estmond STRICKLAND, Mr John Mackay McCulloch WILLIAMSON and Mr WONG Sai Hung, Oscar, and one Executive Director, Mr LI Xiaojia, Charles, who is also the Chief Executive.

By Order of the Board  
**Hong Kong Exchanges and Clearing Limited**  
**Ronald Joseph ARCULLI**  
Chairman

Hong Kong, 12 May 2010