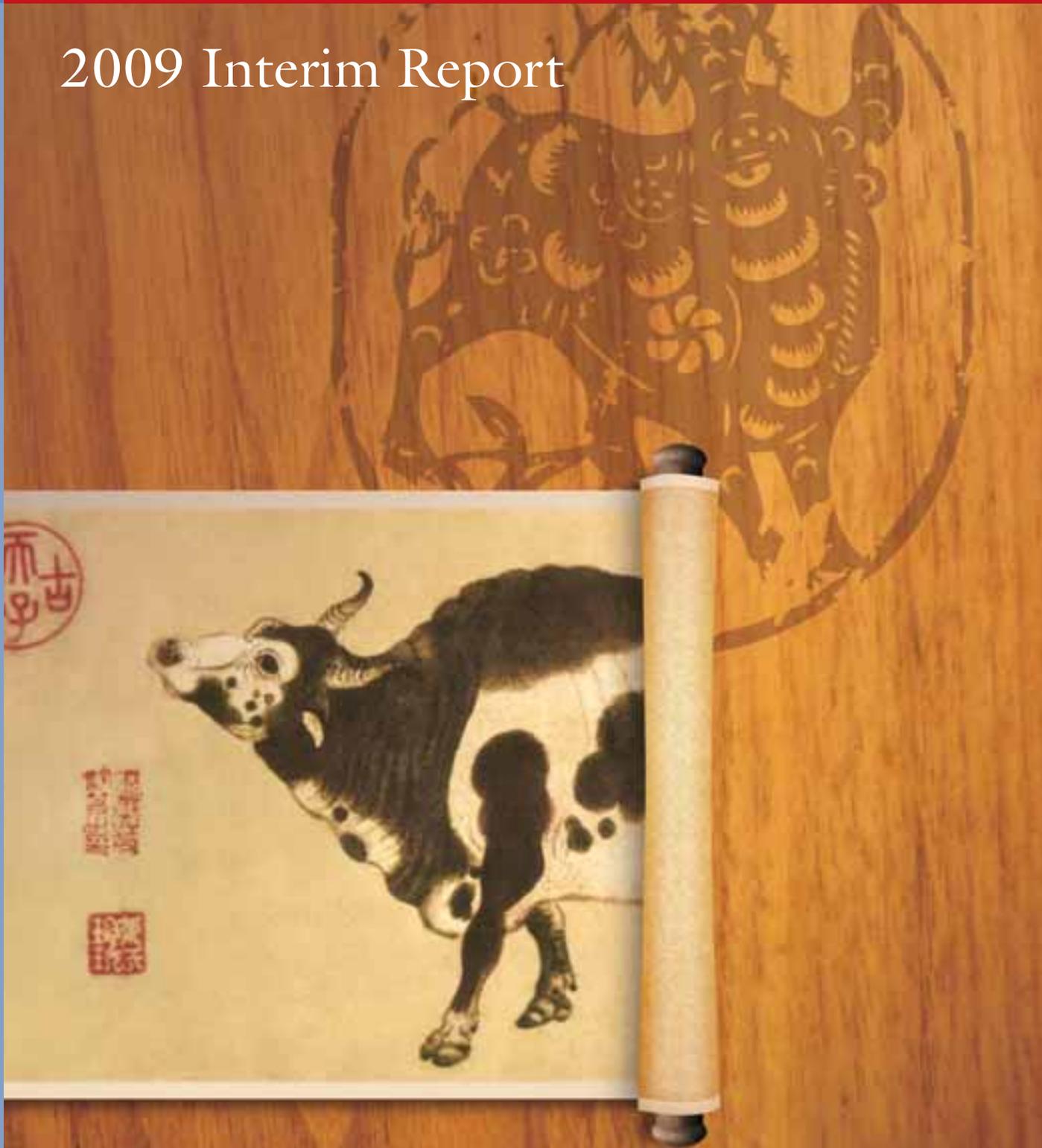




2009 Interim Report





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



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

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FINANCIAL HIGHLIGHTS

	Six months ended 30 Jun 2009	Six months ended 30 Jun 2008	Change	Three months ended 30 Jun 2009	Three months ended 30 Jun 2008	Change
KEY MARKET STATISTICS						
Average daily turnover value on the Stock Exchange	\$58.3 billion	\$87.3 billion	(33%)	\$71.7 billion	\$76.1 billion	(6%)
Average daily number of derivatives contracts traded on the Futures Exchange	213,630	191,179	12%	231,464	176,748	31%
Average daily number of stock options contracts traded on the Stock Exchange	206,084	238,970	(14%)	217,696	212,191	3%

	Unaudited Six months ended 30 Jun 2009 \$'000	Unaudited Six months ended 30 Jun 2008 \$'000	Change	Unaudited Three months ended 30 Jun 2009 \$'000	Unaudited Three months ended 30 Jun 2008 \$'000	Change
RESULTS						
Revenue and other income	3,353,094	4,211,331	(20%)	2,011,759	1,926,687	4%
Operating expenses	760,018	768,943	(1%)	405,611	386,384	5%
Profit before taxation	2,593,076	3,442,388	(25%)	1,606,148	1,540,303	4%
Taxation	(392,191)	(467,982)	(16%)	(239,502)	(215,638)	11%
Profit attributable to shareholders	2,200,885	2,974,406	(26%)	1,366,646	1,324,665	3%
Basic earnings per share	\$2.05	\$2.78	(26%)	\$1.27	\$1.24	2%
Diluted earnings per share	\$2.04	\$2.76	(26%)	\$1.27	\$1.23	3%
Interim dividend per share	\$1.84	\$2.49	(26%)	\$1.84	\$2.49	(26%)
Dividend payout ratio	90%	90%	N/A	N/A	N/A	N/A

	Unaudited at 30 Jun 2009	Audited at 31 Dec 2008	Change
KEY ITEMS IN CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds (\$'000)	7,518,178	7,295,322	3%
Total assets * (\$'000)	41,354,831	62,823,921	(34%)
Net assets per share #	\$6.99	\$6.79	3%

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

Based on 1,074,924,708 shares as at 30 June 2009, being 1,075,939,346 shares issued and fully paid less 1,014,638 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)

CHRONOLOGY OF EVENTS

1 January

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

16 January

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

21 January

Signed a closer cooperation agreement with the Shanghai Stock Exchange, which commits the 2 exchanges to work 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



9 February

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

20 February

Named "Stock Exchange of the Year" in *The Asset Triple A Transaction Banking Awards 2009*

23 March

Suspended the closing auction session in the securities market

1 April

Implemented a revised black out period under the Listing Rules during which a director is prohibited from dealing in the securities of the listed issuer

8 April

Signed a closer cooperation agreement with the Shenzhen Stock Exchange, which will help support continued cooperation, particularly in information sharing, product development and personnel training



21 May

Attended the Cross Border ETF Market Forum organised by the Taiwan Stock Exchange in Taipei to promote the Hong Kong ETF market



1 June

Streamlined procedures for EP's provision of information to HKEx

3 June

Announced the appointment of Mr Charles X J Li as the successor to the Chief Executive and extension of 3 senior executives' terms of service

5 June

Announced possible granting of waivers to Main Board IPO applicants from strict compliance with the profit test requirements

15 June

Completed consolidation of 2 data centres and the related IT offices

26 June

Published a consultation paper on certified emission reduction futures

Published a consultation paper on proposed changes to filing and checklist requirements for listing of equity securities

6 July

Introduced 3 new stock option classes

8 July

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



31 July

Published a consultation paper on proposals to accelerate rights issues and open offers

Published the consultation conclusion on proposal under Issue 15 (Self-construction of Assets) of the 2008 Combined Consultation Paper



BOARD AND COMMITTEES

Board

Independent Non-executive Chairman

ARCULLI, Ronald Joseph * GBS, JP

Executive Director, Chief Executive

CHOW Man Yiu, Paul SBS, JP

INEDs

CHA May-Lung, Laura * GBS, JP
CHAN Tze Ching, Ignatius ¹ 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 JP
LEE Kwan Ho, Vincent Marshall
LEE Tze Hau, Michael * ⁴
LOH Kung Wai, Christine ³ JP
STRICKLAND, John Estmond GBS, JP
WILLIAMSON, John Mackay McCulloch ¹
WONG Sai Hung, Oscar

Committees

Audit Committee

CHEUNG Kin Tung, Marvin ⁵ (Chairman)
LEE Kwan Ho, Vincent Marshall ⁶ (Deputy Chairman)
FONG Hup ³ (ex-Deputy Chairman)
CHAN Tze Ching, Ignatius ⁶
CHENG Mo Chi, Moses
WILLIAMSON, John Mackay McCulloch ⁵

Executive Committee

ARCULLI, Ronald Joseph (Chairman)
CHOW Man Yiu, Paul
FONG Hup ³
KWOK Chi Piu, Bill
LEE Kwan Ho, Vincent Marshall
WILLIAMSON, John Mackay McCulloch ⁶

Investment Advisory Committee

STRICKLAND, John Estmond (Chairman)
WONG Sai Hung, Oscar (Deputy Chairman)
CHA May-Lung, Laura ⁷
HUI Chiu Chung, Stephen ⁶
LEE Tze Hau, Michael ⁶
LUI Yin Tat, David ⁸
SUN Tak Kei, David ⁹
WILLIAMSON, John Mackay McCulloch ³

Committees (continued)

Nomination Committee

ARCULLI, Ronald Joseph (Chairman)
CHAN Tze Ching, Ignatius ⁶
CHENG Mo Chi, Moses ⁶
FAN Hung Ling, Henry ³ & Note
LEE Kwan Ho, Vincent Marshall ⁷
STRICKLAND, John Estmond
WONG Sai Hung, Oscar

Panel Member Nomination Committee

CHA May-Lung, Laura (Chairman)
FONG Hup ³
KWOK Chi Piu, Bill
LEE Kwan Ho, Vincent Marshall
LEE Tze Hau, Michael ⁶
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, Christine ³
WILLIAMSON, John Mackay McCulloch ⁶

Risk Management Committee ^A

ARCULLI, Ronald Joseph (Chairman)
CHAN Ka-lok ** ¹⁰
CHEUNG Kin Tung, Marvin ⁵
FONG Hup ** ¹⁰
HUNG Pi Cheng, Benjamin **
KWOK Chi Piu, Bill
LAU Ying Pan, Edmond ** ¹⁰
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	6 Appointment effective 24 April 2009
** Appointed by the Financial Secretary	2 Re-appointment effective 23 April 2009	7 Appointment ceased on 24 April 2009
^A Established under Section 65 of the SFO	3 Retired on 23 April 2009	8 Appointment effective 17 June 2009
	4 Appointment effective 23 April 2009	9 Resignation effective 17 June 2009
	5 Re-appointment effective 24 April 2009	10 Re-appointment effective 1 July 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

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 changes in the Board's composition after the 2009 AGM, the Board, on 24 April 2009, considered and appointed its members to various Committees and Consultative Panels, each with a term to be coterminous with the individual's term of directorship with HKEx.

On 13 May 2009, the Board appointed certain market practitioners as members to the Cash Market Consultative Panel, Derivatives Market Consultative Panel and Clearing Consultative Panel to succeed the retiring members, each for a 3-year term starting from 1 June 2009. On 17 June 2009, the Board appointed Mr David Y T Lui as a member of the Investment Advisory Committee to fill the vacancy arising from the resignation of Mr David T K Sun.

The updated Committee/Panel member lists are available on the HKEx website.

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
• Committee on Review of Post-service Outside Work for Directorate Civil Servants – chairman	–	13 Jul 2009
• Arculli Fong & Ng where Mr Arculli is a senior partner, renamed as King & Wood following a merger effective 15 July 2009	–	–
Laura M 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	–
• Aviation Development Advisory Committee – member	–	9 Jun 2009
• Commission on Strategic Development – member	–	9 Jun 2009
• Advisory Committee on Post-office Employment for Former Chief Executives and Politically Appointed Officials – chairman	10 Jun 2009	–
• Galaxy Entertainment Group Limited – non-executive director	–	22 Jun 2009
• Advisory Committee on Post-service Employment of Civil Servants – chairman	14 Jul 2009	–
• Betting and Lotteries Commission – chairman	–	1 Aug 2009
• K. Wah International Holdings Limited – non-executive director	1 Aug 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

	Appointment (effective)	Cessation of Office (effective)
Stephen C C Hui		
• SEHK – member of Listing Committee and GEM Listing Committee	–	24 Apr 2009
Bill C P Kwok		
• HSBC Guyerzeller 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
Michael T H Lee		
• Police Children’s Education Trust – member of Investment Advisory Board	–	1 Jul 2009
• Police Education and Welfare Trust – member of Investment Advisory Board	–	1 Jul 2009
• Sir David Trench Fund for Recreation Investment Advisory Committee – member	–	1 Jul 2009
John E Strickland		
• Yoma Strategic Holdings Ltd (listed on the Singapore Exchange) – non-executive director	–	4 May 2009
Oscar S H Wong		
• China Bio-Med Regeneration Technology Limited – non-executive chairman	–	15 Jul 2009
– non-executive vice-chairman	15 Jul 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.

BUSINESS REVIEW

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 1 January 2009, except those relating to the extension of the black out period, which were subsequently modified and took effect on 1 April 2009. Pursuant to the modification, the black out periods applicable to publication of annual and interim financial results are 60 days and 30 days respectively. The consultation conclusion on proposal under Issue 15 (Self-construction of Assets) of the 2008 Combined Consultation Paper was published on 31 July 2009.

Report on CG Code Implementation

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

Potential Waiver from Profit Test Requirement

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

Report on Review of Listed Issuers' Financial Reports

On 12 June 2009, SEHK published the key observations and findings on its review of 100 financial reports released by listed issuers in 2007 and 2008, which is part of the Exchange's Financial Statements Review Programme, aiming to promote higher standards of financial disclosure.

Enhancing Listing Efficiency

On 26 June 2009, SEHK published a consultation paper on proposed changes to the filing and checklist requirements for the listing of equity securities with the aim of streamlining the listing process to reduce unnecessary costs, delay and paperwork. This initiative also forms part of the action plan to implement the consultant's recommendations given upon the strategic review of the Listing Rules and their application.

WPIP Implementation

The Exchange introduced revised logistical arrangements to enable WPIPs to be submitted through the e-Submission System.

Review of Chapter 18 of the Main Board Listing Rules

The Listing Committee has considered the policy paper prepared based on the external consultants' report on the listing requirements and disclosure obligations for mineral companies, which will form the basis of market consultation scheduled for publication in the second half of 2009.

Other Consultations

On 31 July 2009, the Exchange published a consultation paper to seek the public's views on proposals to shorten the notice period for book closure for rights issues and open offers from 14 calendar days to 5 business days with at least 2 uninterrupted trading days for trading in securities whose holders are entitled to the subscription rights, and to amend the minimum subscription period for rights issues and open offers from 14 calendar days to 10 business days. The deadline for replies to the consultation paper is 30 September 2009.

The Exchange will continue to explore various approaches and consider the issue of periodic financial reporting further at the Listing Policy Meeting.

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

The MMO proposal, a joint project of the SFC and HKEx, is designed to reduce the number of printed prospectuses without compromising shareholder protection. This involves a new Companies Ordinance class exemption to dispense issuers with printing and distributing hardcopy prospectuses together with the application forms on certain conditions which include posting the prospectus online and making it available in printed format to investors upon request.

In light of the Lehman Mini-bond incident which has raised concerns about the preparation and distribution of prospectuses, the SFC in early 2009 decided to temporarily put the MMO proposal on hold to further examine the shareholder protection impact.

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

Cash Market

Market Performance

In the first six months of 2009, 18 companies were newly listed on the Main Board (including 4 transferred from GEM), and none on GEM. Two Main Board companies and 4 GEM companies were delisted. Total capital raised reached \$217.4 billion (including funds raised through IPOs of \$17.6 billion). As at 30 June 2009, 1,103 and 170 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about \$14,147.6 billion. In addition, there were 2,726 DWs, 1,620 CBBCs, 7 REITs, 30 ETFs and 167 debt securities listed as at 30 June 2009. The average daily turnover in the first six months of 2009 was about \$58.1 billion on the Main Board and about \$196 million on GEM.

Number of Listed Companies by Industry Classification * – Main Board and GEM

	As at	As at	As at	Change	
	30 Jun 2009	31 Mar 2009	30 Jun 2008	Mar 2009	Jun 2008
Energy	36	36	28	0%	29%
Materials	99	96	84	3%	18%
Industrial Goods	113	113	116	0%	(3%)
Consumer Goods	328	326	336	1%	(2%)
Services	197	198	194	(1%)	2%
Telecommunications	17	16	18	6%	(6%)
Utilities	26	26	21	0%	24%
Financials	99	99	104	0%	(5%)
Properties & Construction	178	176	167	1%	7%
IT	158	158	159	0%	(1%)
Conglomerates	22	22	27	0%	(19%)
Total	1,273	1,266	1,254	1%	2%

* According to the Hang Seng Indexes Company Limited

Market Capitalisation of Listed Companies by Industry Classification * – Main Board and GEM

	As at	As at	As at	Change	
	30 Jun 2009 (\$mil)	31 Mar 2009 (\$mil)	30 Jun 2008 (\$mil)	Mar 2009	Jun 2008
Energy	1,010,903	739,312	1,322,722	37%	(24%)
Materials	383,633	208,226	392,637	84%	(2%)
Industrial Goods	210,913	136,434	236,852	55%	(11%)
Consumer Goods	1,055,651	731,675	1,070,828	44%	(1%)
Services	842,774	597,586	1,101,348	41%	(23%)
Telecommunications	1,905,266	1,653,503	2,614,208	15%	(27%)
Utilities	516,681	454,762	555,030	14%	(7%)
Financials	4,931,625	3,423,839	5,665,583	44%	(13%)
Properties & Construction	2,008,984	1,320,407	1,961,088	52%	2%
IT	485,602	296,291	466,313	64%	4%
Conglomerates	795,548	565,700	969,431	41%	(18%)
Total	14,147,579	10,127,736	16,356,041	40%	(14%)

* According to the Hang Seng Indexes Company Limited

Note: Figures have been rounded and may not add up to the total.

Number of Listed Securities – Main Board and GEM

	As at	As at	As at	Change	
	30 Jun 2009	31 Mar 2009	30 Jun 2008	Mar 2009	Jun 2008
Ordinary Shares	1,274	1,267	1,255	1%	2%
Preference Shares	2	2	2	0%	0%
Warrants	2,757	2,542	4,638	8%	(41%)
Equity Warrants	31	32	39	(3%)	(21%)
DWs	2,726	2,510	4,599	9%	(41%)
CBBCs	1,620	1,513	453	7%	258%
Unit Trusts	39	33	32	18%	22%
ETFs	30	24	23	25%	30%
REITs	7	7	7	0%	0%
Others	2	2	2	0%	0%
Debt Securities	167	171	175	(2%)	(5%)
Total	5,859	5,528	6,555	6%	(11%)

Market Value by Type of Securities – Main Board and GEM

	As at	As at	As at	Change	
	30 Jun 2009 (\$mil)	31 Mar 2009 (\$mil)	30 Jun 2008 (\$mil)	Mar 2009	Jun 2008
Equities	14,147,579	10,127,736	16,356,041	40%	(14%)
Warrants	209,965	132,741	214,925	58%	(2%)
Equity Warrants	1,000	329	2,137	204%	(53%)
DWs	208,965	132,412	212,788	58%	(2%)
CBBCs	153,964	152,387	86,946	1%	77%
Unit Trusts	464,526	395,970	174,989	17%	165%
ETFs	403,232	343,442	109,070	17%	270%
REITs	58,858	50,892	63,007	16%	(7%)
Others	2,436	1,636	2,912	49%	(16%)
Debt Securities *	395,724	406,932	435,938	(3%)	(9%)
Total	15,371,757	11,215,765	17,268,839	37%	(11%)

* Nominal value

Note: Figures have been rounded and may not add up to the sub-total or the total.

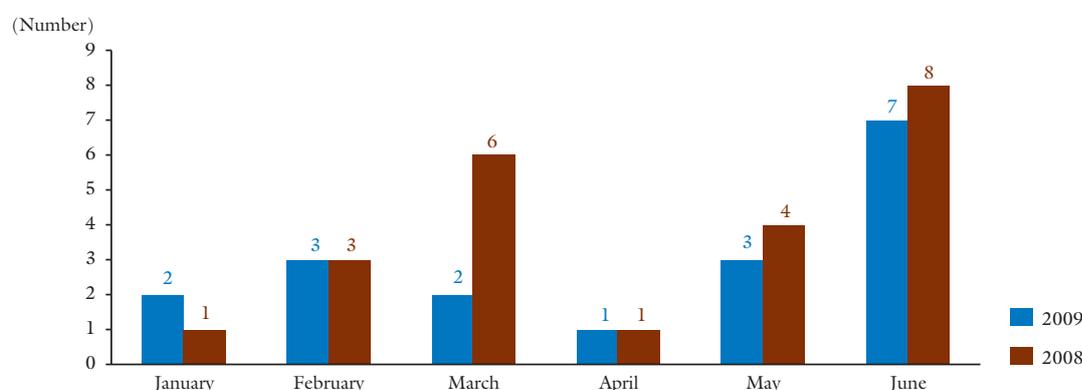
Turnover Value by Type of Securities – Main Board and GEM

	Six months	Six months	Change
	ended 30 Jun 2009 (\$mil)	ended 30 Jun 2008 (\$mil)	
Equities	5,274,074	7,509,942	(30%)
Warrants	727,563	2,570,660	(72%)
Equity Warrants	177	961	(82%)
DWs	727,386	2,569,700	(72%)
CBBCs	822,255	259,748	217%
Unit Trusts	232,111	222,912	4%
ETFs *	209,885	192,680	9%
REITs	21,752	28,818	(25%)
Others	474	1,414	(66%)
Debt Securities	3	4	(25%)
Total	7,056,006	10,563,266	(33%)

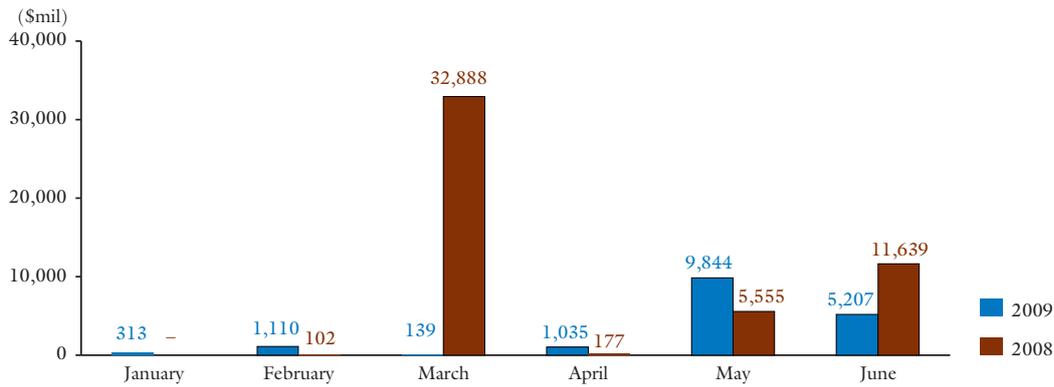
* Including 2 iShares for trading only

Note: Figures have been rounded and may not add up to the sub-total or the total.

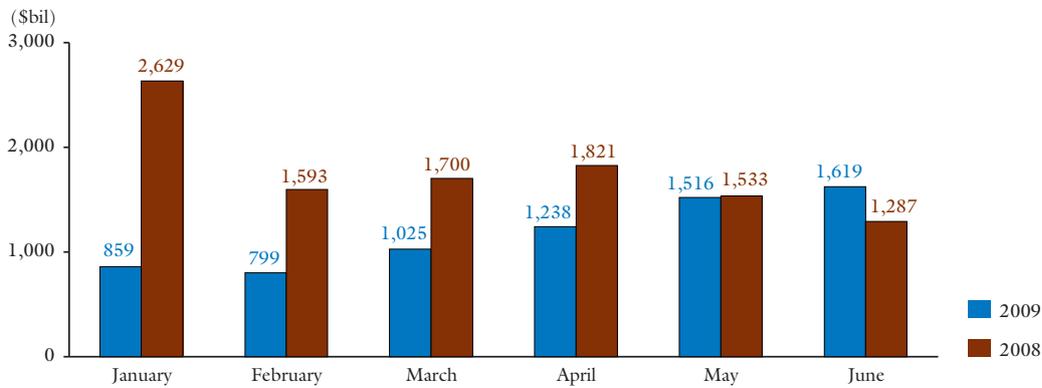
Newly Listed Companies – Main Board and GEM



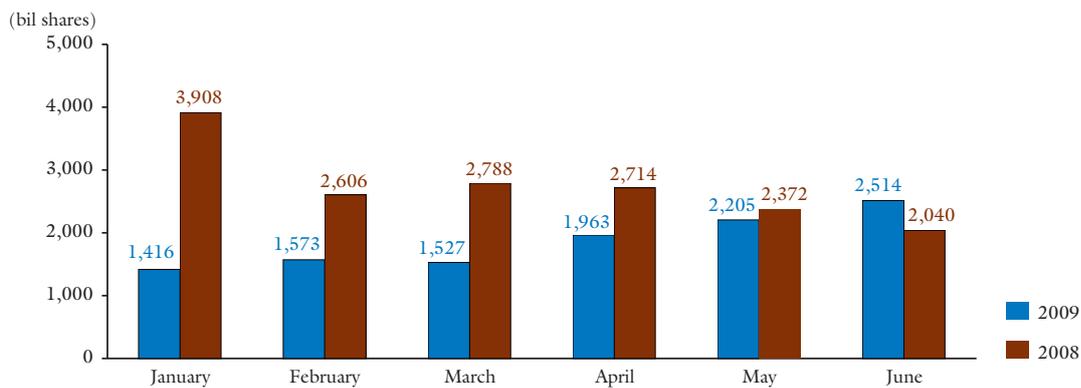
IPO Fund Raised by Newly Listed Companies – Main Board and GEM



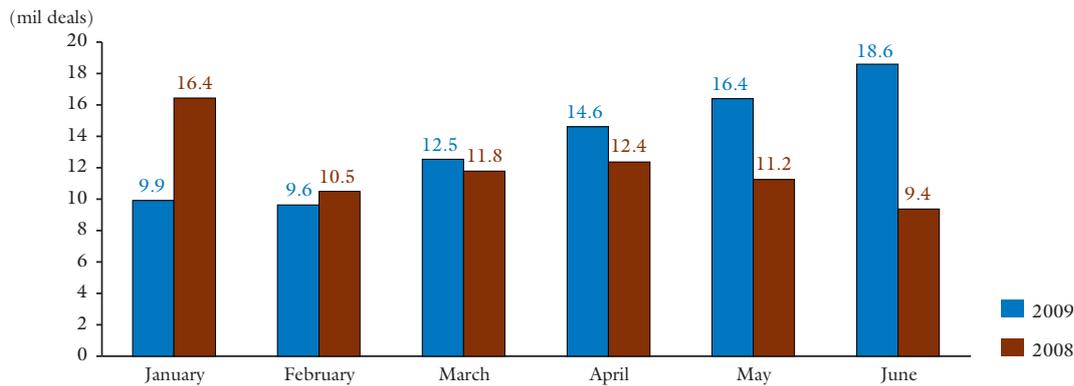
Turnover (Value) – Main Board and GEM



Turnover (Volume) – Main Board and GEM

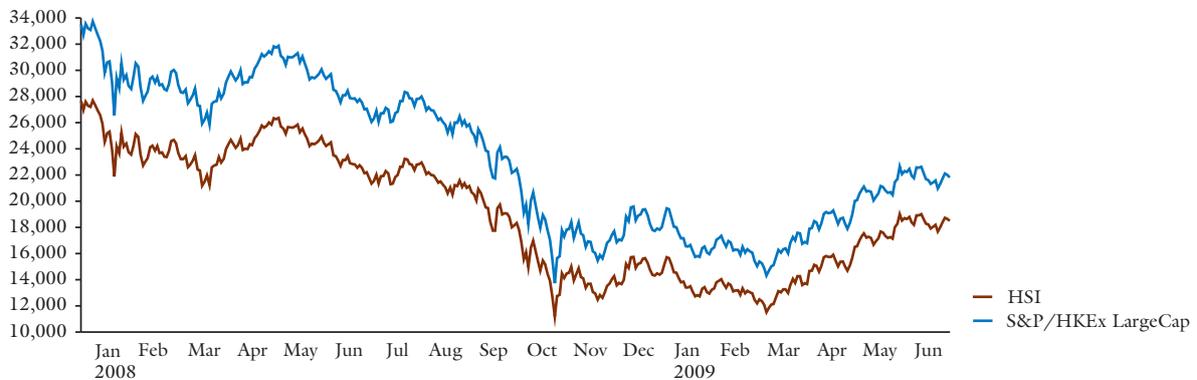


Number of Transactions – Main Board and GEM



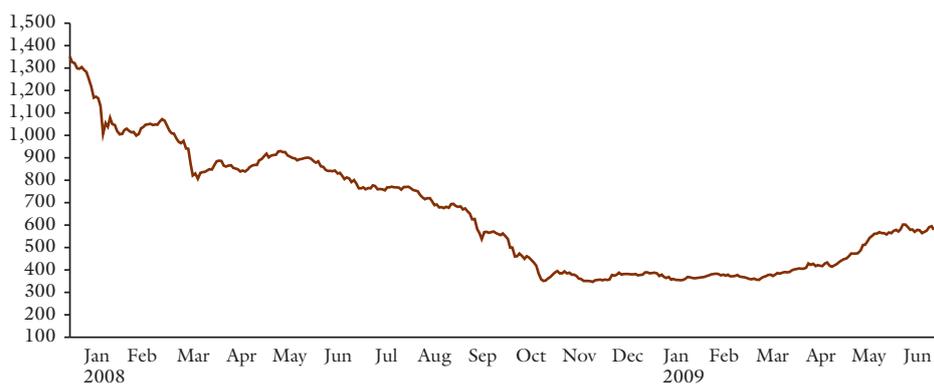
HSI and S&P/HKEx LargeCap Index

January 2008 – June 2009



S&P/HKEx GEM Index

January 2008 – June 2009



Suspension of Closing Auction Session (“CAS”)

Upon suspension of the CAS in the securities market on 23 March 2009, the pre-CAS closing time at 4 pm and the method for calculating closing prices for securities were resumed. HKEx will continue to explore possible alternative CAS arrangements, and put forward proposals, if any, for public consultation before implementation.

ETF Market Development

HKEx's ETF market has continued to grow and the number of ETFs increased to 30 as at the end of June 2009, with 6 new ETF listings in the second quarter of 2009. Further, 5 additional ETFs covering stock markets in Hong Kong, India, Korea, Vietnam and the US were listed on 8 July 2009. To promote greater transparency, HKEx has posted the market making obligations for individual ETFs on its website.

Structured Product Development

With the rapid growth of the CBBC market since its launch in 2006, CBBCs together with DWs now constitute a significant segment of the securities market. At the end of June 2009, CBBCs and DWs represented 28 and 47 per cent of the total number of the listed securities on the Exchange, with average daily turnover reaching \$6.8 billion (accounted for 12 per cent of the average daily market turnover) and \$6.0 billion (accounted for 10 per cent of the average daily market turnover) respectively. There are currently 13 active CBBC issuers and 19 active DW issuers, and their numbers continue to grow.

Automation of Stamp Duty Reporting and Payment

Subject to market readiness and relevant rule amendments, HKEx plans to automate stamp duty reporting and payment process in the first half of 2010 to further increase market efficiency, reduce paper consumption and help EPs streamline their operations.

Derivatives Market

Market Performance

The total futures and options turnover volume for the first six months of 2009 was 50,785,435 contracts, a decline of 2 per cent against the corresponding period in 2008, and the open interest decreased 16 per cent to 4,322,095 contracts. In the second quarter of 2009, the total turnover improved by 17 per cent compared to the first quarter. HSI Futures and Options outperformed other products with an increase of 10 per cent in the first half of 2009, as compared with the same period in 2008.

Record High Daily Volume and Open Interest Achieved in the First Half of 2009

Products	Daily Volume		Open Interest	
	Date	Number of Contracts	Date	Number of Contracts
Mini-HSI Futures	N/A	N/A	26 Jun	11,043
Mini H-shares Index Futures	12 May	4,795	N/A	N/A
Mini-HSI Options	28 Apr	4,584	26 Jun	9,893

Average Daily Volume of Major Derivatives Products

Contracts	Six months ended	Three months ended	Six months ended	Change	
	30 Jun 2009	31 Mar 2009	30 Jun 2008	Mar 2009	Jun 2008
HSI Futures	87,788	80,094	84,131	10%	4%
HSI Options	19,334	17,167	14,476	13%	34%
Mini-HSI Futures	38,721	32,119	29,520	21%	31%
Mini-HSI Options	1,105	942	450	17%	146%
H-shares Index Futures	55,068	54,785	55,827	1%	(1%)
H-shares Index Options	7,460	6,691	5,355	11%	39%
Mini H-shares Index Futures *	2,944	2,454	1,133	20%	160%
Stock Futures	1,166	1,192	714	(2%)	63%
Stock Options	206,084	194,279	238,970	6%	(14%)
3-Month HIBOR Futures	17	19	117	(11%)	(85%)
Gold Futures [△]	26	34	–	(24%)	N/A
Market Total	419,714	389,778	430,149	8%	(2%)

* Mini H-shares Index Futures were launched on 31 March 2008.

[△] Gold Futures were launched on 20 October 2008.

Open Interest of Major Derivatives Products

Contracts	As at	As at	As at	Change	
	30 Jun 2009	31 Mar 2009	30 Jun 2008	Mar 2009	Jun 2008
HSI Futures	79,772	80,785	101,711	(1%)	(22%)
HSI Options	182,288	118,571	91,240	54%	100%
Mini-HSI Futures	5,914	4,303	3,215	37%	84%
Mini-HSI Options	4,378	2,865	1,611	53%	172%
H-shares Index Futures	71,607	85,412	108,981	(16%)	(34%)
H-shares Index Options	114,324	95,652	47,697	20%	140%
Mini H-shares Index Futures *	623	702	520	(11%)	20%
Stock Futures	14,806	9,208	6,864	61%	116%
Stock Options	3,847,782	4,400,699	4,775,250	(13%)	(19%)
3-Month HIBOR Futures	550	1,327	1,708	(59%)	(68%)
Gold Futures [△]	16	20	–	(20%)	N/A
Market Total	4,322,095	4,799,594	5,138,904	(10%)	(16%)

* Mini H-shares Index Futures were launched on 31 March 2008.

[△] Gold Futures were launched on 20 October 2008.

No-action Relief for Mini Futures Contracts

Consequent on the grant of no-action relief to HKFE by the US Commodity Futures Trading Commission (“CFTC”) on 16 January 2009, EPs may, by observing the relevant CFTC rules, offer and sell mini futures contracts based on the HSI and HSCEI in the US.

Change in Closing Hours for Stock Index Futures and Options (“SIFO”)

Following the suspension of the CAS in the securities market, the closing time for SIFO at 4:15 pm for full-day trading and 12:30 pm for half-day trading, ie on the eves of Christmas, New Year and Chinese New Year, was resumed. The closing time for SIFO on the last trading day remains at 4:00 pm and 12:30 pm for full-day and half-day trading respectively.

Increase in Position Limits for Stock Option Classes

In view of the growing stock options market, the position limits of 6 option classes were revised from 30,000 open contracts per option class in any direction for all expiry months combined to 50,000 effective 2 July 2009. All option classes are now subject to a position limit of 50,000 contracts except one which will cease trading at the end of December 2009.

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

A consultation paper on CER Futures was published on 26 June 2009 to seek views and comments from interested parties in the emissions market, including financial intermediaries, investors, participants in the Clean Development Mechanism project and public policy makers, on the business feasibility of developing an emissions trading platform in Hong Kong and CER futures as a product concept. The consultation will end on 31 August 2009.

Introduction of New Option Classes

Following the introduction of the 3 stock option classes, namely China Overseas Land & Investment Limited, Tencent Holdings Limited and Zijin Mining Group Company Limited, on 6 July 2009, the Derivatives Market had a total of 51 stock option classes, including major stocks in the Cash Market as the underlying securities.

Options with Flexible Features

HKEx plans to seek regulatory approval to accept the booking of trades in HSI options and H-shares Index options with flexibility in strike prices and expiry months starting from the first quarter of 2010. Large deals in some of the over-the-counter (“OTC”) contracts with the same specifications as standard exchange-traded contracts are already executed as block trades through HKATS. Booking of options with flexible features would better meet the needs of OTC market participants and help improve their capital efficiency, as well as counterparty risk mitigation. HKEx plans to release an information paper setting out the key facts of this initiative such as the facility, operational model, benefits and impacts on market participants in September 2009.

Development of Volatility Index

HKEx is working with index companies to develop a volatility index based on HSI option prices with a view to providing a benchmark of volatility for the marketplace. Volatility is a key component in pricing options, DWs and various equity-linked instruments. An observable volatility index would enhance transparency and help develop the equity derivatives markets.

Clearing

CCASS Statistics (six months ended 30 June)

	2009	2008	Change
Average Daily Exchange Trades Handled by CCASS			
– Number of Trades	674,097	591,669	14%
– Value of Trades (\$bil)	58.3	87.3	(33%)
– Share Quantity Involved (bil)	92.5	135.8	(32%)
Average Daily SIs Handled by CCASS			
– Number of SIs	65,154	66,369	(2%)
– Value of SIs (\$bil)	155.6	223.2	(30%)
– Share Quantity Involved (bil)	40.1	56.1	(29%)
Average Daily ISIs Handled by CCASS			
– Number of ISIs	521	561	(7%)
– Value of ISIs (\$mil)	159.0	221.3	(28%)
– Share Quantity Involved (mil)	97.0	90.9	7%
Average Daily Settlement Efficiency of CNS Stock Positions on Due Day (T+2)	99.84%	99.84%	N/A
Average Daily Settlement Efficiency of CNS Stock Positions on the Day following the Due Day (T+3)	99.99%	99.99%	N/A
Average Daily Buy-ins Executed on T+3			
– Number of Brokers Involved	8	10	(20%)
– Number of Buy-ins	9	11	(18%)
– Value of Buy-ins (\$mil)	3.8	5.8	(34%)
Shares Deposited in the CCASS Depository			
– Number of Shares (bil)	3,215.4	3,980.2	(19%)
– Percentage of the Total Issued Shares of the Admitted Securities	71.72%	75.61%	N/A
– Values of Shares (\$bil)	7,306.9	7,704.1	(5%)
– Percentage of the Total Market Capitalisation of the Admitted Securities	48.24%	44.60%	N/A

Participation Opens to Overseas Clearing Houses and Central Depositories

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

Scripless Securities Market

The SFC set up a working group in April 2009 to study the feasibility of a scripless securities market in Hong Kong. HKEx, together with other market representatives as participants of the group, are working on a potential scripless operational model. Led by the SFC, a joint consultation paper on the proposed model would be issued by the working group tentatively by the fourth quarter of 2009.

CCASS Service Enhancement

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

T+2 Finality for Stock Exchange Trades

Securities trades executed on the Stock Exchange are currently settled in CCASS on T+2 while the money settlement is completed in the morning of T+3. HKEx plans to implement T+2 Finality for Stock Exchange Trades to reduce the overnight counterparty risk created by the settlement time gap. With the support of the Hong Kong Monetary Authority and Hong Kong Interbank Clearing Limited, a model has been proposed to effect money settlement at the end of T+2 so as to bring finality of securities and money settlement for Stock Exchange Trades and SIs on the same business day. HKEx is currently seeking feedback from certain banks and clearing house participants on the proposed model for market consultation around the end of third quarter this year.

Participant Services

Further Streamlining of Provision of EP Information

Effective 1 June 2009, EPs are no longer required to notify HKEx of certain corporate information, including their principal and branch addresses. HKEx will obtain such information directly from the SFC electronically. In addition, Participants of the Stock Exchange are no longer required to appoint a branch office manager or person in charge for each and every branch office that they operate. Their Responsible Officers will be the contact for all trading-related matters. EPs' operations are thus streamlined and much paper will be saved due to this initiative.

Participant Training and Market Education

During the period under review, HKEx organised 10 Continuous Professional Training courses jointly with the Hong Kong Securities Institute on HKEx's clearing systems, services and products. Apart from courses on AMS/3 and HKATS to familiarise EPs with the trading devices and relevant rules and procedures, 31 EP briefings and 5 seminars relating to the Derivatives Market were conducted for a total of over 1,600 attendees.

HKEx sponsored 11 EPs in a series of promotional activities organised by a commercial radio station in the first quarter of 2009 to raise market awareness and increase retail participation in stock options and gold futures. Activities included air-time for advertisements on the radio, newspaper write-ups and an investment expo which attracted over 3,000 participants.

HKEx has commenced a Joint Promotional Programme on Stock Options with the OTEPs, which will end in December 2009, with the aim of boosting retail investors' participation.

To raise investor awareness of HSI-related futures contracts, HKEx will sponsor prizes and real-time market data feeds for 6 EPs who will organise online simulation games in the second half of this year for investors to experience mock trading in index futures.

EP Recruitment

In the first six months of 2009, 12 SEHK Participants and 15 HKFE Participants were newly admitted, including those from France, Hong Kong, India, Switzerland, Taiwan, the Mainland, the Netherlands, the UK, and the US. As at the end of June 2009, there were a total of 494 SEHK Participants and 162 HKFE Participants.

Non-Transferability of Trading Rights

On 24 July 2009, HKEx issued circulars to Participants of Stock Exchange and Futures Exchange to remind them of the restricted transferability of trading rights. Pursuant to the Scheme Document for the merger of the 2 exchanges and their clearing houses on 6 March 2000, the trading rights conferred on the then shareholders of the 2 exchanges can only be transferred once within a period of 10 years from the date of merger and shall become non-transferable after 5 March 2010. Trading rights issued by the 2 exchanges subsequent to the merger are non-transferable at all times.

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

	SEHK		HKFE	
	Trading Right Holders	Trading Rights Held	Trading Right Holders	Trading Rights Held
EPs	494	905	162	186
Trading	458	864	162	186
Hong Kong origin	305	518	78	92
Non Hong Kong origin	153	346	84	94
Non-trading	36	41	0	0
Hong Kong origin	27	31	0	0
Non Hong Kong origin	9	10	0	0
Non-EPs	32	32	47	49
Total	526	937	209	235

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

	HKSCC
Clearing Agency Participant	1
Custodian Participants	34
Direct Clearing Participants	450
General Clearing Participants	6
IPs	21,873
Stock Lender Participant	0
Stock Pledgee Participants	5
Total	22,369

Promotional Activities

Listing Promotion Activities

In the first half of 2009, 8 events were co-organised in the Mainland, Hong Kong and overseas to introduce Hong Kong as one of the most active markets for new listings and fund raisings. Meetings were held with government officials and potential issuers in 25 cities in 9 Mainland provinces, and 6 other countries and regions to explain the advantages of listing on the Exchange.

In June 2009, the Chairman and a senior executive joined delegates led by the Financial Secretary, Mr John Tsang, to meet with potential issuers, senior officials of government agencies, exchanges and intermediaries in Russia to promote listing in Hong Kong.

In light of increasing interest from international natural resources and mineral companies in seeking a listing in Hong Kong, HKEx in conjunction with the organisers of Mines and Money Asia 2009 hosted a seminar on 3 June 2009 for interested parties.

Promoting HKEx's Markets

In May 2009, the Chief Executive and other senior executives participated in the Cross Border ETF Market Forum organised by the Taiwan Stock Exchange in Taipei to promote the Hong Kong ETF market. Stock exchanges and related organisations of Taiwan, Shanghai and Shenzhen also took part in the forum.

Major Promotional Activities co-organised by HKEx in the First Half of 2009

Date	Location	Event / Joint Organiser(s)	Number of Attendees
9 Jan	Wuhu, Anhui	Listing in Hong Kong Workshop / Wuhu Listing Office and Wuhu Development and Reform Commission	30
18 Mar	Zhangjiang, Shanghai	Listing in Hong Kong Workshop / Shanghai Zhangjiang Functional District Administration Committee and Shanghai Zhangjiang Hi-Tech Innovation Center	80
2 Apr	Hong Kong	Seminar on Hebei-Hong Kong Financial Cooperation and Listing and Financing of Enterprises / People's Government of Hebei Province	180
12 May	Cixi, Zhejiang	Listing in Hong Kong Workshop in Cixi / Cixi Financial Services Office and Cixi Economic Development Bureau	95
19 May	Guangzhou, Guangdong	Financing Strategy under the Financial Crisis – 2009 Financing and Listing Seminar in Guangzhou / Financial Services and the Treasury Bureau of the Hong Kong Government, Guangdong Financial Services Office and Guangdong Economic and Trade Commission	250
2 Jun	Moscow, Russia	Hong Kong: The Ideal Fund-Raising Centre in Asia / Hong Kong Trade Development Council	200
3 Jun	Hong Kong	Hong Kong as an International Metals & Mining Capital Formation Centre in Asia / The Mining Journal and Beacon Events	200
24 Jun	Beijing	Conference on Listing and Fund Raising in Hong Kong / Beijing Advanced Business Park	120

Information Services

Provision of Free Real-time Basic Market Prices on Websites

HKEx plans to launch a 2-year pilot programme under which real-time nominal and last traded prices of securities will be publicly available on designated websites free of charge.

The key service terms have largely been finalised with 6 short-listed websites (3 from Hong Kong and 3 from the Mainland). Soft-launch of the new service is tentatively set for the fourth quarter of this year with the official launch on 1 January 2010. The pilot programme would run until the end of December 2011.

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. Under the programme, both HKEx and SSE are allowed to redistribute the other party's basic real-time market data of companies dually listed in the 2 markets to their own authorised information vendors for onward transmission to their subscribers for internal display purposes. Up to the end of June 2009, a total of 18 HKEx information vendors and 14 SSE information vendors have participated in the programme.

Information Technology

System Reliability, Availability and Stability

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

System Capacity Planning and Upgrade

A technical revamp for AMS/3 is underway to further increase the order processing rate by 100 per cent to about 3,000 orders per second. A new interface architecture is also being introduced at the same time to facilitate higher scalability for satellite systems. Corresponding design improvements are also being implemented for CCASS/3 and MDF for capacity alignment with AMS/3.

A hardware upgrade was completed in April 2009 to further increase the HKATS capacity by 50 per cent to about 8,100 orders per second to support rapid growth in market-making activities of stock options. The corresponding capacity upgrade for PRS was completed in July 2009 to support projected increases in market data volume and information vendor connections.

Obsolete Technology Replacement and Upgrade

As a proactive measure to achieve sustainable high availability and quality vendor support for mission critical systems, a technology upgrade of the CCASS/3 mainframe system software and database system is in progress with completion targeted in the third quarter of 2009. In addition, HKEx will upgrade the tunnel servers and central gateways hardware of HKATS/DCASS installed mostly in 2002.

Independent Review of Derivatives Market Systems

HKEx will conduct an independent review of the core application systems (including trading, clearing and settlement, and market data dissemination systems) serving the Derivatives Market in the third quarter of 2009, which constitutes part of HKEx's ongoing initiatives to ensure operational excellence for its mission critical systems.

System Consolidation and Operational Efficiency

HKEx implemented a number of initiatives in the first half of 2009 to improve operational efficiency and reduce paper consumption, including implementation of the Employees' e-Securities Declaration and Approval System and conversion as far as possible of data centre reports to electronic format. In the second half of 2009, HKEx will rollout the e-Performance Management System and explore opportunities to enhance the environmental friendliness of the Management Information System.

HKEx Website Revamp

The revamp of the HKEx website is in progress with its launch scheduled for the fourth quarter of 2009.

HKEx Data Centre and IT Office Consolidation

In June 2009, HKEx relocated the primary Derivatives Market data centre and the related IT team from Central to its expanded data centre in Quarry Bay, which was built in accordance with prevailing best practices, including high availability and environmental friendliness standards.

HKEx is also evaluating alternatives to further consolidate its data centres into a next generation mega data centre with modernised facilities to cope with future business expansion.

Risk Management

Market Surveillance

During the six months ended 30 June 2009, HKEx, pursuant to the Memorandum of Understanding between the SFC and HKEx on market surveillance matters, referred to the SFC 56 cases involving possible violation in its Cash and Derivatives Markets of the relevant Hong Kong laws or SFC's codes, rules and regulations. Of the 56 cases referred, 31 were Cash Market related (of which 18 were tied to CAS) and 25 were Derivatives Market related.

Treasury

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling \$42.8 billion on average for the six months ended 30 June 2009 (first half of 2008: \$69.9 billion).

As compared with 31 March 2009, the overall size of funds available for investment as at 30 June 2009 decreased by 9 per cent or \$3.3 billion to \$34.8 billion (31 March 2009: \$38.1 billion). Details of the asset allocation of the investments as at 30 June 2009 against those as at 31 March 2009 are set out below.

	Investment Fund Size \$ billion		Bonds		Cash or Bank Deposits		Global Equities	
	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar
	Corporate Funds	11.8	13.0	44%	46%	54%	53%	2%
Margin Funds	21.8	23.8	37%	39%	63%	61%	0%	0%
Clearing House Funds	1.2	1.3	27%	27%	73%	73%	0%	0%
Total	34.8	38.1	39%	41%	60%	59%	1%	0%

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 30 June 2009 and at 31 March 2009), which have no maturity date, the maturity profiles of the remaining investments as at 30 June 2009 (\$34.6 billion) and 31 March 2009 (\$37.9 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	
	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar
	Corporate Funds	11.6	12.8	42%	42%	1%	8%	25%	33%	22%	11%	10%
Margin Funds	21.8	23.8	35%	41%	6%	11%	44%	47%	15%	1%	0%	0%
Clearing House Funds	1.2	1.3	67%	66%	10%	4%	4%	30%	19%	0%	0%	0%
Total	34.6	37.9	38%	43%	4%	10%	37%	41%	18%	4%	3%	2%

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 30 June 2009, had a weighted average credit rating of Aa2 (31 March 2009: Aa2) and a weighted average maturity of 1.4 years (31 March 2009: 0.8 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 second quarter of 2009 and the first quarter of 2009 was as follows:

	Average VaR \$ million		Highest VaR \$ million		Lowest VaR \$ million	
	Apr-Jun	Jan-Mar	Apr-Jun	Jan-Mar	Apr-Jun	Jan-Mar
Corporate Funds	31.3	23.2	33.3	28.5	28.9	20.8
Margin Funds	30.5	20.2	40.3	22.2	21.4	17.9
Clearing House Funds	1.8	0.4	2.9	0.6	0.5	0.3

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 interim report.

FINANCIAL REVIEW

Overall Performance

	Note	Unaudited Six months ended 30 Jun 2009 \$'000	Unaudited Six months ended 30 Jun 2008 \$'000
RESULTS			
Revenue and other income:			
Income affected by market turnover	(A)	2,187,131	2,624,437
Stock Exchange listing fees	(B)	326,774	355,960
Income from sale of information	(C)	326,501	354,419
Other revenue	(D)	174,366	217,923
Net investment income	(E)	338,322	589,951
Gain on disposal of properties	(F)	–	68,641
		3,353,094	4,211,331
Operating expenses		760,018	768,943
Profit before taxation		2,593,076	3,442,388
Taxation		(392,191)	(467,982)
Profit attributable to shareholders		2,200,885	2,974,406

The Group recorded a profit attributable to shareholders of \$2,201 million for the first six months of 2009 (first quarter: \$834 million; second quarter: \$1,367 million) compared with \$2,974 million for the same period in 2008 (2008 first quarter: \$1,650 million; second quarter: \$1,324 million).

The drop in profit for the six months ended 30 June 2009 against that of 2008 was primarily attributable to the lower turnover-related income resulting from the decrease in activity in the Cash Market and the drop in net investment income on account of lower net interest income in 2009. Moreover, the one-off gain on the disposal of 2 properties of \$69 million in 2008 was not repeated in 2009.

Total operating expenses fell marginally by 1 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 Six months ended 30 Jun 2009 \$'000	Unaudited Six months ended 30 Jun 2008 \$'000	Change
Trading fees and trading tariff	1,216,284	1,553,482	(22%)
Clearing and settlement fees	651,432	774,860	(16%)
Depository, custody and nominee services fees	319,415	296,095	8%
Total	2,187,131	2,624,437	(17%)

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

Depository, custody and nominee services fees rose mainly due to the increase in corporate action fees, stock withdrawal fees and scrip fees but were partly offset by the decrease in dividend collection fees and eIPO handling fees as the number of newly listed companies fell. Other than 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 in the Cash Market as they vary mostly with the number of board lots rather than the value or turnover of the securities concerned, and many are subject to a maximum fee. Moreover, scrip fees are only chargeable on the net increase in individual Participants' aggregate holdings of the securities between book closing dates, and thus are unusually large on the first book closing date after a new listing.

Key Market Indicators

	Six months ended 30 Jun 2009	Six months ended 30 Jun 2008	Change
Average daily turnover value on the Stock Exchange	\$58.3 billion	\$87.3 billion	(33%)
Average daily number of derivatives contracts traded on the Futures Exchange	213,630	191,179	12%
Average daily number of stock options contracts traded on the Stock Exchange	206,084	238,970	(14%)

(B) Stock Exchange Listing Fees

	Unaudited Six months ended 30 Jun 2009 \$'000	Unaudited Six months ended 30 Jun 2008 \$'000	Change
Annual listing fees	176,965	169,804	4%
Initial and subsequent issue listing fees	147,702	183,426	(19%)
Others	2,107	2,730	(23%)
Total	326,774	355,960	(8%)

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

Key Drivers for Annual Listing Fees

	As at 30 Jun 2009	As at 30 Jun 2008	Change
Number of companies listed on Main Board	1,103	1,065	4%
Number of companies listed on GEM	170	189	(10%)
Total	1,273	1,254	2%

Key Drivers for Initial and Subsequent Issue Listing Fees

	Six months ended 30 Jun 2009	Six months ended 30 Jun 2008	Change
Number of newly listed DWs	1,574	2,777	(43%)
Number of newly listed CBBs	3,685	953	287%
Number of newly listed companies on Main Board	18	21	(14%)
Number of newly listed companies on GEM	–	2	(100%)
Total equity funds raised on Main Board			
– through IPOs	\$17.6 billion	\$50.1 billion	(65%)
– Post-IPO	\$198.8 billion	\$66.9 billion	197%
Total equity funds raised on GEM			
– through IPOs	–	\$0.2 billion	(100%)
– Post-IPO	\$1.0 billion	\$5.0 billion	(80%)

(C) Income from Sale of Information

	Unaudited Six months ended 30 Jun 2009 \$'000	Unaudited Six months ended 30 Jun 2008 \$'000	Change
Income from sale of information	326,501	354,419	(8%)

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

(D) Other Revenue

	Unaudited Six months ended 30 Jun 2009 \$'000	Unaudited Six months ended 30 Jun 2008 \$'000	Change
Network, terminal user, dataline and software sub-license fees	130,089	159,820	(19%)
Participants' subscription and application fees	17,540	17,129	2%
Brokerage on direct IPO allotments	928	4,577	(80%)
Trading booth user fees	7,419	4,777	55%
Accommodation income	2,704	15,216	(82%)
Sales of Trading Rights	7,500	6,835	10%
Miscellaneous revenue	8,186	9,569	(14%)
Total	174,366	217,923	(20%)

Network, terminal user, dataline and software sub-license fees dropped mainly 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 significant decrease in utilisation of non-cash collateral by Participants to meet their margin obligations.

(E) Net Investment Income

	Unaudited Six months ended 30 Jun 2009 \$'000	Unaudited Six months ended 30 Jun 2008 \$'000	Change
Gross investment income	340,565	662,734	(49%)
Interest rebates to Participants	(2,243)	(72,783)	(97%)
Net investment income	338,322	589,951	(43%)

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

	Six months ended 30 Jun 2009 \$ billion	Six months ended 30 Jun 2008 \$ billion	Change
Corporate Funds	10.7	10.0	7%
Margin Funds	30.8	58.2	(47%)
Clearing House Funds	1.3	1.7	(24%)
Total	42.8	69.9	(39%)

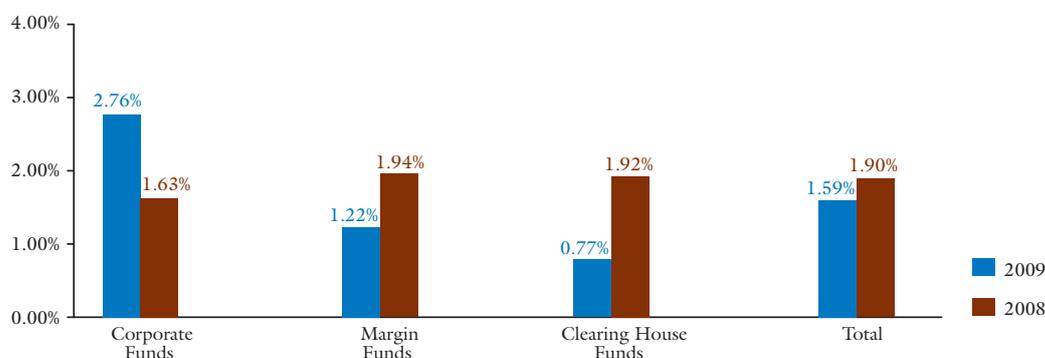
The significant drop in the average amount of Margin Funds available for investment during the period was primarily caused by the decreased open interest in futures contracts and the lower margin rate applicable per futures contract.

The lower average amount of Clearing House Funds was mainly due to a 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 lower Margin Fund size during the first six months 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 six months is set out below.

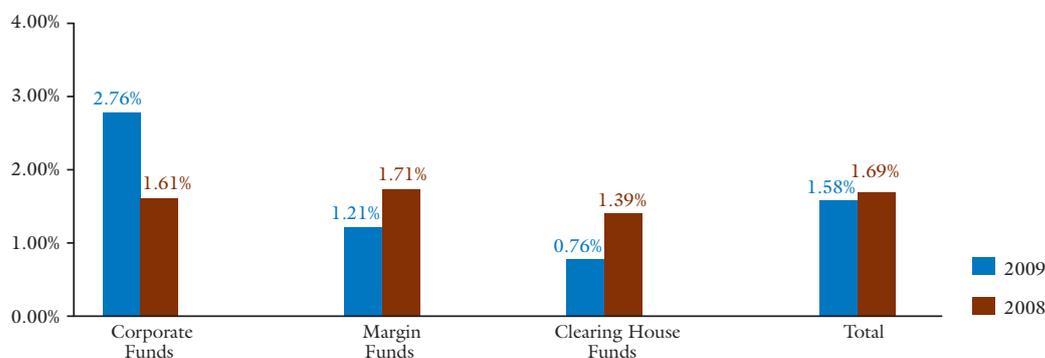
Annualised Gross Return on Funds Available for Investment



The gross return for Margin Funds and Clearing House Funds was brought down by the decrease in interest rates. The increase in gross return of the Corporate Funds was mainly due to the fair value gains of the Corporate Fund investments during the first six months 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 six months is set out below.

Annualised Net Return on Funds Available for Investment



The net returns of all the funds 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 Six months ended 30 Jun 2009 \$'000	Unaudited Six months ended 30 Jun 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 Six months ended 30 Jun 2009 \$'000	Unaudited Six months ended 30 Jun 2008 \$'000	Change
Staff costs and related expenses	409,571	451,986	(9%)
Information technology and computer maintenance expenses	119,769	121,526	(1%)
Premises expenses	111,924	69,722	61%
Product marketing and promotion expenses	6,335	9,637	(34%)
Legal and professional fees	7,153	8,850	(19%)
Depreciation	47,619	49,938	(5%)
Other operating expenses	57,647	57,284	1%
Total	760,018	768,943	(1%)

Staff costs and related expenses decreased by \$42 million, primarily due to the reduction in performance bonus accrual on account of the Group's lower profit and the decrease in share-based compensation expenses upon vesting of certain share options and Awarded Shares.

The Group's information technology and computer maintenance expenses, excluding costs of services and goods directly consumed by the Participants of \$50 million (2008: \$48 million), were \$70 million (2008: \$74 million). The lower costs of services and goods consumed by the Group were mainly due to a decrease in maintenance costs for CCASS/3 and DCASS due to the expiry of certain maintenance contracts. Costs of services and goods consumed by Participants were mostly recovered from the Participants and the income was included as part of the 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 and the leasing of additional floor space.

Taxation

	Unaudited Six months ended 30 Jun 2009 \$'000	Unaudited Six months ended 30 Jun 2008 \$'000	Change
Taxation	392,191	467,982	(16%)

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

Comparison of 2009 Second Quarter Performance with 2009 First Quarter Performance

	Unaudited Three months ended 30 Jun 2009 \$'000	Unaudited Three months ended 31 Mar 2009 \$'000	Change
Revenue and other income:			
Income affected by market turnover:			
Trading fees and trading tariff	720,453	495,831	45%
Clearing and settlement fees	394,604	256,828	54%
Depository, custody and nominee services fees	257,429	61,986	315%
	1,372,486	814,645	68%
Stock Exchange listing fees	173,181	153,593	13%
Income from sale of information	171,681	154,820	11%
Other revenue	89,959	84,407	7%
Net investment income	204,452	133,870	53%
	2,011,759	1,341,335	50%
Operating expenses	405,611	354,407	14%
Profit before taxation	1,606,148	986,928	63%
Taxation	(239,502)	(152,689)	57%
Profit attributable to shareholders	1,366,646	834,239	64%

Profit attributable to shareholders increased from \$834 million in the first quarter of 2009 to \$1,367 million in the second quarter of 2009. The increase in profit was mainly driven by the improved investor sentiment and higher net investment income. The increase in profit was partly offset by the increase in operating expenses and taxation charge.

Trading fees and trading tariff, clearing and settlement fees, and income from sale of information all rose in tandem with the activities in the Cash and Derivatives Markets. Stock Exchange listing fees increased with the higher number of newly listed DWs and CBBCs in the second quarter as compared to the first quarter. Depository, custody and nominee services fees also rose as a result of an increase in scrip fee income due to seasonal fluctuations. Net investment income increased mainly due to the significant increase in fair value gains of Corporate Fund investments, reflecting market movements, but was partly offset by the decrease in net interest income.

Key Market Indicators

	Three months ended 30 Jun 2009	Three months ended 31 Mar 2009	Change
Average daily turnover value on the Stock Exchange	\$71.7 billion	\$44.7 billion	60%
Average daily number of derivatives contracts traded on the Futures Exchange	231,464	195,499	18%
Average daily number of stock options contracts traded on the Stock Exchange	217,696	194,279	12%

Operating expenses increased by 14 per cent mainly as a result of the increase in performance bonus accrual on account of the Group's improved performance in the second quarter and the increase in premises expenses.

Taxation increased in the second quarter mainly attributable to the higher profit before taxation but was partly offset by an increase in non-taxable investment income.

Working Capital

Working capital fell by \$4,530 million or 63 per cent to \$2,667 million as at 30 June 2009 (31 December 2008: \$7,197 million). The reduction was primarily due to the increase in financial assets and time deposits maturing over 1 year of \$4,790 million, the payment of the 2008 final dividend of \$1,935 million in May 2009 and the decrease in other working capital of \$6 million, but was partly offset by the profit generated during the six months of \$2,201 million.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. As at 30 June 2009, the Group's total available banking facilities amounted to \$9,550 million (31 December 2008: \$3,850 million), of which \$9,000 million (31 December 2008: \$3,000 million) was repurchase facilities and \$500 million (31 December 2008: \$800 million) was a facility to draw down against certain bank deposits.

Borrowings by the Group have been rare and are mostly event driven, with little seasonality. As at 30 June 2009 and 31 December 2008, the Group had no bank borrowings and therefore had a zero gearing.

The Group's capital expenditure commitments as at 30 June 2009 were mainly related to the ongoing investments in facilities and technology, and amounted to \$55 million (31 December 2008: \$84 million). The Group has ample internal resources to fund its commitments on capital expenditure.

As at 30 June 2009, 99 per cent (31 December 2008: 99 per cent) of the Group's cash and cash equivalents (comprising cash on hand, bank balances and time deposits within 3 months of maturity when acquired) were denominated in HKD or USD.

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

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

Charges on Assets

None of the Group's assets was pledged as at 30 June 2009 and 31 December 2008.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 33(a)(i) – Foreign exchange risk management to the condensed consolidated accounts of this interim report.

Contingent Liabilities

Details of contingent liabilities are included in note 30 to the condensed consolidated accounts of this interim 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.

OPERATIONAL REVIEW

Organisational Changes

Effective 1 March 2009, Mr Mark F Dickens was appointed the Head of Listing to succeed Mr Richard G Williams. Messrs Gerald D Greiner and Derrick P Y Fung were appointed the Chief Executive of HKSCC and the Head of Clearing respectively upon Mr Stewart S C Shing's retirement effective 1 April 2009. The updated organisation chart is posted on the HKEx website.

HKEx would like to take this opportunity to express its appreciation for Richard's and Stewart's dedication and contribution to HKEx. Under Richard's leadership, numerous important initiatives were successfully launched in the primary market and enhancements were continuously made to the internal processes and service standards of the Listing Division to improve the regulation and quality of our market. Stewart was a pioneer in the design, development and implementation of CCASS in the early 1990s and accomplished many other important objectives which have been instrumental to the success of our market. HKEx has benefited greatly from their solid knowledge, leadership skills and professionalism.

On 3 June 2009, HKEx announced the appointment of Mr Charles X J Li to succeed Mr Paul M Y Chow upon his retirement as the Chief Executive and to become an ex-officio member of the Board effective 16 January 2010. To ensure a smooth transition, Mr Li will join HKEx on 16 October 2009.

Employees

HKEx's success relies heavily on our employees' commitment and concerted efforts to achieve corporate objectives. HKEx's remuneration policy is built on the principle of providing an equitable, performance-oriented, motivating and market-competitive remuneration package to each employee. This package comprises a base salary, a provident fund, group medical and group life insurances, and a bonus determined by the performance of the individual as well as that of the Group. In addition, a long-term incentive in the form of Awarded Shares is offered to retain key employees.

HKEx encourages and supports our employees to reach their full potential through continuous training and career development. Employees can attend in-house training programmes or enrol in external seminars for which sponsorship is provided. In the first half of 2009, 73 in-house courses were organised, which collectively attracted more than 2,700 attendees. A total of 140 employees attended over 300 external seminars, while 123 participated in HKEx's e-learning scheme.

As at the end of June 2009, the Group had 849 employees, including 6 temporary staff (31 December 2008: 865 employees, including 17 temporary staff). Additional information regarding employees' remuneration and benefits is set out in note 9 to the condensed consolidated accounts of this interim report.

Share Option Schemes

Details of the Share Option Schemes are set out in note 24(b) to the condensed consolidated accounts of this interim report. The share options granted under the 2 schemes, which remained outstanding as at 30 June 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 six months ended 30 Jun 2009 (Note 1)	Cancelled/ Lapsed during the six months ended 30 Jun 2009	As at 30 Jun 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 six months ended 30 Jun 2009 (Note 4)	Cancelled/ Lapsed during the six months ended 30 Jun 2009	As at 30 Jun 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	351,500	–	1,163,000	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	412,000	–	2,255,500	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.

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 starting from the second anniversary, and they became fully vested 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 \$87.83.
5. Options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary, and they will become fully vested effective the fifth anniversary of the grant.

Share Award Scheme

Details of the Share Award Scheme and the awards are set out in note 24(c) to the condensed consolidated accounts of this interim 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 (Appendix 14 to the Main Board Listing Rules) throughout the review period.

As of 15 May 2009, HKEx’s Global and Home Market Ratings assigned by GovernanceMetrics International, a corporate governance ratings and research firm, were 8.5 and 10.0 respectively out of the maximum of 10.0.

As informed by the FTSE Group, the global index company, in May 2009, HKEx continued to be a constituent company in the FTSE4Good Index Series which is designed to identify companies that meet globally recognised corporate responsibility standards.

HKEx is committed to improving its corporate governance and welcomes stakeholders’ comments. Comments can be sent in writing or by email to ssd@hkex.com.hk. Details of our corporate governance practices are set out in the Corporate Governance section (www.hkex.com.hk/exchange/cg/CORPORATE_GOVERNANCE.htm) of the HKEx website.

CSR Development

In March 2009, we established a CSR section (www.hkex.com.hk/exchange/csr/csr.htm) on the HKEx website setting out our CSR philosophy, related activities as well as our latest CSR developments.

Employees’ full support is essential to the successful implementation of our CSR measures. Thus, a series of CSR workshops were organised for our employees to raise their awareness of CSR and recognise their role in achieving CSR objectives.

The first standalone CSR Report was published for 2008 to highlight some of our CSR achievements during the year. The report is posted on the HKEx website under the CSR section. To help us make improvements, stakeholders are invited to fill in the feedback form on the HKEx website at www.hkex.com.hk/exchange/csr/csr_reporting.htm.

PROSPECTS

In the second quarter of 2009, we saw marked increase in market activity which appears to be driven by better sentiment and ample liquidity rather than improvement in economic fundamentals. The average daily turnover in dollar terms on the Stock Exchange recorded a 60 per cent increase whilst the average daily turnover of derivatives contracts on the Futures Exchange registered an increase of 18 per cent compared to the previous quarter. Fund-raising activities in the second quarter gained momentum with total equity funds raised some 11 times that of the first quarter. IPO activity also rose with 11 listings in the second quarter compared with 7 in the first quarter. On the back of these favourable factors, HKEx recorded a 50 per cent rise in revenue and other income over the first quarter.

Despite the appearance of “green shoots” and continuous loose monetary policies by central banks, the fundamentals of local and indeed global economies remain a concern. Hong Kong’s Gross Domestic Product (“GDP”) registered a sharp year-on-year decline of 7.8 per cent in real terms in the first quarter of 2009. Coupled with heightened unemployment and a sharp plunge in regional trade, the Hong Kong Government has revised its GDP forecast for full-year 2009 downwards to a contraction of 6.5 per cent. Globally, the World Bank predicted in June 2009 that the global recession would further deepen and the world economy would shrink 2.9 per cent against the previous negative forecast of 1.7 per cent. Riding on the bumpy road to recovery, investors are advised to be cautious about potential market volatility.

In spite of market uncertainties, HKEx will continue to build on its solid foundation and seek to consolidate Hong Kong’s position as an international financial centre. For instance, we aim to streamline the listing process without compromising investor protection, and to expand our product and service offerings to position ourselves well for a market recovery. CER futures and options with flexible features are examples of innovative products being considered by HKEx.

We are in the process of preparing our strategic plan for 2010-2012 in these challenging times which we believe will also present opportunities. Whilst I would like to take this opportunity to reaffirm our commitment on market quality, our core business and system excellence and our mission to be a leading international marketplace for securities and derivatives focused on the Mainland, Hong Kong and the rest of Asia, we should cast our vision further afield to take advantage of any opportunities that may arise.

Ronald Joseph ARCULLI
Chairman

Hong Kong, 12 August 2009

DISCLOSURE OF INTERESTS

Compliance with Model Code

HKEx has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. In response to the specific enquiry by the Company, all Directors confirmed that they complied with the Model Code throughout the six months ended 30 June 2009.

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

As at 30 June 2009, the Directors' and the Chief Executive's interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code are set out below.

Long Positions in Shares and Underlying Shares of HKEx

Name of Director	Number of Shares/Underlying Shares Held				Total	% of the Issued Share Capital (Note 1)
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Paul M Y Chow	3,297,019 (Note 2)	–	–	–	3,297,019	0.31
John E Strickland	18,000 (Note 3)	–	–	–	18,000	0.00

Notes:

1. It is based on 1,075,939,346 shares of HKEx in issue as at 30 June 2009.
2. It included Mr Chow's interests in 12,846 Awarded Shares and 1,079 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 24(c) to the condensed consolidated accounts of this interim report.
3. Such shares were held by Mr Strickland as beneficial owner.

Save for those disclosed above, as at 30 June 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 under review, was HKEx or any of its subsidiaries 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 six months ended 30 June 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.

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

As at 30 June 2009, other persons' interests and short positions 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 1,075,939,346 shares of HKEx in issue as at 30 June 2009.
2. This is based on a Disclosure of Interests filing made by the Hong Kong Government on 10 September 2007 which it stated was voluntary.

Save for those disclosed above, as at 30 June 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 Hong Kong Government has become a Minority Controller. According to the Hong Kong Government, the provisions of Section 61 of the SFO do not expressly, or by necessary implication, bind the Hong Kong Government and accordingly by virtue of Section 66 of the Interpretation and General Clauses Ordinance the provisions of Section 61 of the SFO, requiring a person becoming a minority controller to obtain the approval of the SFC, do not affect the right of and are not binding on the Hong Kong Government.

In March 2009, an entity obtained the SFC's approval for it to become a Minority Controller. As at the date of this interim report, the SFC has only granted approval to 6 entities to be Minority Controllers, on the basis that the shares are held by them in custody for their clients. According to the Participant Shareholding Report as at 30 June 2009, the 6 (30 June 2008: 5) approved Minority Controllers in aggregate held 67 per cent of HKEx's issued share capital (30 June 2008: 55 per cent).

Purchase, Sale or Redemption of HKEx's Listed Securities

During the six months ended 30 June 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 76,900 HKEx shares at a total consideration of about \$6.7 million.

INFORMATION FOR STAKEHOLDERS

Interim Report

This interim 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. For the latter case, HKEx will donate \$50 to a charity with a focus on environmental protection, subject to a cap of \$100,000 per annum. A free printed copy will be sent to Shareholders who have elected to receive electronic copies but for any reason have difficulty receiving or gaining access to them. 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 reasonable 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 however inform their brokers or custodians to effect any changes.

Interim Dividend

The Board has declared an interim dividend of \$1.84 per share (2008: \$2.49 per share) for the year ending 31 December 2009, amounting to a total of about \$1,980 million (2008: \$2,676 million) which includes \$1,867,000 (2008: \$3,061,000) for shares held in trust under the Share Award Scheme. The following are the relevant dates for the dividend payment.

Ex-dividend date	26 August 2009
Book closure period	28 August – 1 September 2009 (both dates inclusive)
Record date	1 September 2009
Payment date	on or about 9 September 2009

Closure of Register of Members (“ROM”)

In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with HKEx’s registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 pm on Thursday, 27 August 2009. During the book closure period, no transfer of shares will be registered. Dividend warrants will be despatched on or about Wednesday, 9 September 2009 to Shareholders whose names are on HKEx’s ROM on 1 September 2009.

Financial Calendar

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

Share Information

Share Listing

First listed on the Stock Exchange
As an HSI constituent stock

27 June 2000
Since 11 September 2006

Board Lot

100 shares

Market Capitalisation as at 30 June 2009

Public float capitalisation \$129.9 billion
Number of issued shares 1,075,939,346 shares
Closing price \$120.70 per share

Stock Codes

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

Price and Turnover History

	Price per Share		Turnover (in millions)*	
	High (\$)	Low (\$)	Shares	\$
2008				
July	126.00	100.00	240.6	26,906.0
August	115.90	92.75	199.5	20,617.6
September	104.00	80.50	273.0	25,989.5
October	97.20	55.00	346.7	27,675.0
November	83.15	49.70	242.2	15,555.3
December	80.00	59.00	205.9	14,579.4
2009				
January	88.60	63.25	155.0	11,626.8
February	70.85	60.50	127.5	8,414.3
March	79.20	53.40	244.8	15,849.4
April	93.00	71.95	238.1	20,392.5
May	125.70	92.80	300.5	33,095.7
June	133.00	113.60	217.4	26,957.2

* Figures have been rounded.

HKEx's Registrar and Transfer Office

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AUDIT COMMITTEE REPORT

The Audit Committee (“AC”) comprises 5 INEDs, appointed by the Board, who have extensive experience in financial matters. Among them, Dr Marvin K T Cheung, Mr Vincent K H Lee and Mr Ignatius T C Chan are certified public accountants, and Mr John M M Williamson is a chartered accountant. Mr Chan was appointed on 24 April 2009 to succeed Mr Fong Hup who retired after the 2009 AGM. None of the Committee members is employed by or otherwise affiliated with the former or existing auditors of HKEx.

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

At its meeting held on 26 February 2009, the AC reviewed the 2008 internal audit activities summary, assessed the effectiveness of the internal control system in detecting fraud and irregularities by reviewing the work of the IAD and its findings, and approved the internal audit plan for 2009. At its meeting held on 7 May 2009, the AC reviewed and approved the external auditor’s proposed audit scope and services fees for the financial year 2009.

On 10 August 2009, the AC reviewed the Group’s unaudited condensed consolidated financial statements for the six months ended 30 June 2009 in conjunction with HKEx’s external and internal auditors. It also reviewed the independent review report of the external auditor as set out on page 44.

Based on these reviews and discussions with management, the AC is satisfied that the condensed consolidated financial statements have been prepared in accordance with applicable accounting standards and fairly present the Group’s financial position and results for the six months ended 30 June 2009. The AC therefore recommended the unaudited condensed consolidated financial statements for the six months ended 30 June 2009 be approved by the Board.

Members of the Audit Committee

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

Hong Kong, 10 August 2009

AUDITOR'S INDEPENDENT REVIEW REPORT

Independent Review Report to the Board of Directors of Hong Kong Exchanges and Clearing Limited

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 45 to 79, which comprises the condensed consolidated statement of financial position of Hong Kong Exchanges and Clearing Limited (the “Company”) as at 30 June 2009 and the related condensed consolidated income statement, condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 12 August 2009

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 Jun 2009	Unaudited Six months ended 30 Jun 2008	Unaudited Three months ended 30 Jun 2009	Unaudited Three months ended 30 Jun 2008
	Note	\$'000	\$'000	\$'000	\$'000
Trading fees and trading tariff	4	1,216,284	1,553,482	720,453	687,372
Stock Exchange listing fees	5	326,774	355,960	173,181	164,848
Clearing and settlement fees		651,432	774,860	394,604	354,053
Depository, custody and nominee services fees		319,415	296,095	257,429	231,876
Income from sale of information		326,501	354,419	171,681	169,358
Other revenue	6	174,366	217,923	89,959	97,299
REVENUE		3,014,772	3,552,739	1,807,307	1,704,806
Investment income		340,565	662,734	205,828	224,623
Interest rebates to Participants		(2,243)	(72,783)	(1,376)	(2,742)
Net investment income	7	338,322	589,951	204,452	221,881
Gain on disposal of properties	8	–	68,641	–	–
	3	3,353,094	4,211,331	2,011,759	1,926,687
OPERATING EXPENSES					
Staff costs and related expenses	9	409,571	451,986	226,983	223,086
Information technology and computer maintenance expenses	10	119,769	121,526	60,683	59,943
Premises expenses		111,924	69,722	58,121	35,762
Product marketing and promotion expenses		6,335	9,637	3,366	6,077
Legal and professional fees		7,153	8,850	3,262	5,260
Depreciation		47,619	49,938	22,776	26,275
Other operating expenses	11	57,647	57,284	30,420	29,981
	3	760,018	768,943	405,611	386,384
PROFIT BEFORE TAXATION	3	2,593,076	3,442,388	1,606,148	1,540,303
TAXATION	12	(392,191)	(467,982)	(239,502)	(215,638)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	27	2,200,885	2,974,406	1,366,646	1,324,665
Basic earnings per share	14(a)	\$2.05	\$2.78	\$1.27	\$1.24
Diluted earnings per share	14(b)	\$2.04	\$2.76	\$1.27	\$1.23

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 Jun 2009 \$'000	Unaudited Six months ended 30 Jun 2008 \$'000	Unaudited Three months ended 30 Jun 2009 \$'000	Unaudited Three months ended 30 Jun 2008 \$'000
Profit attributable to shareholders	2,200,885	2,974,406	1,366,646	1,324,665
Other comprehensive income:				
Available-for-sale financial assets:				
Change in fair value during the period	(32,154)	5,553	14,779	(51,268)
Change in fair value on maturity	(49,018)	(41,350)	(33,989)	(26,195)
Less: Reclassification adjustment:				
Gains included in profit or loss on disposal	(2,520)	(4,678)	(2,520)	–
Deferred tax	13,808	6,860	3,585	12,688
Other comprehensive income attributable to shareholders, net of tax	(69,884)	(33,615)	(18,145)	(64,775)
Total comprehensive income attributable to shareholders	2,131,001	2,940,791	1,348,501	1,259,890

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Share capital, share premium and shares held for Share Award Scheme (note 23) \$'000	Employee share-based compensation reserve (note 24) \$'000	Other comprehensive income Revaluation reserve (note 25) \$'000	Designated reserves (note 26) \$'000	Retained earnings (note 27) \$'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	-	-	(69,884)	-	2,200,885	2,131,001
2008 final dividend at \$1.80 per share	-	-	-	-	(1,934,708)	(1,934,708)
Unclaimed dividends forfeited	-	-	-	-	2,761	2,761
Shares issued under employee share option schemes	18,734	-	-	-	-	18,734
Shares purchased for Share Award Scheme	(6,702)	-	-	-	-	(6,702)
Vesting of shares of Share Award Scheme	859	(796)	-	-	(63)	-
Employee share-based compensation benefits	-	11,770	-	-	-	11,770
Transfer of reserves	5,467	(5,467)	-	5,006	(5,006)	-
At 30 Jun 2009	1,374,892	52,539	26,797	557,389	5,506,561	7,518,178

	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	-	-	(33,615)	-	2,974,406	2,940,791
2007 final dividend at \$3.40 per share	-	-	-	-	(3,646,159)	(3,646,159)
Unclaimed dividends forfeited	-	-	-	-	1,944	1,944
Shares issued under employee share option schemes	53,718	-	-	-	-	53,718
Shares purchased for Share Award Scheme	(29,434)	-	-	-	-	(29,434)
Vesting of shares of Share Award Scheme	347	(280)	-	-	(67)	-
Employee share-based compensation benefits	-	16,511	-	-	-	16,511
Transfer of reserves	14,899	(14,899)	(3,155)	12,009	(8,854)	-
At 30 Jun 2008	1,328,182	51,001	19,266	706,862	5,609,408	7,714,719

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited at 30 Jun 2009 \$'000	Audited at 31 Dec 2008 \$'000
NON-CURRENT ASSETS			
Fixed assets	15	281,785	311,179
Lease premium for land		59,944	60,199
Financial assets of Clearing House Funds	16(c)	233,730	–
Financial assets of Margin Funds on derivatives contracts	17(c)	3,325,803	–
Available-for-sale financial assets	18	943,125	–
Time deposits with maturity over one year		287,797	–
Deferred tax assets		4,417	4,429
Other financial assets		48,477	47,172
Other assets		3,207	3,207
		5,188,285	426,186
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	19	6,109,181	8,526,557
Lease premium for land		509	509
Financial assets of Clearing House Funds	16(c)	179,674	393,202
Cash and cash equivalents of Clearing House Funds	16	846,404	843,109
		1,026,078	1,236,311
Financial assets of Margin Funds on derivatives contracts	17(c)	11,434,504	19,655,161
Cash and cash equivalents of Margin Funds on derivatives contracts	17	7,064,934	22,184,833
		18,499,438	41,839,994
Financial assets at fair value through profit or loss	20	3,545,296	3,020,035
Available-for-sale financial assets	18	1,228,228	2,581,683
Time deposits with original maturities over three months		619,365	436,896
Cash and cash equivalents		5,138,451	4,755,750
		36,166,546	62,397,735
CURRENT LIABILITIES			
Participants' contributions to Clearing House Funds	16	247,843	197,520
Other financial liabilities of Clearing House Funds	16	28,241	72,319
Margin deposits from Clearing Participants on derivatives contracts	17	21,825,241	41,839,991
Other financial liabilities of Margin Funds on derivatives contracts	17	–	3
Accounts payable, accruals and other liabilities	21	10,719,159	12,410,854
Financial liabilities at fair value through profit or loss	20	50,154	26,254
Participants' admission fees received		81,900	83,150
Deferred revenue		217,764	392,688
Taxation payable		294,072	141,363
Provisions	22	35,167	36,290
		33,499,541	55,200,432
NET CURRENT ASSETS		2,667,005	7,197,303
TOTAL ASSETS LESS CURRENT LIABILITIES		7,855,290	7,623,489

	Note	Unaudited at 30 Jun 2009 \$'000	Audited at 31 Dec 2008 \$'000
NON-CURRENT LIABILITIES			
Participants' contributions to Clearing House Funds	16	268,500	252,000
Deferred tax liabilities		22,861	30,775
Financial guarantee contract	30(b)	19,909	19,909
Provisions	22	25,842	25,483
		337,112	328,167
NET ASSETS			
		7,518,178	7,295,322
CAPITAL AND RESERVES			
Share capital	23	1,075,939	1,074,886
Share premium	23	370,050	346,902
Shares held for Share Award Scheme	23	(71,097)	(65,254)
Employee share-based compensation reserve	24	52,539	47,032
Revaluation reserve	25	26,797	96,681
Designated reserves	26	557,389	552,383
Retained earnings	27	5,506,561	5,242,692
		7,518,178	7,295,322
SHAREHOLDERS' FUNDS			
		7,518,178	7,295,322
TOTAL ASSETS			
	3(c)	41,354,831	62,823,921
TOTAL LIABILITIES			
		33,836,653	55,528,599
SHAREHOLDERS' FUNDS PER SHARE			
		\$6.99	\$6.79

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited Six months ended 30 Jun 2009 \$'000	Unaudited Six months ended 30 Jun 2008 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	28	2,133,766	1,767,679
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		(23,968)	(169,177)
Net proceeds from sales of properties		–	132,733
Net proceeds from sales of fixed assets		–	1
Increase in time deposits with original maturities more than three months		(470,266)	(1,708,635)
Net (increase)/decrease in available-for-sale financial assets of the Corporate Funds:			
Payments for purchases of available-for-sale financial assets		(1,566,873)	(2,893,377)
Net proceeds from maturity and disposal of available-for-sale financial assets		2,059,000	3,983,831
Interest received from available-for-sale financial assets		160,710	292,364
Net cash inflow/(outflow) from investing activities		158,603	(362,260)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		18,734	53,718
Purchase of shares for Share Award Scheme		(6,702)	(29,434)
Dividends paid		(1,921,700)	(3,623,843)
Net cash outflow from financing activities		(1,909,668)	(3,599,559)
Net increase/(decrease) in cash and cash equivalents		382,701	(2,194,140)
Cash and cash equivalents at 1 Jan		4,755,750	4,744,711
Cash and cash equivalents at 30 Jun		5,138,451	2,550,571
Analysis of cash and cash equivalents			
Time deposits with original maturities within three months		477,258	958,392
Cash at bank and in hand		4,661,193	1,592,179
Cash and cash equivalents at 30 Jun		5,138,451	2,550,571

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 (“CBBs”), 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:

	Six months ended 30 Jun 2009					
	Cash	Derivatives	Clearing	Information	Inter-	Group
	Market	Market	Business	Services	segment elimination (note b)	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Income from external customers	1,292,321	361,556	1,034,170	326,725	-	3,014,772
Net investment income	63,728	197,581	82,233	355	(5,575)	338,322
	1,356,049	559,137	1,116,403	327,080	(5,575)	3,353,094
Operating expenses						
Direct costs	304,987	82,720	170,622	25,180	(5,575)	577,934
Indirect costs	85,356	27,588	56,473	12,667	-	182,084
	390,343	110,308	227,095	37,847	(5,575)	760,018
Reportable segment profit before taxation	965,706	448,829	889,308	289,233	-	2,593,076

	Six months ended 30 Jun 2008					
	Cash	Derivatives	Clearing	Information	Group	
	Market	Market	Business	Services		
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Income from external customers	1,722,951	339,116	1,134,932	355,740	3,552,739	
Net investment income	53,980	506,428	29,373	170	589,951	
Gain on disposal of properties	33,442	11,580	19,116	4,503	68,641	
	1,810,373	857,124	1,183,421	360,413	4,211,331	
Operating expenses						
Direct costs	295,588	71,913	180,369	26,728	574,598	
Indirect costs	92,968	30,627	58,340	12,410	194,345	
	388,556	102,540	238,709	39,138	768,943	
Reportable segment profit before taxation	1,421,817	754,584	944,712	321,275	3,442,388	

- (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 six-month period ended 30 June 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 30 Jun 2009				
	Cash Market	Derivatives Market	Clearing Business	Information Services	Group
	\$'000	\$'000	\$'000	\$'000	\$'000
Reportable segment assets	4,038,341	22,522,841	14,665,381	123,851	41,350,414

	At 31 Dec 2008				
	Cash Market	Derivatives Market	Clearing Business	Information Services	Group
	\$'000	\$'000	\$'000	\$'000	\$'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 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Reportable segment assets	41,350,414	62,819,492
Unallocated assets:		
Deferred tax assets	4,417	4,429
Total assets per condensed consolidated statement of financial position	41,354,831	62,823,921

4. Trading Fees and Trading Tariff

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Trading fees and trading tariff were derived from:				
Securities traded on the Cash Market	829,075	1,192,668	509,909	521,636
Derivatives contracts traded on the Derivatives Market	387,209	360,814	210,544	165,736
	1,216,284	1,553,482	720,453	687,372

5. Stock Exchange Listing Fees

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

	Six months ended 30 Jun 2009				Six months ended 30 Jun 2008			
	Equity		CBBs, Derivative warrants and others	Total	Equity		CBBs, Derivative warrants and others	Total
	Main Board	GEM			Main Board	GEM		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Stock Exchange Listing Fees								
Annual listing fees	164,014	11,737	1,214	176,965	155,744	12,755	1,305	169,804
Initial and subsequent issue listing fees	31,203	765	115,734	147,702	36,149	2,400	144,877	183,426
Prospectus vetting fees	1,260	165	50	1,475	1,410	210	10	1,630
Other listing fees	596	36	-	632	824	276	-	1,100
Total	197,073	12,703	116,998	326,774	194,127	15,641	146,192	355,960
Costs of Listing Function								
<u>Direct costs</u>								
Staff costs and related expenses	90,084	18,897	6,283	115,264	92,648	20,744	7,036	120,428
Information technology and computer maintenance expenses	2,671	500	134	3,305	2,211	444	136	2,791
Premises expenses	16,738	3,621	819	21,178	9,040	1,954	424	11,418
Legal and professional fees	2,356	399	-	2,755	4,406	18	-	4,424
Depreciation	2,001	611	824	3,436	2,066	576	655	3,297
Other operating expenses	2,617	872	198	3,687	3,625	1,158	309	5,092
Total direct costs	116,467	24,900	8,258	149,625	113,996	24,894	8,560	147,450
Total indirect costs	18,677	3,326	4,379	26,382	19,461	3,644	5,256	28,361
Total costs	135,144	28,226	12,637	176,007	133,457	28,538	13,816	175,811
Contribution to Cash Market Segment Profit before Taxation	61,929	(15,523)	104,361	150,767	60,670	(12,897)	132,376	180,149

5. Stock Exchange Listing Fees (continued)

	Three months ended 30 Jun 2009				Three months ended 30 Jun 2008			
	Equity		CBBs, Derivative warrants and others	Total	Equity		CBBs, Derivative warrants and others	Total
	Main Board	GEM			Main Board	GEM		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Stock Exchange Listing Fees								
Annual listing fees	82,803	6,027	616	89,446	78,714	6,362	682	85,758
Initial and subsequent issue listing fees	12,544	425	69,608	82,577	20,280	1,230	56,137	77,647
Prospectus vetting fees	690	90	50	830	840	135	-	975
Other listing fees	308	20	-	328	418	50	-	468
Total	96,345	6,562	70,274	173,181	100,252	7,777	56,819	164,848
Costs of Listing Function								
<u>Direct costs</u>								
Staff costs and related expenses	50,293	10,560	3,495	64,348	45,008	11,466	3,419	59,893
Information technology and computer maintenance expenses	1,211	212	77	1,500	1,104	219	62	1,385
Premises expenses	8,879	1,925	437	11,241	4,522	1,091	216	5,829
Legal and professional fees	1,294	34	-	1,328	2,923	-	-	2,923
Depreciation	962	320	406	1,688	1,075	309	415	1,799
Other operating expenses	1,013	407	95	1,515	2,078	756	100	2,934
Total direct costs	63,652	13,458	4,510	81,620	56,710	13,841	4,212	74,763
Total indirect costs	10,126	1,851	2,695	14,672	10,405	2,048	2,476	14,929
Total costs	73,778	15,309	7,205	96,292	67,115	15,889	6,688	89,692
Contribution to Cash								
Market Segment								
Profit before Taxation	22,567	(8,747)	63,069	76,889	33,137	(8,112)	50,131	75,156

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

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Network, terminal user, dataline and software sub-license fees	130,089	159,820	67,556	69,969
Participants' subscription and application fees	17,540	17,129	8,761	8,601
Brokerage on direct IPO allotments	928	4,577	723	843
Trading booth user fees	7,419	4,777	3,838	2,380
Accommodation income on securities deposited by Participants as alternatives to cash deposits of Margin Funds	2,704	15,216	1,180	6,300
Sales of Trading Rights	7,500	6,835	4,000	3,835
Miscellaneous revenue	8,186	9,569	3,901	5,371
	174,366	217,923	89,959	97,299

7. Net Investment Income

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Interest income				
– bank deposits	60,066	347,424	31,220	99,970
– listed available-for-sale financial assets	5,918	4,711	2,780	2,185
– unlisted available-for-sale financial assets	150,488	312,550	61,919	123,549
	216,472	664,685	95,919	225,704
Interest rebates to Participants	(2,243)	(72,783)	(1,376)	(2,742)
Net interest income	214,229	591,902	94,543	222,962
Net realised and unrealised gains/(losses) and interest income on financial assets and financial liabilities at fair value through profit or loss				
On designation				
– unlisted securities with embedded derivatives	9,134	–	9,134	–
– bank deposits with embedded derivatives	(482)	–	(482)	–
– exchange differences	1,547	–	1,547	–
	10,199	–	10,199	–
Held for trading				
– listed securities	84,536	(28,830)	71,986	(3,401)
– unlisted securities	32,370	20,154	23,279	1,960
– exchange differences	(3,952)	1,463	4,019	(443)
	112,954	(7,213)	99,284	(1,884)
	123,153	(7,213)	109,483	(1,884)
Realised gains on disposal of unlisted available-for-sale financial assets	1,500	1,460	1,500	23
Dividend income from listed financial assets at fair value through profit or loss	1,215	2,424	530	974
Other exchange differences on loans and receivables	(1,775)	1,378	(1,604)	(194)
Net investment income	338,322	589,951	204,452	221,881

7. Net Investment Income (continued)

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Net investment income was derived from:				
Corporate Funds	147,843	80,400	115,074	32,166
Margin Funds	185,694	497,420	86,862	184,806
Clearing House Funds	4,785	12,131	2,516	4,909
	338,322	589,951	204,452	221,881

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:

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Salaries and other short-term employee benefits	366,666	404,784	206,890	197,183
Employee share-based compensation benefits (note 24)				
– employee share options	623	4,439	259	2,478
– Awarded Shares	11,147	12,072	4,265	7,755
	11,770	16,511	4,524	10,233
Termination benefits	529	428	352	394
Retirement benefit costs (note a):				
– ORSO Plan	30,371	30,004	15,102	15,149
– MPF Scheme	235	259	115	127
	409,571	451,986	226,983	223,086

- (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 30 June 2009 (31 December 2008: \$109,000 and \$Nil respectively).

10. Information Technology and Computer Maintenance Expenses

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Costs of services and goods:				
– consumed by the Group	69,820	73,819	35,461	36,153
– directly consumed by Participants	49,949	47,707	25,222	23,790
	119,769	121,526	60,683	59,943

11. Other Operating Expenses

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
(Reversal of provision for)/provision for impairment losses of trade receivables	(445)	317	(166)	413
Provision for impairment losses of fixed assets	800	–	800	–
Insurance	2,285	2,347	1,140	1,175
Financial data subscription fees	2,488	2,157	1,213	1,038
Custodian and fund management fees	5,541	6,060	2,726	2,944
Bank charges	4,146	5,487	2,478	2,454
Repair and maintenance expenses	4,657	4,078	2,383	1,906
License fees	8,381	7,897	3,770	3,062
Communication expenses	2,511	2,765	1,288	1,669
Other miscellaneous expenses	27,283	26,176	14,788	15,320
	57,647	57,284	30,420	29,981

12. Taxation

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

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Provision for Hong Kong Profits Tax for the period (note a)	386,321	470,372	239,874	207,259
Overprovision in respect of prior years	(36)	–	(36)	–
	386,285	470,372	239,838	207,259
Deferred taxation	5,906	(2,390)	(336)	8,379
	392,191	467,982	239,502	215,638

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

13. Dividends

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Interim dividend declared of \$1.84 (2008: \$2.49) per share based on issued share capital as at 30 Jun	1,979,728	2,673,381	1,979,728	2,673,381
Less: Dividend for shares held by HKEx Employees' Share Award Scheme as at 30 Jun	(1,867)	(3,061)	(1,867)	(3,061)
	1,977,861	2,670,320	1,977,861	2,670,320

- (a) Actual 2008 interim dividend was \$2,673,375,000, of which \$3,055,000 was paid on shares issued for employee share options exercised after 30 June 2008.

14. Earnings Per Share

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

- (a) Basic earnings per share

	Six months ended 30 Jun 2009	Six months ended 30 Jun 2008	Three months ended 30 Jun 2009	Three months ended 30 Jun 2008
Profit attributable to shareholders (\$'000)	2,200,885	2,974,406	1,366,646	1,324,665
Weighted average number of shares in issue less shares held for Share Award Scheme	1,074,345,534	1,070,922,358	1,074,745,846	1,072,060,063
Basic earnings per share	\$2.05	\$2.78	\$1.27	\$1.24

- (b) Diluted earnings per share

	Six months ended 30 Jun 2009	Six months ended 30 Jun 2008	Three months ended 30 Jun 2009	Three months ended 30 Jun 2008
Profit attributable to shareholders (\$'000)	2,200,885	2,974,406	1,366,646	1,324,665
Weighted average number of shares in issue less shares held for Share Award Scheme	1,074,345,534	1,070,922,358	1,074,745,846	1,072,060,063
Effect of employee share options	3,339,051	6,750,785	3,165,452	5,630,315
Effect of Awarded Shares	909,702	1,140,122	913,128	1,161,422
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,078,594,287	1,078,813,265	1,078,824,426	1,078,851,800
Diluted earnings per share	\$2.04	\$2.76	\$1.27	\$1.23

15. 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 six months to 30 June 2009 was \$19,025,000 (2008: \$43,886,000). The total cost and net book value of disposals and write-offs of fixed assets during the six months to 30 June 2009 were \$14,129,000 and \$Nil respectively (2008: \$6,447,000 and \$2,000 respectively). During the six months ended 30 June 2009, an impairment loss of \$800,000 (2008: \$Nil) was charged to the condensed consolidated income statement under other operating expenses in relation to the reinstatement cost of office premises the lease of which expired in July 2009.

16. Clearing House Funds

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
The Clearing House Funds comprised the following Funds (notes a and b):		
HKSCC Guarantee Fund	216,660	215,573
SEOCH Reserve Fund	249,170	208,291
HKCC Reserve Fund	604,792	578,853
	1,070,622	1,002,717
The Clearing House Funds were composed of:		
Available-for-sale financial assets:		
Unlisted debt securities, at market value	344,717	371,494
Time deposits with original maturities over three months	68,687	21,708
Financial assets of Clearing House Funds (note c)	413,404	393,202
Cash and cash equivalents	846,404	843,109
	1,259,808	1,236,311
Less: Other financial liabilities of Clearing House Funds	(28,241)	(72,319)
	1,231,567	1,163,992
Provision for loss arising from closing-out losses of defaulting Participants (note d)	(160,945)	(161,275)
	1,070,622	1,002,717
The Clearing House Funds were funded by:		
Clearing Participants' cash contributions due within twelve months	247,843	197,520
Clearing Participants' cash contributions due after twelve months	268,500	252,000
Designated reserves (note 26 and note e):		
At 1 Jan	552,383	694,853
Transfer from/(to) retained earnings (note 27 and note f)	5,006	(142,470)
At 30 Jun 2009/31 Dec 2008	557,389	552,383
Revaluation reserve (note 25(b))	(3,110)	814
	1,070,622	1,002,717

16. Clearing House Funds (continued)

- (a) Amounts excluded bank guarantees received and utilised as alternatives to cash contributions (note 31).
- (b) The Clearing House Funds were established to support the respective clearing houses (ie, HKSCC, HKCC and SEOCH) to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Clearing Participants arising from depositing defective securities into the Central Clearing and Settlement System (“CCASS”).
- (c) The maturity profile of the financial assets of Clearing House Funds was as follows:

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Amounts maturing after more than twelve months	233,730	–
Amounts maturing within twelve months	179,674	393,202
	413,404	393,202

- (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 30 June 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 \$4,676,000 (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 of \$163,203,000).

17. Margin Funds on Derivatives Contracts

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
The Margin Funds comprised (note a):		
SEOCH Clearing Participants' Margin Funds	3,115,215	3,735,254
HKCC Clearing Participants' Margin Funds	18,710,026	38,104,737
	21,825,241	41,839,991
The net assets of the Margin Funds comprised:		
Financial assets at fair value through profit or loss, on designation:		
Unlisted debt securities with embedded derivatives, at market value (note b)	809,011	–
Bank deposits with embedded derivatives, at market value (note b)	850,231	–
Available-for-sale financial assets:		
Debt securities, at market value:		
– listed outside Hong Kong	–	324,301
– unlisted	7,252,214	16,116,617
Time deposits with original maturities over three months	5,838,837	3,205,408
Margin receivable from Clearing Participants	10,014	8,835
Financial assets of Margin Funds (note c)	14,760,307	19,655,161
Cash and cash equivalents	7,064,934	22,184,833
	21,825,241	41,839,994
Less: Other financial liabilities of Margin Funds	–	(3)
	21,825,241	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	21,825,241	41,839,991

- (a) Amounts excluded non-cash collateral received and utilised as alternative to cash margin (note 31).
- (b) The maximum exposure to credit risk of the debt securities and the bank deposits with embedded derivatives as at 30 June 2009 were \$809,011,000 and \$850,231,000 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 securities 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.

17. Margin Funds on Derivatives Contracts (continued)

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

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Amounts maturing after more than twelve months	3,325,803	–
Amounts maturing within twelve months	11,434,504	19,655,161
	14,760,307	19,655,161

18. Available-for-sale Financial Assets

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Debt securities, at market value		
– listed outside Hong Kong	158,476	160,601
– unlisted	2,012,877	2,421,082
	2,171,353	2,581,683
Analysis of available-for-sale financial assets:		
Non-current portion maturing after twelve months	943,125	–
Current portion maturing within twelve months	1,228,228	2,581,683
	2,171,353	2,581,683

19. 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 89 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.

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

	At 30 Jun 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	8,890	12,701
– listed outside Hong Kong	114,906	94,680
	123,796	107,381
Debt securities, at market value		
– listed in Hong Kong	96,486	79,074
– listed outside Hong Kong	1,548,183	1,386,067
– unlisted	1,315,424	1,371,057
	2,960,093	2,836,198
Mutual funds, at market value		
– listed outside Hong Kong	61,852	57,707
Derivative financial instruments, at market value		
– forward foreign exchange contracts	1,450	18,749
<u>On designation</u>		
Unlisted debt securities with embedded derivatives, at market value (note a)	100,874	–
Bank deposits with embedded derivatives, at market value (note a)	297,231	–
	3,545,296	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 b)	256	627
– forward foreign exchange contracts	49,898	25,627
	50,154	26,254

- (a) The maximum exposure to credit risk of the debt securities and the bank deposits with embedded derivatives as at 30 June 2009 were \$100,874,000 and \$297,231,000 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 securities 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.
- (b) The total notional amount of the equity index futures contracts outstanding was \$16,805,000 (31 December 2008: \$26,963,000).

21. 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 51 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.

22. Provisions

	Reinstatement costs \$'000	Employee benefit costs \$'000	Total \$'000
At 1 Jan 2009	26,669	35,104	61,773
Provision for the period	1,159	20,598	21,757
Amount used during the period	(840)	(20,750)	(21,590)
Amount paid during the period	–	(931)	(931)
At 30 Jun 2009	26,988	34,021	61,009

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Analysis of provisions:		
Current	35,167	36,290
Non-current	25,842	25,483
	61,009	61,773

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

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Authorised:		
2,000,000,000 shares of \$1 each	2,000,000	2,000,000

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

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 24)	–	–	18,800	–	18,800
Shares purchased for Share Award Scheme (note b)	(214,600)	–	–	(32,494)	(32,494)
Vesting of shares of Share Award Scheme (note c)	324,418	–	–	15,043	15,043
At 31 Dec 2008	1,073,939,532	1,074,886	346,902	(65,254)	1,356,534
At 1 Jan 2009	1,073,939,532	1,074,886	346,902	(65,254)	1,356,534
Shares issued under employee share option schemes (note a)	1,053,000	1,053	17,681	–	18,734
Transfer from employee share-based compensation reserve (note 24)	–	–	5,467	–	5,467
Shares purchased for Share Award Scheme (note b)	(76,900)	–	–	(6,702)	(6,702)
Vesting of shares of Share Award Scheme (note c)	9,076	–	–	859	859
At 30 Jun 2009	1,074,924,708	1,075,939	370,050	(71,097)	1,374,892

- (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 1,053,000 shares (year ended 31 December 2008: 4,601,000 shares) in HKEx at an average consideration of \$17.79 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 76,900 HKEx shares (year ended 31 December 2008: 214,600 shares) through purchases on the open market for the Share Award Scheme (note 24(c)). The total amount paid to acquire the shares during the period was \$6,702,000 (year ended 31 December 2008: \$32,494,000) and had been deducted from shareholders’ equity.

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

- (c) During the period, the HKEx Employee Share Trust transferred 9,076 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 \$859,000 (year ended 31 December 2008: \$15,043,000).

24. 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)	11,770	28,179
Transfer to share premium upon exercise of employee share options (note 23)	(5,467)	(18,800)
Vesting of shares of Share Award Scheme	(796)	(12,016)
At 30 Jun 2009/31 Dec 2008	52,539	47,032

- (a) The Group operates two share option schemes and a share award scheme as part of the benefits to its employees.
- (b) Share options
- (i) Under the terms of the Pre-Listing Scheme and the Post-Listing Scheme, share options were granted to employees in June 2000 and during the period from May 2003 to January 2005 respectively. The share options would vest progressively from the 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.

24. Employee Share-based Compensation Reserve (continued)

(b) Share options (continued)

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

	2009		2008	
	Average exercise price per share \$	Number of shares issuable under options granted	Average exercise price per share \$	Number of shares issuable under options granted
Pre-Listing Scheme				
Outstanding at 1 Jan	6.88	130,000	6.88	379,000
Exercised	6.88	(16,000)	6.88	(249,000)
Outstanding at 30 Jun 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	17.96	(1,037,000)	14.89	(4,352,000)
Forfeited	-	-	18.53	(182,000)
Outstanding at 30 Jun 2009/ 31 Dec 2008	18.40	3,518,500	18.30	4,555,500
Total	18.04	3,632,500	17.98	4,685,500

(c) Awarded Shares

- (i) From September 2005, a share award scheme (“the Scheme”) has been in effect. The terms of the Scheme provide for shares in 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.

24. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

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

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

Details of the Awarded Shares awarded during 2008 and 2009 are set out below.

Date of approval by Board	Date of award	Awarded Sum \$'000	Number of shares purchased	Number of Awarded Shares awarded	Average fair value per share \$	Vesting period
12 Dec 2007	4 Feb 2008	26,300	151,000	150,965	163.72	12 Dec 2009 – 12 Dec 2012
18 Feb 2008	7 Apr 2008	612	4,200	4,200 ^Ω	144.18	18 Feb 2010 – 18 Feb 2013
10 Dec 2008	3 Feb 2009	4,900	59,900	59,900	81.96	1 Jan 2011 – 1 Jan 2014

^Ω Awarded to the Chief Executive of HKEx

Details of the Awarded Shares vested during 2008 and 2009 are as follows:

Vesting date	Date of award	Number of Awarded Shares vested	Average fair value per share \$	Cost of related Awarded Shares (including acquisition transaction costs) \$'000
30 Apr 2008	19 Dec 2005	8,925	31.20	280
15 Dec 2008	15 Jan 2007	66,281 *	72.28	4,790
19 Dec 2008	19 Dec 2005	221,550	31.20	6,946
31 Mar 2009	15 Jan 2007	4,020	72.28	290
31 Mar 2009	4 Feb 2008	1,361	163.72	223
16 Apr 2009	7 Jun 2007	1,750	81.33	142
18 Jun 2009	17 Jul 2007	1,375	102.29	141

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

During the period, 17,000 HKEx shares (year ended 31 December 2008: 59,400 shares) were acquired by the Trustee through reinvesting dividends received at a total cost (including related transaction costs) of \$1,793,000 (year ended 31 December 2008: \$7,167,000), of which 15,394 shares (year ended 31 December 2008: 56,377 shares) were subsequently allocated to awardees.

24. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

During the period, 570 HKEx shares (year ended 31 December 2008: 27,662 shares, including 212 shares for the Chief Executive of HKEx) at a cost of \$63,000 (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	(20,840)	(32,798)
Vested	(8,506)	(296,756)
Dividends reinvested:		
– allocated to awardees	15,394	56,377
– allocated to awardees but subsequently forfeited	(1,502)	(1,775)
– vested	(570)	(27,662)
Outstanding at 30 Jun 2009/31 Dec 2008	920,689	876,813

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

(iii) As at 30 June 2009, 93,949 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.

25. Revaluation Reserve

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Investment revaluation reserve	26,797	96,681

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

(b) Included gross investment revaluation deficit of \$3,110,000 (31 December 2008: surplus of \$814,000) which was attributable to investments of the Clearing House Funds.

26. Designated Reserves

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

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	121,110	119,309
– SEOCH Reserve Fund reserve	107,466	106,646
– HKCC Reserve Fund reserve	328,813	326,428
	557,389	552,383

27. 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)	2,200,885	5,128,924
Transfer (to)/from Clearing House Funds reserves (note 16)	(5,006)	142,470
Transfer from leasehold buildings revaluation reserve on disposal of a leasehold property	–	3,155
	(5,006)	145,625
Dividends:		
2008/2007 final dividend	(1,932,993)	(3,634,850)
Dividend on shares issued for employee share options exercised after 31 Dec 2008/31 Dec 2007	(1,715)	(11,309)
	(1,934,708)	(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 dividends forfeited	2,761	2,566
Vesting of shares of Share Award Scheme	(63)	(3,027)
At 30 Jun 2009/31 Dec 2008	5,506,561	5,242,692
Representing:		
Retained earnings	3,528,700	3,309,601
Proposed dividend	1,977,861	1,933,091
At 30 Jun 2009/31 Dec 2008	5,506,561	5,242,692

- (a) The Group's profit for the period 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 \$5,006,000 (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).

28. Notes to the Condensed Consolidated Statement of Cash Flows

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

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000
Profit before taxation	2,593,076	3,442,388
Adjustments for:		
Net interest income	(214,229)	(591,902)
Net realised and unrealised (gains)/losses and interest income on financial assets and financial liabilities at fair value through profit or loss	(123,153)	7,213
Realised gains on available-for-sale financial assets of Corporate Funds	–	(23)
Dividend income from financial assets at fair value through profit or loss	(1,215)	(2,424)
Amortisation of lease premiums for land	255	255
Depreciation	47,619	49,938
Employee share-based compensation benefits (Reversal of provision for)/provision for impairment losses of trade receivables	11,770	16,511
Provision for impairment losses of fixed assets	(445)	317
Changes in provisions	800	–
Gain on disposal of properties	(1,083)	4,277
Loss on disposal of fixed assets	–	(68,641)
Net (increase)/decrease in Clearing House Fund financial assets	–	1
Net increase/(decrease) in Clearing House Fund financial liabilities	(27,421)	635,943
Net decrease in Margin Fund financial assets	22,745	(647,952)
Net decrease in Margin Fund financial liabilities	19,948,884	19,608,235
Net increase in financial assets and financial liabilities at fair value through profit or loss	(20,014,753)	(19,636,300)
Net admission fees refunded to Participants	(410,791)	(84,240)
Decrease in accounts receivable, prepayments and deposits	(1,250)	(600)
Decrease in other current liabilities	2,406,909	3,204,781
	(1,987,594)	(4,403,858)
Net cash inflow from operations	2,250,124	1,533,919
Interest received from bank deposits	60,066	347,424
Dividends received from financial assets at fair value through profit or loss	1,183	2,338
Interest received from financial assets at fair value through profit or loss	58,233	69,672
Interest paid	(2,264)	(73,211)
Hong Kong Profits Tax paid	(233,576)	(112,463)
Net cash inflow from operating activities	2,133,766	1,767,679

29. Commitments

Commitments in respect of capital expenditures:

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Contracted but not provided for	6,086	16,908
Authorised but not contracted for	48,521	66,982
	54,607	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.

30. Contingent Liabilities

As at 30 June 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 30 June 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 457 trading Participants as at 30 June 2009 (31 December 2008: 448) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to \$91,400,000 (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.

31. 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 30 June 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 30 Jun 2009		At 31 Dec 2008	
	Amount received \$'000	Amount utilised \$'000	Amount received \$'000	Amount utilised \$'000
Clearing House Funds				
Bank guarantees	1,209,430	31,861	1,226,940	26,940
Margin Funds				
Equity securities, listed in Hong Kong, at market value	1,657,532	– *	2,865,194	864,830 *
US Treasury Bills, at market value	1,626,732	1,060,650	3,560,442	2,161,732
Bank guarantees	770,000	308,036	770,000	179,739
	4,054,264	1,368,686	7,195,636	3,206,301
	5,263,694	1,400,547	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 30 June 2009, \$913,513,000 (31 December 2008: \$512,584,000) of equity securities received were used for such purpose (including those amounts discovered but not yet released of \$71,331,000 (31 December 2008: \$588,000)).

32. 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.

32. 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

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Salaries and other short-term employee benefits	39,053	41,143	20,640	20,371
Employee share-based compensation benefits	3,674	6,355	1,567	3,856
Retirement benefit costs	3,381	3,184	1,575	1,638
	46,108	50,682	23,782	25,865

- (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.

33. 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;

33. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

- 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.

As at 30 June 2009, the aggregate net open foreign currency positions amounted to HK\$7,510 million, of which HK\$129 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\$3,350 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.

33. Financial Risk Management (continued)

(a) Market risk management (continued)

(iv) Risk management techniques (continued)

VaR is a statistical measure of risks and has limitations associated with the assumptions employed. Historical simulation assumes that actual observed historical changes in market indices, such as interest rates, foreign exchange rates and equity prices, reflect possible future changes. This implies that the approach is vulnerable to sudden changes in market behaviour. The use of a 10-day holding period assumes that the positions can be unwound in 10 trading days and the holding period may be insufficient at times of severe illiquidity. Also, VaR does not necessarily reflect all aspects of risks that affect the price of financial instruments and may underestimate real market risk exposure. In addition, VaR does not factor in the possibility of catastrophic risk but the use of stress testing for abnormal market conditions can mitigate this limitation.

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

	Six months ended 30 Jun 2009			Six months ended 30 Jun 2008		
	Average \$'000	Highest \$'000	Lowest \$'000	Average \$'000	Highest \$'000	Lowest \$'000
Foreign exchange risk	12,507	14,993	9,921	6,178	7,480	5,175
Equity price risk	19,322	29,135	10,413	13,632	16,499	12,166
Interest rate risk	37,869	56,677	27,885	33,457	40,093	27,290
Total VaR	39,916	58,918	31,356	31,016	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 30 June 2009, the Group's total available banking facilities amounted to \$9,550 million (31 December 2008: \$3,850 million), of which \$9,000 million (31 December 2008: \$3,000 million) was repurchase facilities and \$500 million (31 December 2008: \$800 million) was a facility to draw down against certain bank deposits.

33. Financial Risk Management (continued)

(c) Credit risk management

(i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's investments and trade receivables. Impairment provisions are made for losses that have been incurred at the end of the reporting period. The Group limits its exposure to credit risk by rigorously selecting the counterparties (ie, deposit-takers, bond issuers and debtors) and by diversification. As at 30 June 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.

(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 30 June 2009, bank guarantees of \$2,353,100,000 (31 December 2008: \$4,534,000,000) were accepted for such purpose.

33. Financial Risk Management (continued)

(c) Credit risk management (continued)

(ii) Clearing and settlement-related risk management (continued)

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 30 June 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 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Up to six months	50,168	206,847
Over three years	141	141
Total	50,309	206,988

The fair value of cash deposits placed by the related trade debtors with the Group was \$9,781,000 (31 December 2008: \$10,117,000).

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

As at 30 June 2009, trade receivables of the Group amounting to \$167,004,000 (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 30 June 2009, the amount of doubtful deferred revenue amounted to \$52,971,000 (31 December 2008: \$49,455,000).

34. Comparative Figures

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

GLOSSARY

2009 AGM	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
CBBC(s)	Callable Bull/Bear Contract(s)
CCASS	The Central Clearing and Settlement System
CCASS/3	The Latest Generation of CCASS
CG Code	Code on Corporate Governance Practices
CNS	Continuous Net Settlement
CSR	Corporate Social Responsibility
DCASS	The Derivatives Clearing and Settlement System
Director(s)	Director(s) of HKEx
DW(s)	Derivative Warrant(s)
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 the Hong Kong Special Administrative Region of the People's Republic of China
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
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 Government	Government of the Hong Kong Special Administrative Region of the People's Republic of China
H-shares Index or HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index
INED(s)	Independent Non-executive Director(s)
IPO(s)	Initial Public Offering(s)
ISI(s)	Investor SI(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
OTEP(s)	Options Trading Exchange Participant(s)
Post-Listing Scheme	Post-Listing Share Option Scheme approved by the Shareholders on 31 May 2000 which was subsequently amended by the Shareholders on 17 April 2002
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by the Shareholders on 31 May 2000
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
SI(s)	Settlement Instruction(s)
Shareholders	Shareholders of HKEx
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended by the Board on 16 August 2006
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
USD	US Dollar
WPIP	Web Proof Information Pack
\$/HKD	Hong Kong Dollar

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