



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

Quarterly Report 2010

For the three months ended 31 March

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

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FINANCIAL HIGHLIGHTS

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

	Three months ended 31 Mar 2010 \$m	As restated Three months ended 31 Mar 2009 \$m	Change
RESULTS			
Revenue and other income	1,714	1,341	28%
Operating expenses	385	354	9%
Profit before taxation	1,329	987	35%
Taxation	(202)	(153)	32%
Profit attributable to shareholders	1,127	834	35%
Basic earnings per share	\$1.05	\$0.78	35%
Diluted earnings per share	\$1.04	\$0.77	35%

	At 31 Mar 2010	At 31 Dec 2009	Change
KEY ITEMS IN CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds (\$m)	9,167	8,027	14%
Total assets ¹ (\$m)	46,488	45,332	3%
Net assets per share ²	\$8.52	\$7.46	14%

Notes:

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

BOARD AND COMMITTEES

Board

Independent Non-executive Chairman
Ronald Joseph ARCULLI * ¹ GBS, JP

Executive Director, Chief Executive
CHOW Man Yiu, Paul ² SBS, JP
LI Xiaojia, Charles ³

Independent Non-executive Directors
CHA May-Lung, Laura * ⁴ GBS, JP
CHAN Tze Ching, Ignatius BBS, JP
CHENG Mo Chi, Moses * ⁴ GBS, JP
CHEUNG Kin Tung, Marvin * GBS, JP
HUI Chiu Chung, Stephen * JP
KWOK Chi Piu, Bill JP
LEE Kwan Ho, Vincent Marshall
LEE Tze Hau, Michael *
John Estmond STRICKLAND ⁵ GBS, JP
John Mackay McCulloch WILLIAMSON
WONG Sai Hung, Oscar ⁵

Committees

Audit Committee
CHEUNG Kin Tung, Marvin (Chairman)
LEE Kwan Ho, Vincent Marshall (Deputy Chairman)
CHAN Tze Ching, Ignatius
CHENG Mo Chi, Moses ⁶
KWOK Chi Piu, Bill ⁷
John Mackay McCulloch WILLIAMSON

Executive Committee
Ronald Joseph ARCULLI ⁸ (Chairman)
CHOW Man Yiu, Paul ²
KWOK Chi Piu, Bill
LEE Kwan Ho, Vincent Marshall
LI Xiaojia, Charles ³
John Mackay McCulloch WILLIAMSON

Investment Advisory Committee
John Estmond STRICKLAND ⁹ (Chairman)
WONG Sai Hung, Oscar ⁹ (Deputy Chairman)
HUI Chiu Chung, Stephen
LEE Tze Hau, Michael
LUI Yin Tat, David

Committees (continued)

Nomination Committee
Ronald Joseph ARCULLI ⁹ (Chairman)
CHAN Tze Ching, Ignatius
CHENG Mo Chi, Moses ⁹
John Estmond STRICKLAND ⁹
WONG Sai Hung, Oscar ⁹

Panel Member Nomination Committee
CHA May-Lung, Laura ⁹ (Chairman)
KWOK Chi Piu, Bill
LEE Kwan Ho, Vincent Marshall
LEE Tze Hau, Michael
WONG Sai Hung, Oscar ⁹

Remuneration Committee
Ronald Joseph ARCULLI ⁹ (Chairman)
CHA May-Lung, Laura ⁹
CHENG Mo Chi, Moses ⁹
LEE Kwan Ho, Vincent Marshall
John Mackay McCulloch WILLIAMSON

Risk Management Committee ^Δ
Ronald Joseph ARCULLI ⁸ (Chairman)
CHAN Ka-lok **
CHEUNG Kin Tung, Marvin
FONG Hup **
HUNG Pi Cheng, Benjamin ** ¹⁰
KWOK Chi Piu, Bill
LAU Ying Pan, Edmond **
LUI Kei Kwong, Keith **
WONG Tung Shun, Peter ** ¹¹

Corporate Social Responsibility Committee
LI Xiaojia, Charles ³ (Chairman)
CHOW Man Yiu, Paul ² (ex-Chairman)
CHOW Lok Sum, Eddie
Peter Joseph CURLEY
MAU Kam Shing, Joseph
WONG Kwok Kuen, Alfred
YEN Tai Mui, Brenda

Company Secretary

MAU Kam Shing, Joseph

Notes:

- | | | |
|--|--|---|
| * Government Appointed Directors | 2 Retired on 16 January 2010 | 7 Appointment effective 23 April 2010 |
| ** Appointed by the Financial Secretary | 3 Appointment effective 16 January 2010 | 8 Re-appointment effective 27 April 2010 |
| Δ Established under Section 65 of the SFO | 4 Re-appointment effective 22 April 2010 | 9 Re-appointment effective 23 April 2010 |
| 1 Re-appointed as Director and Chairman on 22 and 27 April 2010 respectively | 5 Re-elected on 22 April 2010 | 10 Appointment ceased effective 20 January 2010 |
| | 6 Appointment ceased effective 23 April 2010 | 11 Appointment effective 20 January 2010 |

Board

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

Committees

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

Other Changes in Directors' Information

Other changes in Directors' information since the date of the 2009 Annual Report are set out below.

	Appointment (effective)	Cessation of Office (effective)
<hr/>		
Moses M C Cheng		
<ul style="list-style-type: none">Fortune Real Estate Investment Trust ("Trust") is a real estate investment trust listed on the Main Board of the Stock Exchange effective 20 April 2010. Dr Cheng is an independent director of the ARA Asset Management (Fortune) Limited ("Fortune"), the manager of the Trust, and an independent non-executive director of ARA Asset Management Limited ("ARA"), the holding company of Fortune. The Trust and ARA are listed on the Singapore Exchange.	–	–
<hr/>		
Bill C P Kwok		
<ul style="list-style-type: none">SFC – member of Takeovers and Mergers Panel and Takeovers Appeal Committee	–	1 Apr 2010
<hr/>		

Directors' updated biographies are available on the HKEx website.

Non-executive Directors' Remuneration

At the 2010 AGM, the Shareholders approved the remuneration of \$500,000 and \$350,000 per annum be payable to the Chairman and each of the other non-executive Directors respectively, and an attendance fee of \$2,500 per meeting (in addition to the current remuneration of \$50,000 per annum) be payable to the chairman and every member (excluding executive Director) of the Executive Committee, Audit Committee, Remuneration Committee and Investment Advisory Committee. The above remuneration will remain in effect until otherwise determine in general meeting.

Save for those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B (1) of the Main Board Listing Rules.

Listing

Review of Comments on Various Proposals

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

Review of Initial Eligibility Requirements

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

Review of Property Valuation Requirements

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

Enhancement of Continuing Disclosure Regime

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

Consultation on Quarterly Financial Reporting

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

Cash Market

Market Performance

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

Automation of Stamp Duty Reporting and Payment

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

ETF Market Development

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

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

Derivatives Market

Market Performance

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

Business Development

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

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

Clearing

New Corporate Communications Arrangement

In order to preserve the environment, HKSCC introduced effective 4 January 2010 a new arrangement for the delivery of corporate communications to non-registered holders whose listed securities are held in CCASS. Listed issuers can now send to their non-registered shareholders a notification of the publication of corporate communications on their websites together with a request form for a hard copy instead of sending them the printed corporate communications.

DCASS Service Enhancement

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

T+2 Finality for Stock Exchange Trades

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

Scripless Securities Market

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

Participant Services

Participant Training and Market Education

During the period under review, 3 courses on AMS/3 and HKATS were held to familiarise EPs with the operation of the trading devices and the relevant rules and procedures. In addition, HKEx conducted 8 Continuous Professional Training courses on the CCASS and DCASS systems and operations for over 150 attendees as well as 14 EP briefing sessions on derivatives products for over 800 attendees.

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

EP Recruitment

Five SEHK Participants and 5 HKFE Participants from Japan, the Mainland, the UK and the US were newly admitted during the first quarter of this year. As at the end of March 2010, there were a total of 499 SEHK Participants and 171 HKFE Participants. For HKSCC, there were a total of 22,813 CCASS Participants, including 3 Direct Clearing Participants and 102 IPs newly admitted in the first quarter of 2010.

Non-transferability of Trading Rights

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

Market Data

Provision of Free Real-time Basic Market Prices on Websites

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

Promotion of Real-time HKEx Market Data on Mainland

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

The Mainland TV Programme will last until the end of December 2012. Television stations that complete licence applications before 30 September 2010 will not be required to pay the standard fee and the subscriber fee for the first 6 months of the licence. Details of the Mainland TV Programme are available on the HKEx website.

Mainland Market Data Collaboration Programme

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

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

Risk Management

Enhancements to Holiday Margin Arrangements

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

Market Surveillance

Under the MOU between the SFC and HKEx on matters relating to market surveillance, HKEx refers to the SFC from time to time suspected violations of Hong Kong laws or the SFC codes, rules and/or regulations relating to HKEx’s Cash and Derivatives Markets. The SFC might make criminal prosecutions and/or disciplinary actions against licensed persons in respect of market misconduct matters. During the three months ended 31 March 2010, 7 cases involving possible violation were referred.

Information Technology

Production Systems Stability and Reliability

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

System Capacity Planning and Upgrade

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

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

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

Obsolete Technology Replacement and Upgrade

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

System Consolidation and Operational Efficiency

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

Independent Review of Cash and Derivatives Market Systems

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

HKEx Website Revamp

The revamped corporate website www.hkex.com.hk was successfully launched on 14 March 2010, introducing a facility with a new look and streamlined navigation.

HKEx Data Centre and IT Office Consolidation

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

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

Market Development

New Cooperation Initiatives with the Shanghai Stock Exchange

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

Promotion of New Listings

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

Other than visiting Fujian, Guangdong, Hebei, Heilongjiang, Hunan, Jiangsu, Liaoning and Tianjin during the first quarter of 2010, we co-organised a workshop on Hong Kong listing in Zhengzhou with the Zhengzhou Development and Reform Commission and a similar seminar in Hong Kong targeting listing interests of Hebei enterprises.

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

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

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

Treasury

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

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

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

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

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

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

Credit exposure is well diversified. The Group's bond portfolio (which includes certain principal-guaranteed structured notes) held is of investment grade and, as at 31 March 2010, had a weighted average credit rating of Aa2 (31 December 2009: Aa2) and a weighted average maturity of 2.3 years (31 December 2009: 2.3 years). Deposits (which include certain principal-guaranteed structured deposits) are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk ("VaR") and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (1 year is used by the Group). The overall risk, as measured by the VaR methodology, during the first quarter of 2010 and the fourth quarter of 2009 was as follows:

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

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

FINANCIAL REVIEW

Overall Performance

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

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

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

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

Revenue and Other Income

(A) Income Affected by Market Turnover

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

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

Clearing and settlement fees are derived predominantly from Cash Market transactions. The increase in clearing and settlement fees in 2010 was mainly due to the higher market turnover of the Cash Market. Despite being mostly ad valorem fees, clearing and settlement fees are also affected by the volume of settlement instructions and are subject to a minimum and a maximum fee per transaction and therefore may not always move exactly with changes in the turnover of the Cash Market. In 2010, clearing and settlement fees did not increase by the same percentage as the turnover of the Cash Market since the increase in transaction value of settlement instructions was smaller.

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

Key Market Indicators

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

(B) Stock Exchange Listing Fees

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

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

Key Drivers for Annual Listing Fees

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

Key Drivers for Initial and Subsequent Issue Listing Fees

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

(C) Income from Sale of Information

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

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

(D) Other Revenue

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

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

(E) Net Investment Income

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

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

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

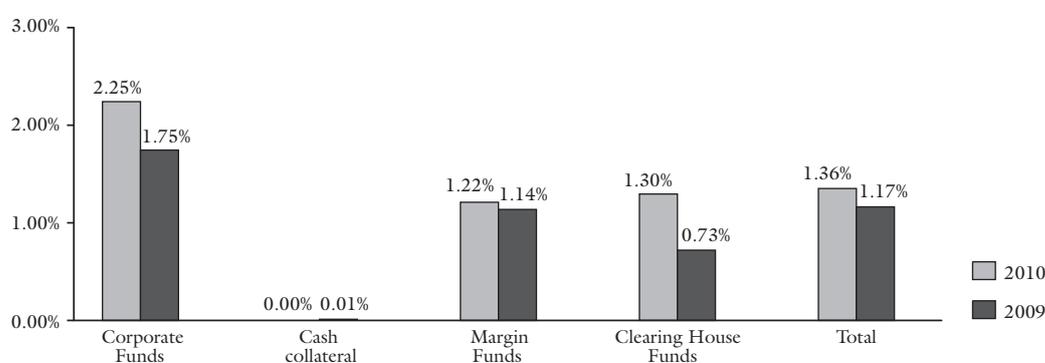
The significant drop in average amount of Margin Funds available for investment during the period was primarily caused by the lower margin rate required per contract.

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

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

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

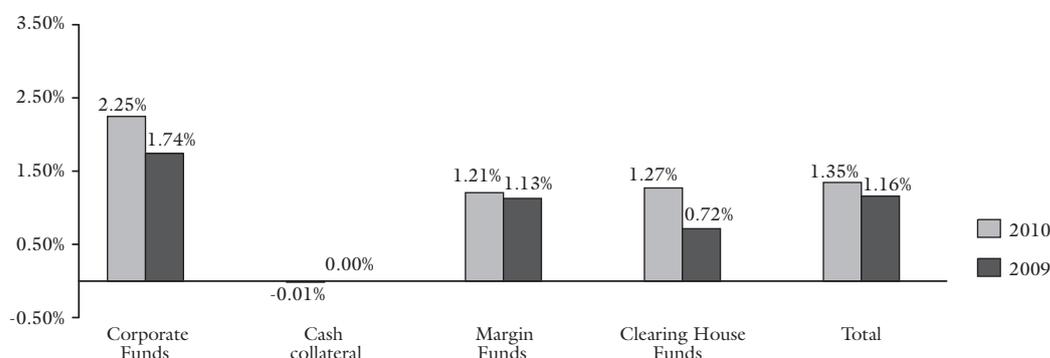
Annualised Gross Return on Funds Available for Investment



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

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

Annualised Net Return on Funds Available for Investment



The net returns of all funds in 2010 and 2009 were similar to the gross returns as very small amounts of interest rebates were paid to Participants since the rates of interest rebates (predominantly savings rate) were almost zero.

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

Operating Expenses

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

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

The Group's IT and computer maintenance expenses, excluding costs of services and goods directly consumed by the Participants of \$29 million (2009: \$25 million), were \$35 million (2009: \$34 million). The rise in costs of services and goods directly consumed by the Participants was due to the increase in AMS/3 line rentals and HKATS maintenance expenses incurred by the Participants. Costs of services and goods consumed by Participants were mostly recovered from the Participants and the income was included as part of network, terminal user, dataline and software sub-license fees under Other Revenue.

Taxation

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

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

Working Capital

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency bank deposits have been used to hedge the currency exposure of the Group's non-HKD investments and liabilities to mitigate risks arising from fluctuations in exchange rates.

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

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

Contingent Liabilities

Details of contingent liabilities are included in note 26 to the condensed consolidated accounts of this quarterly report.

Changes since 31 December 2009

There were no other significant changes in the Group's financial position and from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2009.

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

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

Review of Accounts

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

Management has appointed the external auditor to carry out certain agreed-upon procedures in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated financial statements for the three months ended 31 March 2010.

OPERATIONAL REVIEW

Organisational Changes

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

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

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

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

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

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

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

Share Option Schemes

There are 2 share options schemes, the Pre-Listing Scheme and the Post-Listing Scheme, in operation. The share options granted under the 2 schemes, which remained outstanding as at 31 March 2010 are set out below.

Pre-Listing Scheme

Date of grant	Exercise price \$	Number of shares issuable under the options				Exercise ² period
		As at 1 Jan 2010	Issued upon ¹ subscription during the three months ended 31 Mar 2010	Cancelled/ lapsed during the three months ended 31 Mar 2010	As at 31 Mar 2010	
Employees ³ 20 Jun 2000	6.88	114,000	59,000	-	55,000	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 ⁵ period
		As at 1 Jan 2010	Issued upon ⁴ subscription during the three months ended 31 Mar 2010	Cancelled/ lapsed during the three months ended 31 Mar 2010	As at 31 Mar 2010	
Employees³						
31 Mar 2004	16.96	1,020,000	188,000 ⁶	–	832,000	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	2,122,500	347,000 ⁷	–	1,775,500	26 Jan 2007 – 25 Jan 2015

The Pre-Listing Scheme and the Post-Listing Scheme are valid and effective each for a period of 10 years between 31 May 2000 (the adoption date) and 30 May 2010, after which period no further options will be offered under these 2 schemes. Any unexercised options shall however continue to be valid and exercisable subject to the provisions of the respective schemes until the end of the respective exercise periods.

Notes:

- 1 The weighted average closing price immediately before the dates on which the options were exercised was \$131.42.
- 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 \$132.60.
- 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 become fully vested effective the fifth anniversary of the grant. All shares that might be issued under the Post-Listing Scheme were fully vested as from 26 January 2010, the fifth anniversary of the latest grant on 26 January 2005.
- 6 This excluded 18,000 shares which were exercised on 31 March 2010 but allotted on 1 April 2010.
- 7 This excluded 26,000 shares which were exercised on 31 March 2010 but allotted on 1 April 2010.

Share Award Scheme

The Share Award Scheme was approved by the Board on 14 September 2005 (“Adoption Date”), since then, no further options have been granted under the Share Option Schemes. The rules and the trust deed of the Share Award Scheme are available on the HKEx website.

As at 31 March 2010, a total of 1,460,030 shares were awarded, representing about 0.14 per cent of the issued share capital of HKEx as at the Adoption Date. Details of the Awarded Shares are set out below.

Date of approval by Board	Date of ¹ award	Awarded ¹ sum \$'000	Number of shares purchased	Number of Awarded Shares awarded	Average fair value per share \$	Number of Awarded Shares vested during the three months ended 31 March 2010	Vesting period
19 Dec 2005	19 Dec 2005	N/A	960,000	960,000	31.20	-	19 Dec 2007 – 19 Dec 2010
13 Dec 2006	15 Jan 2007	19,673	272,500	272,465 ²	72.28	5,764 ⁴	13 Dec 2008 – 13 Dec 2011
14 Feb 2007	7 Jun 2007	600	7,000	7,000	81.33	-	16 Apr 2009 – 16 Apr 2012
15 May 2007	17 Jul 2007	600	5,500	5,500	102.29	-	18 Jun 2009 – 18 Jun 2012
12 Dec 2007	4 Feb 2008	26,300	151,000	150,965	163.72	-	12 Dec 2009 – 12 Dec 2012
18 Feb 2008	7 Apr 2008	612	4,200	4,200 ³	144.18	4,200 ⁴	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

Notes:

- 1 Prior to 16 August 2006, the date of award refers to the date on which the Board determined such number of shares awarded to the selected employees. Following the amendments to the rules of the Share Award Scheme which took effect from 16 August 2006, the date of award refers to the date on which the trustee allocated such number of Awarded Shares to the selected employees from the total number of shares purchased with the sum determined by the Board.
- 2 11,528 shares were awarded to the former Chief Executive, Mr Paul M Y Chow (“Mr Chow”) of HKEx.
- 3 The shares were awarded to Mr Chow.
- 4 According to the terms of the Share Award Scheme, a total of 10,915 shares, including 9,964 Awarded Shares and 951 further shares acquired through reinvesting dividends received, were vested and transferred to Mr Chow on 15 January 2010, the date immediately prior to his retirement.

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 their appointments are governed by Section 77 of the SFO and HKEx's Articles of Association respectively. Save as disclosed in this paragraph, HKEx has complied with all the code provisions and, where appropriate, adopted the recommended best practices, as set out in the Code on Corporate Governance Practices (Appendix 14 to the Main Board Listing Rules) throughout the review period.

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

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

CSR Development

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

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

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

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

PROSPECTS

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

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

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

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

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

Ronald Joseph ARCULLI
Chairman

Hong Kong, 12 May 2010

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 three months ended 31 March 2010.

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

As at 31 March 2010, the Directors' and the Chief Executive's interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code are set out below.

Long Positions in Shares and Underlying Shares of HKEx

Name of Director	Number of shares/underlying shares held				Total	% of the issued ¹ share capital
	Personal interests	Family interests	Corporate interests	Other interests		
John E Strickland	18,000 ²	–	–	–	18,000	0.00

Notes:

1 It was based on 1,076,784,346 shares of HKEx in issue as at 31 March 2010.

2 Mr Strickland was the beneficial owner of those shares.

Save for those disclosed above, as at 31 March 2010, 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 three months ended 31 March 2010, held any interests in or was granted any right to subscribe for the securities of HKEx and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

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

As at 31 March 2010, other persons' interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange are set out below.

Long Positions in Shares and Underlying Shares of HKEx

Name	Capacity	Number of shares/ underlying shares held	Total	% of the issued ¹ share capital
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	62,919,500 ²	62,919,500	5.84

Notes:

- 1 It was based on 1,076,784,346 shares of HKEx in issue as at 31 March 2010.
- 2 This was based on a disclosure of interest filing made by the Hong Kong Government on 10 September 2007 which it stated was voluntary.

Save for those disclosed above, as at 31 March 2010, 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 Controller

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

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

As at the date of this quarterly report, the SFC has only granted approval to 6 entities to be Minority Controllers, on the basis that the shares are held by them in custody for their clients. According to the Participant Shareholding Report as at 31 March 2010, the 6 approved Minority Controllers in aggregate held approximately 64 per cent (31 March 2009: 62 per cent) of HKEx's issued share capital.

Purchase, Sale or Redemption of HKEx's Listed Securities

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

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		Three months ended 31 Mar 2010 \$m	As restated Three months ended 31 Mar 2009 \$m
Trading fees and trading tariff	4	653	496
Stock Exchange listing fees	5	221	153
Clearing and settlement fees		365	257
Depository, custody and nominee services fees		73	62
Income from sale of information		169	155
Other revenue	6	108	84
REVENUE		1,589	1,207
Investment income		126	135
Interest rebates to Participants		(1)	(1)
Net investment income	7	125	134
	3	1,714	1,341
OPERATING EXPENSES			
Staff costs and related expenses	8	209	182
Information technology and computer maintenance expenses	9	64	59
Premises expenses		53	54
Product marketing and promotion expenses		3	3
Legal and professional fees		2	4
Depreciation		27	25
Other operating expenses		27	27
	3	385	354
PROFIT BEFORE TAXATION	3	1,329	987
TAXATION	10	(202)	(153)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		1,127	834
Basic earnings per share	11(a)	\$1.05	\$0.78
Diluted earnings per share	11(b)	\$1.04	\$0.77

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital, share premium and shares held for Share Award Scheme (note 21) \$m	Employee share-based compensation reserve \$m	Designated reserves (note 22) \$m	Retained earnings (note 23) \$m	Total equity \$m
At 1 Jan 2010	1,400	43	563	6,021	8,027
Total comprehensive income attributable to shareholders	-	-	-	1,127	1,127
Shares issued under employee share option schemes	10	-	-	-	10
Vesting of shares of Share Award Scheme	1	(1)	-	-	-
Employee share-based compensation benefits	-	3	-	-	3
Transfer of reserves	3	(3)	8	(8)	-
At 31 Mar 2010	1,414	42	571	7,140	9,167

	Share capital, share premium and shares held for Share Award Scheme \$m	Employee share-based compensation reserve \$m	Other comprehensive income Revaluation reserve \$m	Designated reserves \$m	Retained earnings \$m	Total equity \$m
At 1 Jan 2009, as previously reported	1,357	47	97	552	5,243	7,296
Effect of changes in accounting policies (note 1)	-	-	-	-	(2)	(2)
At 1 Jan 2009, as restated	1,357	47	97	552	5,241	7,294
Total comprehensive income attributable to shareholders	-	-	(57)	-	834	777
Shares issued under employee share option schemes	2	-	-	-	-	2
Shares purchased for Share Award Scheme	(5)	-	-	-	-	(5)
Vesting of shares of Share Award Scheme	1	(1)	-	-	-	-
Employee share-based compensation benefits	-	7	-	-	-	7
Transfer of reserves	-	-	-	3	(3)	-
At 31 Mar 2009, as restated	1,355	53	40	555	6,072	8,075

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

		At 31 Mar 2010 \$m	At 31 Dec 2009 \$m
NON-CURRENT ASSETS			
Fixed assets		281	303
Financial assets measured at fair value through profit or loss	12	1,191	1,559
Financial assets measured at amortised cost	13	989	768
Deferred tax assets		4	4
Other assets		3	3
		2,468	2,637
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	14	11,264	11,334
Financial assets measured at fair value through profit or loss	12	10,709	12,466
Financial assets measured at amortised cost	13	3,539	4,157
Cash and cash equivalents	15	18,508	14,738
		44,020	42,695
CURRENT LIABILITIES			
Participants' contributions to Clearing House Funds	17	863	723
Margin deposits from Clearing Participants on derivatives contracts	18	18,923	20,243
Cash collateral from HKSCC Clearing Participants	19	4,391	3,432
Accounts payable, accruals and other liabilities	20	12,099	11,827
Other financial liabilities		45	42
Deferred revenue		382	424
Taxation payable		264	261
Provisions		30	33
		36,997	36,985
NET CURRENT ASSETS		7,023	5,710
TOTAL ASSETS LESS CURRENT LIABILITIES		9,491	8,347
NON-CURRENT LIABILITIES			
Participants' contributions to Clearing House Funds	17	280	276
Deferred tax liabilities		15	18
Provisions		29	26
		324	320
NET ASSETS		9,167	8,027
CAPITAL AND RESERVES			
Share capital	21	1,077	1,076
Share premium	21	388	376
Shares held for Share Award Scheme	21	(51)	(52)
Employee share-based compensation reserve		42	43
Designated reserves	22	571	563
Retained earnings	23	7,140	6,021
SHAREHOLDERS' FUNDS		9,167	8,027
TOTAL ASSETS		46,488	45,332
TOTAL LIABILITIES		37,321	37,305

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

		Three months ended 31 Mar 2010 \$m	As restated Three months ended 31 Mar 2009 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	24	2,337	1,847
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		(9)	(20)
Net (increase)/decrease in financial assets of the Corporate Funds:			
Increase in time deposits with original maturities more than three months		(25)	(170)
Payments for purchases of available-for-sale financial assets		–	(320)
Net proceeds from maturity of available-for-sale financial assets		–	173
Payments for purchases of financial assets measured at amortised cost (excluding bank deposits)		(230)	(190)
Net proceeds from maturity of financial assets measured at amortised cost (excluding bank deposits)		190	–
Net proceeds from sale of financial assets measured at fair value through profit or loss		372	–
Interest received from available-for-sale financial assets		–	83
Interest received from financial assets measured at amortised cost (excluding bank deposits)		2	–
Interest received from financial assets measured at fair value through profit or loss		56	–
Net cash inflow/(outflow) from investing activities		356	(444)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		10	2
Purchase of shares for Share Award Scheme		–	(5)
Net cash inflow/(outflow) from financing activities		10	(3)
Net increase in cash and cash equivalents		2,703	1,400
Cash and cash equivalents at 1 Jan		4,751	4,756
Cash and cash equivalents at 31 Mar		7,454	6,156
Analysis of cash and cash equivalents			
Cash collateral received – cash at bank		4,391	3,739
Cash at bank and in hand		1,943	1,564
Time deposits with original maturities within three months		1,120	853
Cash and cash equivalents at 31 Mar		7,454	6,156

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 2009 annual accounts. The accounting policies and methods of computation used in the preparation of these accounts and segment information are consistent with those used in the annual accounts and segment information for the year ended 31 December 2009.

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

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

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

2. Turnover

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

3. Operating Segments

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:

3. Operating Segments (continued)

The **Cash Market** business mainly refers to the operations of The Stock Exchange of Hong Kong Limited (“Stock Exchange”), which covers all products traded on the Cash Market platforms, such as equities, callable bull/bear contracts (“CBBCs”) and warrants. 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 Hong Kong Futures Exchange Limited and stock options traded on the Stock Exchange, which includes the provision and maintenance of trading platforms for a range of derivatives products, such as stock and equity index futures and options. Its income mainly comprises trading fees, trading tariff and net investment income on the Margin Funds invested.

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

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

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

3. Operating Segments (continued)

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

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

4. Trading Fees and Trading Tariff

	Three months ended 31 Mar 2010 \$m	Three months ended 31 Mar 2009 \$m
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	464	319
Derivatives contracts traded on the Derivatives Market	189	177
	653	496

5. Stock Exchange Listing Fees

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

	Three months ended 31 Mar 2010				Three months ended 31 Mar 2009			
	Equity		CBBCs, Derivative warrants & others	Total	Equity		CBBCs, Derivative warrants & others	Total
	Main Board	GEM			Main Board	GEM		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Stock Exchange Listing Fees								
Annual listing fees	90	6	-	96	81	6	-	87
Initial and subsequent issue listing fees	16	1	107	124	19	-	46	65
Other listing fees	1	-	-	1	1	-	-	1
Total	107	7	107	221	101	6	46	153
Costs of Listing Function								
Direct costs	58	13	4	75	53	11	4	68
Indirect costs	10	2	3	15	8	2	1	11
Total costs	68	15	7	90	61	13	5	79
Contribution to Cash Market								
Segment Profit before Taxation	39	(8)	100	131	40	(7)	41	74

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 and enforcing the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and disseminating information relating to listed companies. Indirect costs comprise costs of support services and other central overheads attributable to the Listing Function.

6. Other Revenue

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

7. Net Investment Income

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

8. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Three months ended 31 Mar 2010 \$m	Three months ended 31 Mar 2009 \$m
Salaries and other short-term employee benefits	190	160
Employee share-based compensation benefits	3	7
Retirement benefit costs (note (a))	16	15
	209	182

- (a) The Group has sponsored a defined contribution provident fund scheme (“ORSO Plan”) and a Mandatory Provident Fund scheme (“MPF Scheme”). The retirement benefit costs charged to the condensed consolidated income statement represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees. No contribution to the MPF Scheme and the ORSO Plan was outstanding as at 31 March 2010 (31 December 2009: less than \$1 million and \$Nil respectively).

9. Information Technology and Computer Maintenance Expenses

	Three months ended 31 Mar 2010 \$m	Three months ended 31 Mar 2009 \$m
Costs of services and goods:		
– consumed by the Group	35	34
– directly consumed by Participants	29	25
	64	59

10. Taxation

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

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

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

11. Earnings Per Share

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

- (a) Basic earnings per share

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

11. Earnings Per Share (continued)

(b) Diluted earnings per share

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

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

	At 31 Mar 2010 \$m	At 31 Dec 2009 \$m
Financial assets of Clearing House Funds (note 17)	412	410
Financial assets of Margin Funds on derivatives contracts (note 18)	6,912	8,673
Financial assets of Corporate Funds (note 16)	4,576	4,942
	11,900	14,025
Less: Non-current portion of Corporate Funds	(1,191)	(1,559)
Current portion (note (a))	10,709	12,466

(a) Included financial assets maturing after twelve months of \$412 million (31 December 2009: \$410 million) and \$5,369 million (31 December 2009: \$5,975 million) attributable to Clearing House Funds and Margin Funds respectively that could readily be liquidated to meet liquidity requirements of the respective Funds.

13. Financial Assets Measured at Amortised Cost

	At 31 Mar 2010 \$m	At 31 Dec 2009 \$m
Financial assets of Clearing House Funds (note 17)	24	51
Financial assets of Margin Funds on derivatives contracts (note 18)	2,414	2,854
Financial assets of Corporate Funds (note 16)	2,090	2,020
	4,528	4,925
Less: Non-current portion of Corporate Funds	(989)	(768)
	3,539	4,157

- (a) Included time deposits maturing after twelve months of \$2 million (31 December 2009: \$2 million) and \$955 million (31 December 2009: \$954 million) attributable to the Clearing House Funds and Margin Funds respectively that could readily be liquidated to meet liquidity requirements of the respective Funds.

14. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement ("CNS") money obligations receivable under the T+2 settlement cycle, which accounted for 93 per cent (31 December 2009: 92 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

15. Cash and Cash Equivalents

	At 31 Mar 2010 \$m	At 31 Dec 2009 \$m
Cash and cash equivalents:		
– Cash collateral received (note 19)	4,391	3,432
– Corporate Funds	3,063	1,319
	7,454	4,751
– Clearing House Funds (note 17)	1,458	1,280
– Margin Funds on derivatives contracts (note 18)	9,596	8,707
(note (a))	11,054	9,987
	18,508	14,738

- (a) 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 in the condensed consolidated statement of cash flows.

16. Financial Assets of Corporate Funds

	At 31 Mar 2010 \$m	At 31 Dec 2009 \$m
Financial assets measured at fair value through profit or loss (note 12 and note (a))	4,576	4,942
Financial assets measured at amortised cost (note 13 and note (b))	2,090	2,020
	6,666	6,962

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

	At 31 Mar 2010 \$m	At 31 Dec 2009 \$m
<u>Mandatorily measured at fair value</u>		
Equity securities:		
– listed in Hong Kong	24	23
– listed outside Hong Kong	156	157
	180	180
Debt securities:		
– listed in Hong Kong	83	68
– listed outside Hong Kong	1,878	1,866
– unlisted	2,144	2,455
	4,105	4,389
Mutual funds:		
– listed outside Hong Kong	78	75
Derivative financial instruments:		
– equity index futures contracts, listed outside Hong Kong	1	1
– forward foreign exchange contracts	12	17
	13	18
Bank deposits with embedded derivatives	200	280
	4,576	4,942

(b) Financial assets measured at amortised cost

	At 31 Mar 2010 \$m	At 31 Dec 2009 \$m
Debt securities:		
– listed outside Hong Kong	202	200
– unlisted	1,138	1,096
	1,340	1,296
Time deposits with original maturities over three months	699	674
Other financial assets	51	50
	2,090	2,020

17. Clearing House Funds

	At 31 Mar 2010 \$m	At 31 Dec 2009 \$m
The Clearing House Funds were attributable to:		
Clearing Participants' contributions due within twelve months (note (a))	863	723
Clearing Participants' contributions due after twelve months (note (a))	280	276
Designated reserves (note 22)	571	563
	1,714	1,562

The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds (note (b)):

Financial assets mandatorily measured at fair value through profit or loss (note 12):

Debt securities:

- listed outside Hong Kong
- unlisted

130	130
282	280
412	410

Financial assets measured at amortised cost (note 13):

Time deposits with original maturities over three months

24	51
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Financial assets of Clearing House Funds

Cash and cash equivalents (note 15)

436	461
1,458	1,280

1,894	1,741
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Less: Other financial liabilities of Clearing House Funds

(22)	(20)
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1,872	1,721
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Provision for loss arising from closing-out losses of defaulting Participants

(158)	(159)
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1,714	1,562
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The Clearing House Funds comprised the following Funds:

HKSCC Guarantee Fund	221	219
SEOCH Reserve Fund	567	583
HKCC Reserve Fund	926	760
	1,714	1,562

- (a) Amounts excluded bank guarantees received and utilised as alternatives to cash contributions.
- (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.

18. Margin Deposits from Clearing Participants on Derivatives Contracts

	At 31 Mar 2010 \$m	At 31 Dec 2009 \$m
Margin deposits from Clearing Participants comprised (note (a)):		
SEOCH Clearing Participants' margin deposits	2,779	2,567
HKCC Clearing Participants' margin deposits	16,144	17,676
	18,923	20,243

The margin deposits were invested in the following instruments for managing the obligations of the Margin Funds:

Financial assets mandatorily measured at fair value through profit or loss (note 12):

Debt securities:

- listed outside Hong Kong
- unlisted

Bank deposits with embedded derivatives

292	290
5,637	6,557
983	1,826
6,912	8,673

Financial assets measured at amortised cost (note 13):

Time deposits with original maturities over three months
Margin receivable from Clearing Participants

2,414	2,854
1	9

Financial assets of Margin Funds

Cash and cash equivalents (note 15)

9,327	11,536
9,596	8,707
18,923	20,243

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

19. Cash Collateral from HKSCC Clearing Participants

HKSCC Clearing Participants are required to deposit cash collateral with HKSCC to cover the risk of potential losses arising from their unsettled securities transactions. The cash collateral received is held in savings accounts and forms part of the cash and cash equivalents of the Group (note 15).

20. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's CNS money obligations payable under the T+2 settlement cycle, which accounted for 87 per cent (31 December 2009: 89 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

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

		At 31 Mar 2010 \$m	At 31 Dec 2009 \$m		
Authorised:					
2,000,000,000 shares of \$1 each		2,000	2,000		
Issued and fully paid:					
	Number of shares of \$1 each '000	Share capital \$m	Share premium \$m	Shares held for Share Award Scheme \$m	Total \$m
At 1 Jan 2009	1,073,940	1,075	347	(65)	1,357
Shares issued under employee share option schemes (note (a))	1,304	1	22	–	23
Transfer from employee share-based compensation reserve	–	–	7	–	7
Shares purchased for Share Award Scheme	(90)	–	–	(9)	(9)
Vesting of shares of Share Award Scheme	361	–	–	22	22
At 31 Dec 2009	1,075,515	1,076	376	(52)	1,400
At 1 Jan 2010	1,075,515	1,076	376	(52)	1,400
Shares issued under employee share option schemes (note (a))	594	1	9	–	10
Transfer from employee share-based compensation reserve	–	–	3	–	3
Vesting of shares of Share Award Scheme	11	–	–	1	1
At 31 Mar 2010	1,076,120	1,077	388	(51)	1,414

- (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 594,000 shares (year ended 31 December 2009: 1,304,000 shares) in HKEx at an average consideration of \$17.30 per share (year ended 31 December 2009: \$17.82 per share), of which \$1.00 per share was credited to share capital and the balance was credited to the share premium account.

22. Designated Reserves

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

	At 31 Mar 2010 \$m	At 31 Dec 2009 \$m
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	124	122
– SEOCH Reserve Fund reserve	110	109
– HKCC Reserve Fund reserve	337	332
	<u>571</u>	<u>563</u>

23. Retained Earnings (Including Proposed Dividend)

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

24. Notes to the Condensed Consolidated Statement of Cash Flows

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

	Three months ended 31 Mar 2010 \$m	As restated Three months ended 31 Mar 2009 \$m
Profit before taxation	1,329	987
Adjustments for:		
Net interest income	(21)	(119)
Dividend income	(1)	(1)
Net realised and unrealised gains and interest income on financial assets measured at fair value through profit or loss, and financial assets and financial liabilities at fair value through profit or loss	(102)	(14)
Depreciation	27	25
Employee share-based compensation benefits	3	7
Reversal of provision for impairment losses of trade receivables	(1)	–
Changes in provisions	(3)	(3)
Net decrease in Margin Fund financial assets	1,330	18,020
Net decrease in Margin Fund financial liabilities	(1,320)	(18,080)
Net increase in Clearing House Fund financial assets	(150)	(85)
Net increase in Clearing House Fund financial liabilities	146	82
Net increase in cash collateral received from HKSCC Clearing Participants	959	139
Net (increase)/decrease in financial assets measured at fair value through profit or loss, and financial assets and financial liabilities at fair value through profit or loss	(1)	7
Decrease in accounts receivable, prepayments and deposits	72	472
Increase in other current liabilities	229	582
Net cash inflow from operations	2,496	2,019
Interest received from bank deposits	16	29
Interest received from financial assets measured at fair value through profit or loss and financial assets at fair value through profit or loss	28	33
Interest paid	(1)	(1)
Hong Kong Profits Tax paid	(202)	(233)
Net cash inflow from operating activities	2,337	1,847

25. Commitments

Commitments in respect of capital expenditures:

	At 31 Mar 2010 \$m	At 31 Dec 2009 \$m
Contracted but not provided for	7	1
Authorised but not contracted for	125	65
	132	66

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 for 2010, the acquisition of land at Tseung Kwan O for constructing a new data centre.

26. Contingent Liabilities

As at 31 March 2010, the Group's material contingent liabilities were as follows:

- (a) The Group had a contingent liability in respect of potential calls to be made by the Securities and Futures Commission ("SFC") to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$72 million. Up to 31 March 2010, no calls had been made by the SFC in this connection.
- (b) The Stock Exchange had undertaken to indemnify the Collector of Stamp Revenue against any underpayment of stamp duty by its Participants of up to \$200,000 for each Participant.

In the unlikely event that all of its 467 trading Participants (excluding Lehman Brothers Securities Asia Limited which the Stock Exchange had already paid \$200,000 for its default) as at 31 March 2010 (31 December 2009: 462) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to \$93 million (31 December 2009: \$92 million).

- (c) HKEx had given an undertaking in favour of HKSCC to contribute up to \$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 liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs of winding up.

27. Material Related Party Transactions

- (a) Key management personnel compensation

	Three months ended 31 Mar 2010 \$m	Three months ended 31 Mar 2009 \$m
Salaries and other short-term employee benefits	19	18
Employee share-based compensation benefits	1	2
Retirement benefit costs	2	2
	22	22

- (b) Post-retirement benefit plans

Details of transactions with the Group's post-retirement benefit plans are included in note 8.

- (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.

GLOSSARY

2010 AGM	Annual general meeting held on 22 April 2010
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
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 Government
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
HKCC	HKFE Clearing Corporation Limited
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
H-shares Index	Hang Seng China Enterprises Index
HSI	Hang Seng Index
IP(s)	Investor Participant(s)
IPO(s)	Initial Public Offering(s)
IT	Information Technology
IVs	Information Vendors
JP	Justice of the Peace
Listing Committees	Listing Committee and GEM Listing Committee
Listing Rules	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDF	The Market Datafeed System
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MOU	Memorandum of Understanding
Post-Listing Scheme	Post-Listing Share Option Scheme approved by the Shareholders on 31 May 2000 which was subsequently amended by the Shareholders on 17 April 2002
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by the Shareholders on 31 May 2000
PRS	The Price Reporting System
REIT(s)	Real Estate Investment Trust(s)

GLOSSARY

SBS	Silver Bauhinia Star
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	Shareholders of HKEx
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended by the Board on 16 August 2006
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
USD	US Dollar
\$/HKD	Hong Kong Dollar

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