



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

Quarterly Report 2009

For the nine months ended 30 September

CONTENTS

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

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FINANCIAL HIGHLIGHTS

	Nine months ended 30 Sept 2009	Nine months ended 30 Sept 2008	Change	Three months ended 30 Sept 2009	Three months ended 30 Sept 2008	Change
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KEY MARKET STATISTICS

Average daily turnover value on the Stock Exchange	\$61.3 billion	\$79.3 billion	(23%)	\$66.7 billion	\$63.6 billion	5%
Average daily number of derivatives contracts traded on the Futures Exchange	210,503	199,436	6%	204,637	215,417	(5%)
Average daily number of stock options contracts traded on the Stock Exchange	193,147	232,545	(17%)	168,876	220,110	(23%)

	Unaudited Nine months ended 30 Sept 2009 \$'000	Unaudited Nine months ended 30 Sept 2008 \$'000	Change	Unaudited Three months ended 30 Sept 2009 \$'000	Unaudited Three months ended 30 Sept 2008 \$'000	Change
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RESULTS

Revenue and other income	5,224,804	5,847,235	(11%)	1,871,710	1,635,904	14%
Operating expenses	1,140,310	1,298,512	(12%)	380,292	529,569	(28%)
Profit before taxation	4,084,494	4,548,723	(10%)	1,491,418	1,106,335	35%
Taxation	(609,478)	(614,670)	(1%)	(217,287)	(146,688)	48%
Profit attributable to shareholders	3,475,016	3,934,053	(12%)	1,274,131	959,647	33%
Basic earnings per share	\$3.23	\$3.67	(12%)	\$1.19	\$0.89	34%
Diluted earnings per share	\$3.22	\$3.65	(12%)	\$1.18	\$0.89	33%

	Unaudited at 30 Sept 2009	Audited at 31 Dec 2008	Change
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KEY ITEMS IN CONDENSED CONSOLIDATED

STATEMENT OF FINANCIAL POSITION

Shareholders' funds (\$'000)	6,755,931	7,295,322	(7%)
Total assets * (\$'000)	40,339,263	62,823,921	(36%)
Net assets per share #	\$6.28	\$6.79	(8%)

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

Based on 1,075,058,908 shares as at 30 September 2009, being 1,076,086,346 shares issued and fully paid less 1,027,438 shares held for the Share Award Scheme (31 December 2008: 1,073,939,532 shares, being 1,074,886,346 shares issued and fully paid less 946,814 shares held for the Share Award Scheme)

BOARD AND COMMITTEES

Board

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

Executive Director, Chief Executive
CHOW Man Yiu, Paul SBS, JP

INEDs

CHA May-Lung, Laura * GBS, JP
CHAN Tze Ching, Ignatius ¹ BBS, JP
CHENG Mo Chi, Moses * GBS, JP
CHEUNG Kin Tung, Marvin * ² GBS, JP
FAN Hung Ling, Henry * ³ SBS, JP
FONG Hup * ³ MH
HUI Chiu Chung, Stephen * ⁴ JP
KWOK Chi Piu, Bill JP
LEE Kwan Ho, Vincent Marshall
LEE Tze Hau, Michael * ⁴
LOH Kung Wai, Christine ³ JP
STRICKLAND, John Estmond GBS, JP
WILLIAMSON, John Mackay McCulloch ¹
WONG Sai Hung, Oscar

Committees

Audit Committee

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

Executive Committee

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

Investment Advisory Committee

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

Committees (continued)

Nomination Committee

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

Panel Member Nomination Committee

CHA May-Lung, Laura (Chairman)
FONG Hup ³
KWOK Chi Piu, Bill
LEE Kwan Ho, Vincent Marshall
LEE Tze Hau, Michael ⁶
WONG Sai Hung, Oscar

Remuneration Committee

ARCULLI, Ronald Joseph (Chairman)
CHA May-Lung, Laura
CHENG Mo Chi, Moses
LEE Kwan Ho, Vincent Marshall
LOH Kung Wai, Christine ³
WILLIAMSON, John Mackay McCulloch ⁶

Risk Management Committee ^Δ

ARCULLI, Ronald Joseph (Chairman)
CHAN Ka-lok ** ¹⁰
CHEUNG Kin Tung, Marvin ⁵
FONG Hup ** ¹⁰
HUNG Pi Cheng, Benjamin **
KWOK Chi Piu, Bill
LAU Ying Pan, Edmond ** ¹⁰
LUI Kei Kwong, Keith ** ¹¹

Corporate Social Responsibility Committee

CHOW Man Yiu, Paul (Chairman)
CHOW Lok Sum, Eddie
CURLEY, Peter Joseph
MAU Kam Shing, Joseph
WONG Kwok Kuen, Alfred
YEN Tai Mui, Brenda

Company Secretary

MAU Kam Shing, Joseph

* Government Appointed Directors	3 Retired on 23 April 2009	8 Appointment effective 17 June 2009
** Appointed by the Financial Secretary	4 Appointment effective 23 April 2009	9 Resignation effective 17 June 2009
^Δ Established under Section 65 of the SFO	5 Re-appointment effective 24 April 2009	10 Re-appointment effective 1 July 2009
¹ Elected on 23 April 2009	6 Appointment effective 24 April 2009	11 Re-appointment effective 28 August 2009
² Re-appointment effective 23 April 2009	7 Appointment ceased on 24 April 2009	

Committees and Consultative Panels

On 16 September 2009, the Board appointed Mr Nico Torchetti and Ms Fanny M Y Wong as members of the Clearing Consultative Panel to fill the casual vacancies arising from the resignation of Messrs Simon Haggerty and Sam W S Ng respectively.

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

Other Changes in Directors' Information

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

	Appointment (effective)	Cessation of Office (effective)
Paul M Y Chow		
<ul style="list-style-type: none">Saudi Stock Exchange Company (Tadawul) – member of International Advisory Board	1 Oct 2009	–
Laura M Cha		
<ul style="list-style-type: none">Johnson Electric Holdings Limited – non-executive director	–	24 Aug 2009
<ul style="list-style-type: none">Marsh & McLennan Companies, Inc (listed on the New York, Chicago and London stock exchanges) – member of International Advisory Board	–	5 Nov 2009
Michael T H Lee		
<ul style="list-style-type: none">Council of the Queen Elizabeth Foundation for the Mentally Handicapped – member	15 Aug 2009	–
<ul style="list-style-type: none">Trinity Limited where Mr Lee is a non-executive director, became a listed company on 3 November 2009, whose shares are listed on the Main Board of the Stock Exchange	–	–

Directors' updated biographies are available on the HKEx website.

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

Listing

Enhancing Listing Transparency and Efficiency

On 24 July 2009, the Exchange published guidance materials to enhance the transparency of its IPO application process. In addition, the proposed changes to filing and checklist requirements for listing of equity securities and the related rule amendments took effect on 2 November 2009. The streamlined listing process will shorten the listing timetable, lower costs and reduce the paperwork burden.

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

The rule amendments in relation to exempting issuers, subject to certain exceptions, from the notifiable transaction rules regarding construction of fixed assets for their own use in the ordinary and usual course of business (Issue 15 of the 2008 CCP) took effect on 1 September 2009. The changes will facilitate planning for business development by listed issuers while upholding shareholders’ right to know about and participate in decisions that involve important changes affecting the company.

On 9 October 2009, the Exchange published the Consultation Conclusion on Issue 11 (General Mandates) of the 2008 CCP, and concluded that no amendments would be made to the Listing Rules with regard to general mandates.

Proposals to Accelerate Rights Issues and Open Offers

On 31 July 2009, the Exchange published a consultation paper on proposals to accelerate rights issues and open offers. With a shorter timetable, it will be easier for listed companies to raise funds by rights issues or open offers which are in the interest of shareholders. A total of 37 responses were received and published on the HKEx website, and a review of which is underway.

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

On 28 August 2009, the Exchange published a consultation paper to seek the public’s views regarding a proposed framework to accept the use of Mainland accounting and auditing standards and Mainland audit firms endorsed by the Ministry of Finance People’s Republic of China and the China Securities Regulatory Commission by Mainland incorporated companies listed in Hong Kong. The proposal will help reduce compliance costs for Mainland incorporated issuers, promote more timely disclosure of information to investors and increase market efficiency. It will also provide for cooperation between the relevant regulatory authorities in Hong Kong and the Mainland in investigation and regulation of the endorsed audit firms. The consultation ended on 23 October 2009 and a total of 30 responses were received.

Other Consultations

As part of the continued effort to improve the listing regulatory regime without compromising market quality, the Exchange also published 3 other consultation papers, as set out in the following table, in September and October this year to seek market views on various proposals to modify certain Listing Rules requirements in line with international best practices.

Date	Consultation Paper	Objectives	Submission Deadline
11 Sept	New Listing Rules for Mineral and Exploration Companies	To bring Hong Kong's regulatory framework for listed mineral and exploration companies in line with international best practice	11 Nov 2009
18 Sept	Proposed Changes to Requirements for Circulars and Listing Documents of Listed Issuers	To streamline certain requirements for listed issuers' circulars and listing documents and to improve disclosure standards in circulars and listing documents	18 Nov 2009
2 Oct	Proposed Changes to the Connected Transaction Rules	To address specific issues in the regulation of connected transactions under the Listing Rules	2 Dec 2009

Cash Market

Market Performance

In the first nine months of 2009, 31 companies were newly listed on the Main Board (including 4 transferred from GEM), and 2 on GEM. Four Main Board companies and 4 GEM companies were delisted. Total capital raised, including post-listing funds, reached \$364.8 billion. As at 30 September 2009, 1,114 and 172 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about \$15,959.7 billion. In addition, there were 3,093 DWs, 1,893 CBBCs, 7 REITs, 37 ETFs and 166 debt securities listed as at 30 September 2009. The average daily turnover in the first nine months of 2009 was about \$61.0 billion on the Main Board and about \$270 million on GEM.

ETF Market Development

The SFC and the Taiwan Financial Supervisory Commission reached an agreement on 22 May 2009 whereby ETFs listed on the Exchange and the Taiwan Stock Exchange ("TSE") are mutually recognised for cross listing. Upon signing of the agreement, 16 and 11 ETFs listed in Hong Kong and Taiwan respectively became qualified for cross listing.

The Taiwan-listed Polaris Taiwan Top 50 Tracker Fund (HK) was cross listed in Hong Kong on 19 August 2009. Three Hong Kong-listed ETFs were cross listed on TSE as of mid-September this year, and they were actively traded by the investors in Taiwan.

Best Venue in Asia-Pacific for Algorithmic/Electronic Trading

In September 2009, HKEx was named the "best venue in Asia-Pacific for algorithmic/electronic trading" by the *AsianInvestor* magazine in its 2009 Service Provider Awards for trading and execution for equities, in recognition of HKEx's excellence in the development of securities trading infrastructure.

Derivatives Market

Market Performance

The turnover of all futures and options for the first nine months of 2009 was 74,877,056 contracts, a decrease of 5 per cent against the same period in 2008. On 30 September 2009, open interests for HSI Futures and H-shares Index Futures were 83,150 and 80,516 contracts respectively, up 4 per cent and 12 per cent from 30 June 2009. Open interests for HSI Options and H-shares Index Options on 30 September 2009 also rose to 222,382 and 190,047 contracts respectively, up 22 per cent and 66 per cent from 30 June 2009.

Mini-HSI Futures achieved a record open interest of 11,148 contracts on 29 July 2009 while Mini H-shares Index Futures posted a record daily volume of 5,326 contracts on 27 August 2009.

Public Consultation on CER Futures

A total of 24 responses to the consultation paper on the feasibility of developing an emissions trading platform in Hong Kong and introducing CER futures as a product were received. Respondents included companies related to the Clean Development Mechanism project, investment/settlement banks, carbon trading companies, consultancy companies, professional associations, a local utility company, an overseas governmental body, and individuals, but no EPs. HKEx is consolidating and analysing the comments and plans to release the consultation conclusion before the end of the year.

Revision of 6 Option Classes' Position Limit

In order to cope with the growing stock options market, HKEx, after consulting the SFC, revised the position limit of 6 option classes to 50,000 open contracts per option class in any direction for all expiry months combined effective 2 July 2009.

Commencement of Trading of New Stock Option Classes

To provide more investment choice for investors, trading in options on 3 actively traded Mainland related stocks, namely China Overseas Land & Investment Limited, Tencent Holdings Limited and Zijin Mining Group Company Limited, commenced on 6 July 2009, and 4 market makers were appointed to provide liquidity in these new option classes. The total volume traded in these 3 option classes was 105,965 contracts in the third quarter of 2009.

Offering More Choice of Strikes and Maturities for Stock Options Trading

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

Additional Products Tradable by Taiwan Investors

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

Plan to Introduce Flexible Index Options

On 22 September 2009, HKEx announced a plan to introduce HSI and H-shares Index options contracts with flexible strike prices and expiry months (collectively, “Flexible Index Options”) in the first quarter of 2010 subject to regulatory approval. Flexible Index Options should provide over-the-counter market participants with an attractive counterparty risk alternative. An information paper describing the key features of Flexible Index Options, the proposed operating arrangements and the benefits of adding the options to HKEx’s Derivatives Market has been posted on the HKEx website.

Clearing

MOU with The National Depository Center

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

Scripless Securities Market

The Scripless Securities Market Working Group led by the SFC plans to visit market operators and regulators in other countries to learn from their scripless experience before finalising a proposed scripless operating model which will be included in a joint consultation paper for publication tentatively by the end of 2009. Prior to the formal consultation, key stakeholders’ views on the proposed scripless model will be solicited and incorporated.

T+2 Finality for Stock Exchange Trades

Regarding the plan to implement T+2 Finality for Stock Exchange Trades to reduce the overnight counterparty risk created by the time gap between securities and money settlement, HKEx has completed the soft consultation with banks and clearing house participants on a proposed model to bring finality of securities and money settlement for Stock Exchange Trades and SIs on the same business day. Market consultation will be conducted in the fourth quarter of this year.

DCASS Service Enhancement

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

Participant Services

Participant Training and Market Education

During the period under review, HKEx organised 39 Continuous Professional Training courses jointly with the Hong Kong Securities Institute on HKEx's services and products, including 16 courses on the CCASS and DCASS systems and operations.

In the third quarter of 2009, HKEx organised 25 EP briefing sessions and seminars on derivatives products for over 1,200 attendants. In the same period, 4 EPs organised online trading simulation games regarding HSI Futures to increase investors' awareness, and 2 more EPs will launch similar games in the fourth quarter of 2009. HKEx has sponsored and will sponsor these EPs with prizes and real-time market data feed.

Since June 2009, HKEx has commenced a Joint Promotional Programme on Stock Options with 6 OTEPs. In the third quarter of 2009, 2 EPs organised public seminars with the objective of increasing retail participation and 4 other EPs will start their own programmes before the end of this year.

EP Recruitment

In the first nine months of this year, 17 SEHK Participants and 19 HKFE Participants were newly admitted.

Since the launch of the third phase of the Mainland and Hong Kong Closer Economic Partnership Arrangement in 2005, more than a dozen Mainland broker firms have been admitted as EPs with 2 admissions as SEHK Participants and 3 as HKFE Participants in 2009.

As at the end of September 2009, there were a total of 497 SEHK Participants and 165 HKFE Participants.

Non-transferability of Trading Rights

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

With effect from 5 March 2010, each EP will still be required to hold at least 1 trading right for the corresponding Exchange to fulfil the Participantship requirements, and any new trading rights will be issued directly by the Exchanges for a fee, currently set at \$500,000 per trading right.

Promotional Activities

Listing Promotion Events Targeting Mainland Companies

HKEx continued focusing its marketing effort on Mainland companies in the third quarter of 2009. Out of the 6 events that HKEx co-organised in the Mainland, a seminar was organised with the Hong Kong Government and the Chongqing Municipal Government during the Chongqing-Hong Kong Week in Chongqing in July 2009. Another large-scale conference and roundtable discussion on listing issues were held in Wuhan, Hubei in September 2009. HKEx's Chief Executive together with senior government officials from Hubei participated as opening speakers in the event which was attended by over 300 Hubei enterprise representatives.

HKEx also held a workshop at the Exchange Auditorium in July 2009 for a delegation of government officials responsible for listing-related policy and enterprise executives from Fujian province. Mainland delegates and representatives of sponsors, legal and accounting firms based in Hong Kong made use of this opportunity to exchange views on different issues relating to listing in Hong Kong.

Other Promotional Activities

In July 2009, HKEx participated in a luncheon held in Brisbane by the Brisbane Mining Club, a well-known mining industry association in Australia, as part of ongoing efforts to promote the Exchange to overseas resources companies. We delivered a keynote presentation to over 180 mining company executives at the luncheon and met with senior management of companies and government officials in Sydney and Brisbane.

During July 2009, HKEx's Chief Executive participated in various promotional activities in Tokyo to promote HKEx and listing in Hong Kong. These activities included investment seminars on HKEx and its markets for retail investors, a listing seminar for prospective Japanese companies, one-on-one meetings with institutional investors, and an interview with a local newspaper.

In July 2009, HKEx's senior executives visited Taiwan to meet with the senior management of investment banks and executives of potential listing candidates to explain recent developments in the Hong Kong securities market.

Information Services

Provision of Free Real-time Basic Market Prices on Websites

The soft launch of the Free Real-time Basic Market Prices Website Service, or Free Prices Website Service, 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, took place on 5 October 2009. The real-time basic securities prices on the Exchange can now be accessed by investors at these designated websites free of charge. The service will be officially launched on 1 January 2010 under a pilot programme that will last till the end of December 2011. The main objectives of the Free Prices Website Service are to expand dissemination of Hong Kong securities market information and raise the Hong Kong securities market profile in the Mainland. Market response has been positive. HKEx plans to review the pilot programme in its latter stage to determine whether, and if so, in what form the service should continue after 2011.

Information Technology

System Reliability, Availability and Stability

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

System Capacity Planning and Upgrade

AMS/3 technical revamp is in progress as part of HKEx's effort to pursue continuous improvement of its core market systems. The revamp is a software enhancement initiative without additional hardware investments, aiming to double the system throughput from 1,500 to 3,000 orders per second to support rollout of new business initiatives and growth of trading activity in HKEx's securities market. Corresponding design enhancements are also being implemented for CCASS/3 and MDF for capacity alignment with AMS/3.

The production rollout of the revamped AMS/3 and MDF is scheduled for early 2010, subject to the successful completion of market-wide rehearsals to be held in the fourth quarter of 2009 and the readiness of EPs and IVs. A new interface architecture will be introduced at the same time to facilitate higher scalability for the satellite systems.

After a hardware upgrade to further increase the HKATS capacity by 50 per cent to about 8,100 Order Book Change per second in April 2009, the capacity of PRS was correspondingly upgraded in July 2009 to support projected increases in the Derivatives Market data volume and information vendor connections. On 31 October 2009, the PRS was further enhanced to provide more real-time Derivatives Market data, thereby raising the market transparency.

Obsolete Technology Replacement and Upgrade

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

Independent Review of Derivatives Market Systems

In September 2009, HKEx commenced an independent review of the core application systems (including trading, clearing and settlement, and market data dissemination systems) serving the Derivatives Market. This forms part of HKEx's ongoing initiatives to ensure operational excellence for its mission critical systems. The independent review is expected to be completed in early 2010.

System Consolidation and Operational Efficiency

HKEx is committed to exploring opportunities to enhance the operational efficiency and the environmental friendliness of its internal management information and support systems. During the period under review, the Employees' e-Securities Declaration and Approval System and e-Performance Management System were introduced to improve operational efficiency and reduce paper consumption.

HKEx Website Revamp

In view of the current progress of the revamp of the HKEx website, the launch date has been rescheduled for the first quarter of 2010.

HKEx Data Centre and Information Technology Office Consolidation

Following the relocation of the primary Derivatives Market data centre and the related Information Technology team from Central to an expanded data centre in Quarry Bay in June 2009, alternatives to further consolidate HKEx's data centres to a next generation production data centre with modernised facilities to cope with future business expansion are being considered.

Risk Management

Market Surveillance

During the period ended 30 September 2009, HKEx referred 89 cases involving possible violation in its Cash and Derivatives Markets of relevant Hong Kong laws or SFC codes, rules and regulations to the SFC for its appropriate action, pursuant to the MOU between the SFC and HKEx on market surveillance matters.

Treasury

The Group's funds available for investment comprise Corporate Funds, cash marks and cash collateral, Margin Funds and Clearing House Funds, totalling \$41.1 billion on average for the nine months ended 30 September 2009 (30 September 2008: \$61.9 billion).

As compared with 30 June 2009, the overall size of funds available for investment as at 30 September 2009 decreased by 2 per cent or \$0.8 billion to \$34.0 billion (30 June 2009: \$34.8 billion). Details of the asset allocation of the investments as at 30 September 2009 against those as at 30 June 2009 are set out below.

	Investment Fund Size \$ billion		Bonds		Cash or Bank Deposits		Global Equities	
	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun
Corporate Funds	7.4	8.1	62%	65%	35%	33%	3%	2%
Cash marks and cash collateral	3.2	3.7	0%	0%	100%	100%	0%	0%
Margin Funds	21.7	21.8	34%	37%	66%	63%	0%	0%
Clearing House Funds	1.7	1.2	25%	27%	75%	73%	0%	0%
Total	34.0	34.8	36%	39%	63%	60%	1%	1%

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the cash marks and cash collateral, Clearing House Funds and Margin Funds. Excluding equities and mutual funds held under the Corporate Funds (\$0.2 billion as at 30 September 2009 and at 30 June 2009), which have no maturity date, the maturity profiles of the remaining investments as at 30 September 2009 (\$33.8 billion) and 30 June 2009 (\$34.6 billion) were as follows:

	Investment Fund Size \$ billion		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		>3 years	
	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun
Corporate Funds	7.2	7.9	21%	14%	5%	2%	25%	38%	32%	33%	17%	13%
Cash marks and cash collateral	3.2	3.7	100%	100%	0%	0%	0%	0%	0%	0%	0%	0%
Margin Funds	21.7	21.8	27%	35%	17%	6%	28%	44%	28%	15%	0%	0%
Clearing House Funds	1.7	1.2	74%	67%	0%	10%	1%	4%	25%	19%	0%	0%
Total	33.8	34.6	35%	38%	12%	4%	24%	37%	26%	18%	3%	3%

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 30 September 2009, had a weighted average credit rating of Aa2 (30 June 2009: Aa2) and a weighted average maturity of 2.1 years (30 June 2009: 1.4 years). 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 third quarter of 2009 and the second quarter of 2009 was as follows:

	Average VaR \$ million		Highest VaR \$ million		Lowest VaR \$ million	
	Jul-Sept	Apr-Jun	Jul-Sept	Apr-Jun	Jul-Sept	Apr-Jun
Corporate Funds	33.7	31.3	35.3	33.3	31.6	28.9
Cash marks and cash collateral	0.0	0.1	0.1	0.2	0.0	0.0
Margin Funds	39.3	30.5	47.9	40.3	33.1	21.4
Clearing House Funds	4.1	1.8	4.4	2.9	3.3	0.5

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

FINANCIAL REVIEW

Overall Performance

	Note	Unaudited Nine months ended 30 Sept 2009 \$'000	Unaudited Nine months ended 30 Sept 2008 \$'000
RESULTS			
Revenue and other income:			
Income affected by market turnover	(A)	3,406,910	3,701,879
Stock Exchange listing fees	(B)	514,244	541,744
Income from sale of information	(C)	512,804	509,960
Other revenue	(D)	276,995	296,752
Net investment income	(E)	513,851	728,259
Gain on disposal of properties	(F)	–	68,641
		5,224,804	5,847,235
Operating expenses		1,140,310	1,298,512
Profit before taxation		4,084,494	4,548,723
Taxation		(609,478)	(614,670)
Profit attributable to shareholders		3,475,016	3,934,053

The Group recorded a profit attributable to shareholders of \$3,475 million for the first nine months of 2009 (first quarter: \$834 million; second quarter: \$1,367 million; third quarter: \$1,274 million) compared with \$3,934 million for the same period in 2008 (2008 first quarter: \$1,650 million; second quarter: \$1,324 million; third quarter: \$960 million).

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

Total operating expenses fell by 12 per cent during the period mainly due to lower staff costs and provision for impairment losses of trade receivables from defaulting Participants (in particular the provision relating to Lehman Brothers Group of \$159 million made in 2008 was not repeated in 2009) but were partly offset by an increase in premises expenses.

Revenue and Other Income

(A) Income Affected by Market Turnover

	Unaudited Nine months ended 30 Sept 2009 \$'000	Unaudited Nine months ended 30 Sept 2008 \$'000	Change
Trading fees and trading tariff	1,914,205	2,208,517	(13%)
Clearing and settlement fees	1,043,723	1,092,317	(4%)
Depository, custody and nominee services fees	448,982	401,045	12%
Total	3,406,910	3,701,879	(8%)

The decrease in trading fees and trading tariff was mainly due to the lower turnover in the Cash Market in the first nine months of 2009 against that of the corresponding period last year.

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

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

Key Market Indicators

	Nine months ended 30 Sept 2009	Nine months ended 30 Sept 2008	Change
Average daily turnover value on the Stock Exchange	\$61.3 billion	\$79.3 billion	(23%)
Average daily number of derivatives contracts traded on the Futures Exchange	210,503	199,436	6%
Average daily number of stock options contracts traded on the Stock Exchange	193,147	232,545	(17%)

(B) Stock Exchange Listing Fees

	Unaudited Nine months ended 30 Sept 2009 \$'000	Unaudited Nine months ended 30 Sept 2008 \$'000	Change
Annual listing fees	268,333	257,828	4%
Initial and subsequent issue listing fees	242,193	279,924	(13%)
Others	3,718	3,992	(7%)
Total	514,244	541,744	(5%)

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

Key Drivers for Annual Listing Fees

	As at 30 Sept 2009	As at 30 Sept 2008	Change
Number of companies listed on Main Board	1,114	1,078	3%
Number of companies listed on GEM	172	181	(5%)
Total	1,286	1,259	2%

Key Drivers for Initial and Subsequent Issue Listing Fees

	Nine months ended 30 Sept 2009	Nine months ended 30 Sept 2008	Change
Number of newly listed DWs	2,728	3,951	(31%)
Number of newly listed CBBs	6,018	2,296	162%
Number of newly listed companies on Main Board	31	36	(14%)
Number of newly listed companies on GEM	2	2	0%
Total equity funds raised on Main Board			
– through IPOs	\$63.0 billion	\$62.1 billion	1%
– Post-IPO	\$299.2 billion	\$113.9 billion	163%
Total equity funds raised on GEM			
– through IPOs	\$0.1 billion	\$0.2 billion	(50%)
– Post-IPO	\$2.5 billion	\$6.3 billion	(60%)

(C) Income from Sale of Information

	Unaudited Nine months ended 30 Sept 2009 \$'000	Unaudited Nine months ended 30 Sept 2008 \$'000	Change
Income from sale of information	512,804	509,960	1%

Income from sale of information rose marginally during the period as the demand for Derivatives Market information increased in tandem with the rise in activity in the Derivatives Market but this was partly offset by a drop in income from the sale of Cash Market information.

(D) Other Revenue

	Unaudited Nine months ended 30 Sept 2009 \$'000	Unaudited Nine months ended 30 Sept 2008 \$'000	Change
Network, terminal user, dataline and software sub-license fees	208,572	217,359	(4%)
Participants' subscription and application fees	26,248	25,722	2%
Brokerage on direct IPO allotments	6,109	5,216	17%
Trading booth user fees	11,271	7,162	57%
Accommodation income	3,912	19,891	(80%)
Sales of Trading Rights	9,000	6,835	32%
Miscellaneous revenue	11,883	14,567	(18%)
Total	276,995	296,752	(7%)

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

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

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

(E) Net Investment Income

	Unaudited Nine months ended 30 Sept 2009 \$'000	Unaudited Nine months ended 30 Sept 2008 \$'000	Change
Gross investment income	516,607	803,057	(36%)
Interest rebates to Participants	(2,756)	(74,798)	(96%)
Net investment income	513,851	728,259	(29%)

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

	Nine months ended 30 Sept 2009 \$ billion	Nine months ended 30 Sept 2008 \$ billion	Change
Corporate Funds	7.9	9.2	(14%)
Cash marks and cash collateral	3.2	0.5	540%
Margin Funds	28.7	50.5	(43%)
Clearing House Funds	1.3	1.7	(24%)
Total	41.1	61.9	(34%)

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

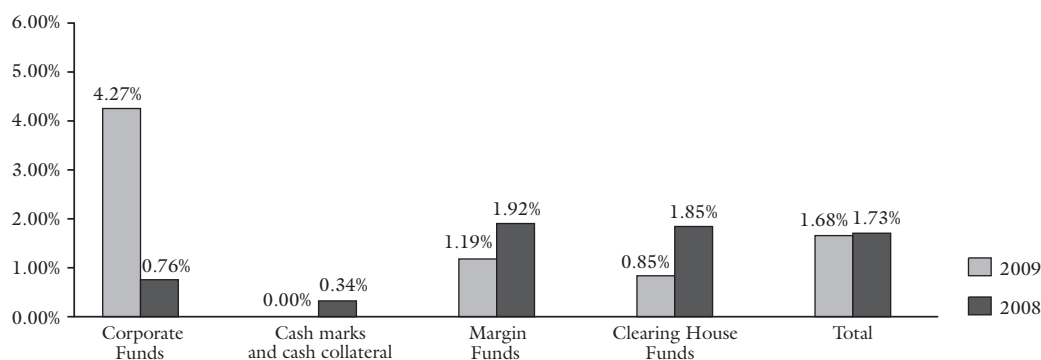
The drop in the average amount of Margin Funds available for investment during the period was primarily caused by the decrease in open interest in futures contracts and the lower margin rate applicable per futures contract.

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

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

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

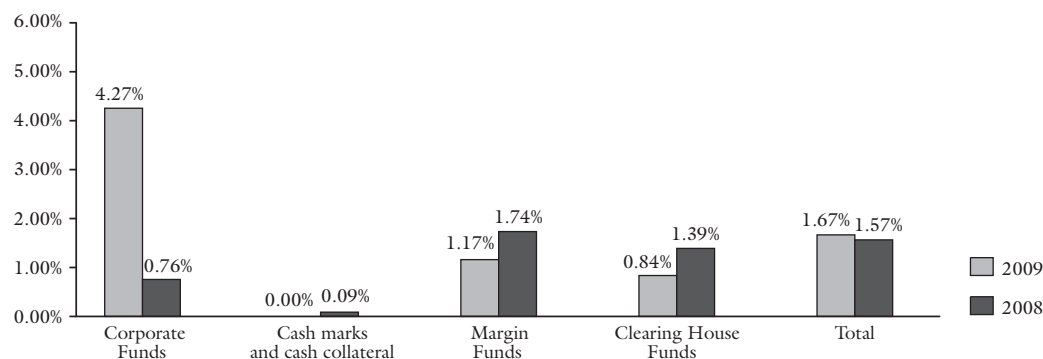
Annualised Gross Return on Funds Available for Investment



The gross returns for cash marks and cash collateral, Margin Funds and Clearing House Funds were brought down by the drop in interest rates. The increase in gross return of the Corporate Funds was mainly due to the fair value gains of the Corporate Fund investments during the first nine months of 2009, as opposed to the fair value losses of the Corporate Fund investments in the corresponding previous period, reflecting market movements.

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

Annualised Net Return on Funds Available for Investment



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

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

(F) Gain on Disposal of Properties

	Unaudited Nine months ended 30 Sept 2009 \$'000	Unaudited Nine months ended 30 Sept 2008 \$'000	Change
Gain on disposal of properties	–	68,641	(100%)

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

Operating Expenses

	Unaudited Nine months ended 30 Sept 2009 \$'000	Unaudited Nine months ended 30 Sept 2008 \$'000	Change
Staff costs and related expenses	619,589	650,208	(5%)
Information technology and computer maintenance expenses	181,634	179,654	1%
Premises expenses	166,604	107,829	55%
Product marketing and promotion expenses	8,636	12,384	(30%)
Legal and professional fees	9,377	18,513	(49%)
Depreciation	73,597	79,714	(8%)
Other operating expenses	80,873	250,210	(68%)
Total	1,140,310	1,298,512	(12%)

Staff costs and related expenses decreased by \$31 million, mainly due to the reduction in performance bonus accrual on account of the Group's lower profit and the decrease in share-based compensation expenses upon vesting of certain share options and Awarded Shares.

The Group's information technology and computer maintenance expenses, excluding costs of services and goods directly consumed by the Participants of \$77 million (2008: \$72 million), were \$105 million (2008: \$108 million). The lower costs of services and goods consumed by the Group were mainly due to a decrease in maintenance costs for CCASS/3 due to the expiry of certain maintenance contracts. The increase in costs of services and goods directly consumed by the Participants was due to the increase in AMS/3 line rentals and HKATS maintenance expenses incurred by the Participants but was partly offset by the decrease in AMS/3 hardware and software purchased by the Participants. Costs of services and goods directly consumed by Participants were mostly recovered from the Participants and the income was included as part of the network, terminal user, dataline and software sub-license fees under Other Revenue.

Premises expenses rose due to increases in rental upon renewal of certain leases.

Legal and professional fees dropped as professional fees were incurred for the review of certain information technology systems in 2008 that was not repeated in the nine months ended 30 September 2009.

Other operating expenses dropped primarily due to the one-off provision for impairment losses of trade receivables from defaulting Participants (in particular the provision relating to Lehman Brothers Group of \$159 million) made in 2008.

Taxation

	Unaudited Nine months ended 30 Sept 2009 \$'000	Unaudited Nine months ended 30 Sept 2008 \$'000	Change
Taxation	609,478	614,670	(1%)

Taxation fell mainly attributable to a decrease in profit before taxation and the write-back of overprovision for profits tax for previous years, but was partly offset by the decrease in non-taxable investment income and non-taxable gain on disposal of properties.

Comparison of 2009 Third Quarter Performance with 2009 Second Quarter Performance

	Unaudited Three months ended 30 Sept 2009 \$'000	Unaudited Three months ended 30 Jun 2009 \$'000	Change
Revenue and other income:			
Income affected by market turnover:			
Trading fees and trading tariff	697,921	720,453	(3%)
Clearing and settlement fees	392,291	394,604	(1%)
Depository, custody and nominee services fees	129,567	257,429	(50%)
	1,219,779	1,372,486	(11%)
Stock Exchange listing fees	187,470	173,181	8%
Income from sale of information	186,303	171,681	9%
Other revenue	102,629	89,959	14%
Net investment income	175,529	204,452	(14%)
	1,871,710	2,011,759	(7%)
Operating expenses	380,292	405,611	(6%)
	1,491,418	1,606,148	(7%)
Profit before taxation	1,491,418	1,606,148	(7%)
Taxation	(217,287)	(239,502)	(9%)
	1,274,131	1,366,646	(7%)
Profit attributable to shareholders	1,274,131	1,366,646	(7%)

Profit attributable to shareholders decreased from \$1,367 million in the second quarter of 2009 to \$1,274 million in the third quarter of 2009. The decrease in profit was mainly driven by the lower market turnover and lower net investment income. The decrease in profit was partly offset by lower operating expenses and taxation charge.

Trading fees and trading tariff and clearing and settlement fees fell in tandem with the activities in the Cash and Derivatives Markets. Depository, custody and nominee services fees dropped mainly due to seasonal fluctuations. Net investment income dropped mainly due to the lower net interest income and the decrease in fair value gains of Corporate Fund investments, reflecting market movements.

Key Market Indicators

	Three months ended 30 Sept 2009	Three months ended 30 Jun 2009	Change
Average daily turnover value on the Stock Exchange	\$66.7 billion	\$71.7 billion	(7%)
Average daily number of derivatives contracts traded on the Futures Exchange	204,637	231,464	(12%)
Average daily number of stock options contracts traded on the Stock Exchange	168,876	217,696	(22%)

Operating expenses decreased by 6 per cent mainly as a result of the decrease in performance bonus accrual on account of the Group's lower profit in the third quarter.

Taxation decreased in the third quarter mainly attributable to the lower profit before taxation and the write-back of overprovision for profits tax for previous years.

Working Capital

Working capital fell by \$7,955 million to net current liabilities of \$758 million as at 30 September 2009 (31 December 2008: net current assets of \$7,197 million). The reduction was due to the increase in investments in financial assets and time deposits maturing over 1 year of \$7,480 million for the purpose of enhancing the return of investments, the payment of the 2008 final dividend of \$1,935 million and 2009 interim dividend of \$1,978 million and the decrease in other working capital of \$37 million, but was partly offset by the profit generated during the nine months of \$3,475 million.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 34(a)(i) – Foreign exchange risk management to the condensed consolidated accounts of this quarterly report.

Contingent Liabilities

Details of contingent liabilities are included in note 31 to the condensed consolidated accounts of this quarterly report.

Changes since 31 December 2008

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

It is the Group's plan to declare dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the third quarter ended 30 September 2009 (third quarter of 2008: \$Nil).

Due to fluctuations in market conditions and changes in 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 nine months ended 30 September 2009 in conjunction with HKEx's external auditor.

Management has appointed the external auditor to carry out certain agreed-upon procedures in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated financial statements for the nine months ended 30 September 2009.

OPERATIONAL REVIEW

Organisational Changes

To ensure a smooth transition, Mr Charles X Li joined HKEx as the Chief Executive Designate on 16 October 2009. Mr Li will assume full responsibility as Chief Executive upon Mr Paul M Y Chow's retirement effective 16 January 2010.

Share Option Schemes

Details of the Share Option Schemes are set out in note 25(b) to the condensed consolidated accounts of this quarterly report. The share options granted under the 2 schemes, which remained outstanding as at 30 September 2009 are set out below.

Pre-Listing Scheme

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

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

Post-Listing Scheme

Date of Grant	Exercise Price (\$)	Number of Shares Issuable Under the Options				Exercise Period (Note 5)
		As at 1 Jan 2009	Issued upon Subscription during the nine months ended 30 Sept 2009 (Note 4)	Cancelled/Lapsed during the nine months ended 30 Sept 2009	As at 30 Sept 2009	
Employees (Note 3) 15 Jan 2004	17.30	273,500	273,500	–	–	15 Jan 2006 – 14 Jan 2014
31 Mar 2004	16.96	1,514,500	426,000	–	1,088,500	31 Mar 2006 – 30 Mar 2014
17 May 2004	15.91	100,000	–	–	100,000	17 May 2006 – 16 May 2014
26 Jan 2005	19.25	2,667,500	484,500	19,000	2,164,000	26 Jan 2007 – 25 Jan 2015

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

Notes:

1. The weighted average closing price immediately before the dates on which the options were exercised was \$74.54.
2. Options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary, and they became fully vested as from 6 March 2005.
3. Employees working under employment contracts that were regarded as “continuous contracts” for the purpose of the Employment Ordinance of Hong Kong.
4. The weighted average closing price immediately before the dates on which the options were exercised was \$94.84.
5. Options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary, and they will become fully vested effective the fifth anniversary of the grant.

Share Award Scheme

Details of the Share Award Scheme and the awards are set out in note 25(c) to the condensed consolidated accounts of this quarterly report.

Corporate Governance

The Government Appointed Directors and the Chief Executive in his capacity as a Director are not subject to election or re-election by Shareholders as 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 CG Code (Appendix 14 to the Main Board Listing Rules) throughout the review period.

While continuing to be a constituent company in the FTSE4Good Index Series, HKEx was assigned a Global Rating of 8.0 and Home Market Rating of 10.0, out of the maximum of 10.0, from the GovernanceMetrics International Inc, a corporate governance ratings and research firm, as of 31 August 2009.

On 2 November 2009, HKEx received the Gold Award in the “General” Category of the 2009 HKMA Best Annual Reports Awards organised by The Hong Kong Management Association. 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

Employee education on business sustainability helps gain support for the successful implementation of our CSR measures. We conducted a total of 26 CSR workshops between March and October this year to raise employees’ awareness of CSR and to explain their role in achieving our CSR objectives. More than 90 per cent of HKEx’s employees with all levels represented had attended the workshops as of the end of October 2009.

As part of our support for corporate climate change disclosure, we have for the first time participated in the 2009 Information Request of the Carbon Disclosure Project which provides primary climate change data to the global market place.

To further enhance CSR development within the Company, we are developing our CSR Management System which includes an Environmental Management System, Supply Chain Management System, as well as the green purchasing and procurement guidelines.

PROSPECTS

Over 1 year on and after massive government and central bank stimulus packages in most economies, to say that the financial markets have regained some optimism would seem to be somewhat of an understatement in the context of how the global stock markets have performed. Still even today views differ on the state of the global economy with some expecting a second wave to hit us albeit less severely and others talking about green shoots or even a bullish recovery. While the HSI has returned to above the 20000-point level, a significant rebound from the bottom was also noted in other stock markets around the world. The Hong Kong market capitalisation as of 30 September 2009 expanded by \$1,812 billion (13 per cent) compared to 30 June 2009, and by \$5,661 billion (55 per cent) compared to 31 December 2008.

Despite the financial market rebound, the real economies remain weak and excessive liquidity might lead to excessive investment and asset bubbles. At the Pittsburgh Summit held in September 2009, the Group of Twenty (“G-20”) pledged to sustain their strong policy response until a durable recovery is secured. This pledge has given investors added confidence that despite talks about exit strategies, liquidity is not likely to disappear overnight. Nonetheless, times are uncertain and investors are well-advised to be prudent in their investment decisions.

HKEx continues to be vigilant and is working on improvements to ensure the productive and efficient use of its resources. As recently reaffirmed in The Global Competitiveness Report 2009-2010 of the World Economic Forum, Hong Kong undoubtedly remains one of the world’s major financial centres, and continues to be attractive to both investors and companies. In the primary market, new listing activities have picked up, with abundant liquidity rekindling interest in new stocks. A total of 81 applications have been received up to 30 September in 2009, with a significant number by Mainland enterprises. We will continue promoting our fund-raising platform around the world, and strengthening our offerings and services to increase our competitiveness. A number of proposals have been made to streamline the listing process and enhance the regulatory regime, details of which are set out in the Business Review section.

Since becoming the largest ETF market in the Asia-Pacific region in terms of turnover value last year, the growth of our ETF offerings has gone from strength to strength. With the recent approval of cross-listing of ETFs by the Hong Kong and Taiwan regulators, listing of more Taiwan ETFs on the Exchange is anticipated. We are also working with the Mainland exchanges to facilitate mutual ETF listings, and believe such cross-listings could be further extended to other regional exchanges. In the Derivatives Market, in the fourth quarter this year we will offer more choice of strikes and maturities for stock options trading, and plan to introduce options with flexible features in the first quarter of 2010, subject to regulatory approval.

To expand dissemination of Hong Kong securities market information, the free real-time basic market prices website service on 6 designated websites in Hong Kong and the Mainland was soft launched on 5 October 2009. It will be officially launched on 1 January 2010 under a pilot programme until December 2011.

HKEx will continue to strive for reliability of its systems and ensure effective risk management, thereby contributing to stabilising local financial markets and cementing the position of Hong Kong as an international financial centre.

We will continue to be vigilant on developments in the global financial markets and will pay close attention to deliberations of G-20 and where we can, offer our views to proposals on financial market reforms.

Ronald Joseph ARCULLI

Chairman

Hong Kong, 11 November 2009

DISCLOSURE OF INTERESTS

Compliance with Model Code

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

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

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

Long Positions in Shares and Underlying Shares of HKEx

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

Notes:

1. It is based on 1,076,086,346 shares of HKEx in issue as at 30 September 2009.
2. It included Mr Chow's interests in 12,846 Awarded Shares and 1,079 shares further acquired by reinvesting the dividends received therefrom according to the Share Award Scheme. Details of Mr Chow's Awarded Shares are set out in note 25(c) to the condensed consolidated accounts of this quarterly report.
3. Such shares were held by Mr Strickland as beneficial owner.

Save for those disclosed above, as at 30 September 2009, none of the Directors or the Chief Executive had any interests or short positions in the shares, underlying shares or debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code.

Apart from the Share Option Schemes and the Share Award Scheme, at no time during the period under review, was HKEx or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, HKEx or any other body corporate. Save for the disclosed, none of the Directors or the Chief Executive (including their spouses and children under the age of 18), during the nine months ended 30 September 2009, held any interests in or was granted any right to subscribe for the securities of HKEx and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

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

As at 30 September 2009, other persons' interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange are set out below.

Long Positions in Shares and Underlying Shares of HKEx

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

Notes:

1. It is based on 1,076,086,346 shares of HKEx in issue as at 30 September 2009.
2. This is based on a Disclosure of Interests filing made by the Hong Kong Government on 10 September 2007 which it stated was voluntary.

Save for those disclosed above, as at 30 September 2009, no other persons had any interests or short positions in the shares or underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange.

Minority Controllers

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

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

In March 2009, an entity obtained the SFC's approval for it to become a Minority Controller. As at the date of this 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 30 September 2009, the 6 (30 September 2008: 5) approved Minority Controllers in aggregate held 68 per cent of HKEx's issued share capital (30 September 2008: 53 per cent).

Purchase, Sale or Redemption of HKEx's Listed Securities

During the nine months ended 30 September 2009, neither HKEx nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Exchange a total of 89,700 HKEx shares at a total consideration of about \$8.6 million.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Nine months ended 30 Sept 2009 \$'000	Unaudited Nine months ended 30 Sept 2008 \$'000	Unaudited Three months ended 30 Sept 2009 \$'000	Unaudited Three months ended 30 Sept 2008 \$'000
Trading fees and trading tariff	4	1,914,205	2,208,517	697,921	655,035
Stock Exchange listing fees	5	514,244	541,744	187,470	185,784
Clearing and settlement fees		1,043,723	1,092,317	392,291	317,457
Depository, custody and nominee services fees		448,982	401,045	129,567	104,950
Income from sale of information		512,804	509,960	186,303	155,541
Other revenue	6	276,995	296,752	102,629	78,829
REVENUE		4,710,953	5,050,335	1,696,181	1,497,596
Investment income		516,607	803,057	176,042	140,323
Interest rebates to Participants		(2,756)	(74,798)	(513)	(2,015)
Net investment income	7	513,851	728,259	175,529	138,308
Gain on disposal of properties	8	-	68,641	-	-
	3	5,224,804	5,847,235	1,871,710	1,635,904
OPERATING EXPENSES					
Staff costs and related expenses	9	619,589	650,208	210,018	198,222
Information technology and computer maintenance expenses	10	181,634	179,654	61,865	58,128
Premises expenses		166,604	107,829	54,680	38,107
Product marketing and promotion expenses		8,636	12,384	2,301	2,747
Legal and professional fees		9,377	18,513	2,224	9,663
Depreciation		73,597	79,714	25,978	29,776
Other operating expenses:					
(Reversal of provision for)/provision for impairment losses arising from Participants' default on market contracts	11(a)	(330)	163,449	-	163,449
Others	11(b)	81,203	86,761	23,226	29,477
	3	1,140,310	1,298,512	380,292	529,569
PROFIT BEFORE TAXATION	3	4,084,494	4,548,723	1,491,418	1,106,335
TAXATION	12	(609,478)	(614,670)	(217,287)	(146,688)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	28	3,475,016	3,934,053	1,274,131	959,647
Basic earnings per share	14(a)	\$3.23	\$3.67	\$1.19	\$0.89
Diluted earnings per share	14(b)	\$3.22	\$3.65	\$1.18	\$0.89

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Nine months ended 30 Sept 2009 \$'000	Unaudited Nine months ended 30 Sept 2008 \$'000	Unaudited Three months ended 30 Sept 2009 \$'000	Unaudited Three months ended 30 Sept 2008 \$'000
Profit attributable to shareholders	3,475,016	3,934,053	1,274,131	959,647
Other comprehensive income:				
Available-for-sale financial assets:				
Change in fair value during the period	(58,928)	67,190	(26,774)	61,637
Change in fair value on maturity	(90,447)	(58,201)	(41,429)	(16,851)
Less: Reclassification adjustment:				
Gains included in profit or loss on disposal	(2,520)	(4,678)	-	-
Deferred tax	17,248	(531)	3,440	(7,391)
Other comprehensive income attributable to shareholders, net of tax	(134,647)	3,780	(64,763)	37,395
Total comprehensive income attributable to shareholders	3,340,369	3,937,833	1,209,368	997,042

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Share capital, share premium and shares held for Share Award Scheme (note 24) \$'000	Employee share-based compensation reserve (note 25) \$'000	Other comprehensive income Revaluation reserve (note 26) \$'000	Designated reserves (note 27) \$'000	Retained earnings (note 28) \$'000	Total equity \$'000
At 1 Jan 2009	1,356,534	47,032	96,681	552,383	5,242,692	7,295,322
Total comprehensive income						
attributable to shareholders	-	-	(134,647)	-	3,475,016	3,340,369
2008 final dividend at \$1.80 per share	-	-	-	-	(1,934,708)	(1,934,708)
2009 interim dividend at \$1.84 per share	-	-	-	-	(1,978,110)	(1,978,110)
Unclaimed dividends forfeited	-	-	-	-	3,915	3,915
Shares issued under employee share option schemes	21,393	-	-	-	-	21,393
Shares purchased for Share Award Scheme	(8,568)	-	-	-	-	(8,568)
Vesting of shares of Share Award Scheme	859	(796)	-	-	(63)	-
Employee share-based compensation benefits	-	16,318	-	-	-	16,318
Transfer of reserves	6,212	(6,212)	-	8,321	(8,321)	-
At 30 Sept 2009	1,376,430	56,342	(37,966)	560,704	4,800,421	6,755,931

	Unaudited					
	Share capital, share premium and shares held for Share Award Scheme \$'000	Employee share-based compensation reserve \$'000	Other comprehensive income Revaluation reserves \$'000	Designated reserves \$'000	Retained earnings \$'000	Total equity \$'000
At 1 Jan 2008	1,288,652	49,669	56,036	694,853	6,288,138	8,377,348
Total comprehensive income						
attributable to shareholders	-	-	3,780	-	3,934,053	3,937,833
2007 final dividend at \$3.40 per share	-	-	-	-	(3,646,159)	(3,646,159)
2008 interim dividend at \$2.49 per share	-	-	-	-	(2,673,375)	(2,673,375)
Unclaimed dividends forfeited	-	-	-	-	2,566	2,566
Shares issued under employee share option schemes	66,322	-	-	-	-	66,322
Shares purchased for Share Award Scheme	(32,494)	-	-	-	-	(32,494)
Vesting of shares of Share Award Scheme	347	(280)	-	-	(67)	-
Employee share-based compensation benefits	-	22,517	-	-	-	22,517
Transfer of reserves	18,728	(18,728)	(3,155)	17,108	(13,953)	-
At 30 Sept 2008	1,341,555	53,178	56,661	711,961	3,891,203	6,054,558

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited at 30 Sept 2009 \$'000	Audited at 31 Dec 2008 \$'000
NON-CURRENT ASSETS			
Fixed assets	15	259,277	311,179
Lease premium for land		59,817	60,199
Financial assets of Clearing House Funds	16(c)	416,647	–
Financial assets of Margin Funds on derivatives contracts	17(c)	5,989,139	–
Available-for-sale financial assets	18	981,651	–
Time deposits with maturity over one year		93,057	–
Deferred tax assets		4,371	4,429
Other financial assets		48,515	47,172
Other assets		3,207	3,207
		7,855,681	426,186
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	19	5,992,716	8,526,557
Lease premium for land		509	509
Financial assets of Clearing House Funds	16(c)	4,517	393,202
Cash and cash equivalents of Clearing House Funds	16	1,242,222	843,109
		1,246,739	1,236,311
Financial assets of Margin Funds on derivatives contracts	17(c)	6,661,192	19,655,161
Cash and cash equivalents of Margin Funds on derivatives contracts	17	9,018,088	22,184,833
		15,679,280	41,839,994
Financial assets at fair value through profit or loss	20	3,534,947	3,020,035
Available-for-sale financial assets	18	592,618	2,581,683
Time deposits with original maturities over three months		640,155	436,896
Cash and cash equivalents – Cash marks and cash collateral received	21	3,247,625	3,599,902
Cash and cash equivalents – Corporate Funds		1,548,993	1,155,848
		4,796,618	4,755,750
		32,483,582	62,397,735
CURRENT LIABILITIES			
Participants' contributions to Clearing House Funds	16	639,865	197,520
Other financial liabilities of Clearing House Funds	16	24,991	72,319
Margin deposits from Clearing Participants on derivatives contracts	17	21,668,419	41,839,991
Other financial liabilities of Margin Funds on derivatives contracts	17	–	3
Cash marks and cash collateral from HKSCC Clearing Participants	21	3,247,625	3,599,902
Accounts payable, accruals and other liabilities	22	6,831,899	8,810,952
Financial liabilities at fair value through profit or loss	20	20,794	26,254
Participants' admission fees received		81,950	83,150
Deferred revenue		183,779	392,688
Taxation payable		508,065	141,363
Provisions	23	34,526	36,290
		33,241,913	55,200,432
NET CURRENT (LIABILITIES)/ASSETS		(758,331)	7,197,303
TOTAL ASSETS LESS CURRENT LIABILITIES		7,097,350	7,623,489

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited at 30 Sept 2009 \$'000	Audited at 31 Dec 2008 \$'000
	Note		
NON-CURRENT LIABILITIES			
Participants' contributions to Clearing House Funds	16	273,000	252,000
Deferred tax liabilities		22,668	30,775
Financial guarantee contract	31(b)	19,909	19,909
Provisions	23	25,842	25,483
		<hr/> 341,419	<hr/> 328,167
NET ASSETS		<hr/> 6,755,931	<hr/> 7,295,322
CAPITAL AND RESERVES			
Share capital	24	1,076,086	1,074,886
Share premium	24	373,307	346,902
Shares held for Share Award Scheme	24	(72,963)	(65,254)
Employee share-based compensation reserve	25	56,342	47,032
Revaluation reserve	26	(37,966)	96,681
Designated reserves	27	560,704	552,383
Retained earnings	28	4,800,421	5,242,692
		<hr/> 6,755,931	<hr/> 7,295,322
SHAREHOLDERS' FUNDS		<hr/> 6,755,931	<hr/> 7,295,322
TOTAL ASSETS	3(c)	<hr/> 40,339,263	<hr/> 62,823,921
TOTAL LIABILITIES		<hr/> 33,583,332	<hr/> 55,528,599
SHAREHOLDERS' FUNDS PER SHARE		<hr/> \$6.28	<hr/> \$6.79

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Unaudited Nine months ended 30 Sept 2009 \$'000	Unaudited Nine months ended 30 Sept 2008 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	29	3,034,036	6,412,671
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		(41,079)	(188,512)
Net proceeds from sales of properties		–	132,733
Net proceeds from sales of fixed assets		601	1
Net (increase)/decrease in time deposits with original maturities more than three months		(296,316)	645,758
Net (increase)/decrease in available-for-sale financial assets of the Corporate Funds:			
Payments for purchases of available-for-sale financial assets		(1,990,247)	(3,983,069)
Net proceeds from maturity and disposal of available-for-sale financial assets		2,984,251	4,858,831
Interest received from available-for-sale financial assets		223,846	393,478
Net cash inflow from investing activities		881,056	1,859,220
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		21,393	66,322
Purchase of shares for Share Award Scheme		(8,568)	(32,494)
Dividends paid		(3,887,049)	(6,280,883)
Net cash outflow from financing activities		(3,874,224)	(6,247,055)
Net increase in cash and cash equivalents		40,868	2,024,836
Cash and cash equivalents at 1 Jan		4,755,750	4,744,711
Cash and cash equivalents at 30 Sept		4,796,618	6,769,547
Analysis of cash and cash equivalents			
Cash marks and cash collateral received – cash at bank		3,247,625	4,901,794
Cash at bank and in hand		991,232	241,634
Time deposits with original maturities within three months		557,761	1,626,119
Cash and cash equivalents at 30 Sept		4,796,618	6,769,547

The cash and cash equivalents of the Clearing House Funds and Margin Funds are held in segregated accounts for specific purposes and therefore are not included in cash and cash equivalents of the Group for cash flow purpose.

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED)

1. Basis of Preparation and Accounting Policies

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

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

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

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

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

The comparative figures conform with the enhanced disclosure. This change has no effect on the consolidated income statement and the consolidated statement of cash flows.

2. Turnover

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

3. Operating Segments

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

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

The **Cash Market** business mainly refers to the operations of the Stock Exchange, which covers all products traded on the Cash Market platforms, such as equities, debt securities, unit trusts, callable bull/bear contracts (“CBBCs”), exchange traded funds, warrants and rights. Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market (“GEM”). The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market. Stock Exchange listing fees and costs of the Listing Function are further explained in note 5.

3. Operating Segments (continued)

The **Derivatives Market** business refers to the derivatives products traded on the Futures Exchange and stock options traded on the Stock Exchange, which includes the provision and maintenance of trading platforms for a range of derivatives products, such as stock and equity index futures and options, and interest rate, commodity and Exchange Fund Note futures. Its income mainly comprises trading fees, trading tariff and net investment income on the Margin Funds invested.

The **Clearing Business** refers to the operations of the three clearing houses, namely Hong Kong Securities Clearing Company Limited (“HKSCC”), The SEHK Options Clearing House Limited (“SEOCH”) and HKFE Clearing Corporation Limited (“HKCC”), which are responsible for clearing, settlement and custodian activities of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from net investment income earned on the Clearing House Funds and fees from providing clearing, settlement, depository, custody and nominee services.

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

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

	Nine months ended 30 Sept 2009					
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Inter-segment elimination (note b) \$'000	Group \$'000
Income from external customers	2,072,163	539,792	1,586,079	512,919	-	4,710,953
Net investment income	105,448	276,439	139,824	617	(8,477)	513,851
	2,177,611	816,231	1,725,903	513,536	(8,477)	5,224,804
Operating expenses						
Direct costs	459,479	121,107	258,040	38,090	(8,477)	868,239
Indirect costs	128,998	39,392	84,649	19,032	-	272,071
	588,477	160,499	342,689	57,122	(8,477)	1,140,310
Reportable segment profit before taxation	1,589,134	655,732	1,383,214	456,414	-	4,084,494

	Nine months ended 30 Sept 2008				
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Group \$'000
Income from external customers	2,421,588	525,383	1,592,033	511,331	5,050,335
Net investment income	51,364	664,811	11,960	124	728,259
Gain on disposal of properties	33,442	11,580	19,116	4,503	68,641
	2,506,394	1,201,774	1,623,109	515,958	5,847,235
Operating expenses					
Direct costs	436,108	105,611	431,454	39,229	1,012,402
Indirect costs	132,387	44,056	91,560	18,107	286,110
	568,495	149,667	523,014	57,336	1,298,512
Reportable segment profit before taxation	1,937,899	1,052,107	1,100,095	458,622	4,548,723

3. Operating Segments (continued)

- (a) The accounting policies of the reportable segments are the same as the Group's accounting policies. Central income (mainly net investment income of the Corporate Funds) and central costs (mainly costs of support functions that centrally provide services to all of the operating segments) are allocated to the operating segments as they are included in the measure of the segments' profit that is used by the chief operating decision-makers for the purposes of resource allocation and assessment of segment performance. Performance is measured based on segment profit before taxation. Taxation charge/(credit) is not allocated to reportable segments.
- (b) The elimination adjustment represents the inter-segment interest charge from the Corporate Centre to the Clearing Business segment for funding the closing-out of market contracts of the defaulting Participant, LBSA. There were no inter-segment sales and charges during the nine-month period ended 30 September 2008.
- (c) Reportable segment assets

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

	At 30 Sept 2009				
	Cash Market	Derivatives Market	Clearing Business	Information Services	Group
	\$'000	\$'000	\$'000	\$'000	\$'000
Reportable segment assets	3,593,668	22,411,308	14,202,623	127,293	40,334,892

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

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

	At 30 Sept 2009 \$'000	At 31 Dec 2008 \$'000
Reportable segment assets	40,334,892	62,819,492
Unallocated assets:		
Deferred tax assets	4,371	4,429
Total assets per condensed consolidated statement of financial position	40,339,263	62,823,921

4. Trading Fees and Trading Tariff

	Nine months ended 30 Sept 2009 \$'000	Nine months ended 30 Sept 2008 \$'000	Three months ended 30 Sept 2009 \$'000	Three months ended 30 Sept 2008 \$'000
Trading fees and trading tariff were derived from:				
Securities traded on the Cash Market	1,336,978	1,646,201	507,903	453,533
Derivatives contracts traded on the Derivatives Market	577,227	562,316	190,018	201,502
	1,914,205	2,208,517	697,921	655,035

5. Stock Exchange Listing Fees

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

	Nine months ended 30 Sept 2009				Nine months ended 30 Sept 2008			
	Equity		CBBCs, Derivative warrants and others \$'000	Total \$'000	Equity		CBBCs, Derivative warrants and others \$'000	Total \$'000
	Main Board \$'000	GEM \$'000			Main Board \$'000	GEM \$'000		
Stock Exchange Listing Fees								
Annual listing fees	248,833	17,685	1,815	268,333	236,599	19,155	2,074	257,828
Initial and subsequent issue listing fees	42,818	2,005	197,370	242,193	65,972	2,920	211,032	279,924
Prospectus vetting fees	2,175	465	50	2,690	1,910	240	20	2,170
Other listing fees	956	72	-	1,028	1,366	456	-	1,822
Total	294,782	20,227	199,235	514,244	305,847	22,771	213,126	541,744
Costs of Listing Function								
<u>Direct costs</u>								
Staff costs and related expenses	136,231	29,116	9,481	174,828	135,158	29,312	10,080	174,550
Information technology and computer maintenance expenses	3,902	717	213	4,832	3,331	675	233	4,239
Premises expenses	25,427	5,601	1,256	32,284	13,771	2,880	641	17,292
Legal and professional fees	3,029	408	-	3,437	8,042	746	-	8,788
Depreciation	3,026	926	1,233	5,185	3,226	898	1,069	5,193
Other operating expenses	4,465	1,319	296	6,080	5,140	1,564	402	7,106
Total direct costs	176,080	38,087	12,479	226,646	168,668	36,075	12,425	217,168
Total indirect costs	27,648	5,053	7,009	39,710	27,390	5,081	6,966	39,437
Total costs	203,728	43,140	19,488	266,356	196,058	41,156	19,391	256,605
Contribution to Cash Market								
Segment Profit before Taxation	91,054	(22,913)	179,747	247,888	109,789	(18,385)	193,735	285,139

5. Stock Exchange Listing Fees (continued)

	Three months ended 30 Sept 2009				Three months ended 30 Sept 2008			
	Equity		CBBCs, Derivative warrants and others	Total	Equity		CBBCs, Derivative warrants and others	Total
	Main Board \$'000	GEM \$'000			Main Board \$'000	GEM \$'000		
Stock Exchange Listing Fees								
Annual listing fees	84,819	5,948	601	91,368	80,855	6,400	769	88,024
Initial and subsequent issue listing fees	11,615	1,240	81,636	94,491	29,823	520	66,155	96,498
Prospectus vetting fees	915	300	-	1,215	500	30	10	540
Other listing fees	360	36	-	396	542	180	-	722
Total	97,709	7,524	82,237	187,470	111,720	7,130	66,934	185,784
Costs of Listing Function								
<u>Direct costs</u>								
Staff costs and related expenses	46,147	10,219	3,198	59,564	42,510	8,568	3,044	54,122
Information technology and computer maintenance expenses	1,231	217	79	1,527	1,120	231	97	1,448
Premises expenses	8,689	1,980	437	11,106	4,731	926	217	5,874
Legal and professional fees	673	9	-	682	3,636	728	-	4,364
Depreciation	1,025	315	409	1,749	1,160	322	414	1,896
Other operating expenses	1,848	447	98	2,393	1,515	406	93	2,014
Total direct costs	59,613	13,187	4,221	77,021	54,672	11,181	3,865	69,718
Total indirect costs	8,971	1,727	2,630	13,328	7,929	1,437	1,710	11,076
Total costs	68,584	14,914	6,851	90,349	62,601	12,618	5,575	80,794
Contribution to Cash Market								
Segment Profit before Taxation	29,125	(7,390)	75,386	97,121	49,119	(5,488)	61,359	104,990

Listing fee income is primarily fees paid by issuers to enable them to gain access to the Stock Exchange and enjoy the privileges and facilities by being admitted, listed and traded on the Stock Exchange.

The direct costs listed above are regulatory in nature, which comprise costs of the Listing Function on vetting Initial Public Offerings (“IPOs”) and enforcing the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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

	Nine months ended 30 Sept 2009 \$'000	Nine months ended 30 Sept 2008 \$'000	Three months ended 30 Sept 2009 \$'000	Three months ended 30 Sept 2008 \$'000
Network, terminal user, dataline and software sub-license fees	208,572	217,359	78,483	57,539
Participants' subscription and application fees	26,248	25,722	8,708	8,593
Brokerage on direct IPO allotments	6,109	5,216	5,181	639
Trading booth user fees	11,271	7,162	3,852	2,385
Accommodation income on securities deposited by Participants as alternatives to cash deposits of Margin Funds	3,912	19,891	1,208	4,675
Sales of Trading Rights	9,000	6,835	1,500	-
Miscellaneous revenue	11,883	14,567	3,697	4,998
	276,995	296,752	102,629	78,829

7. Net Investment Income

	Nine months ended 30 Sept 2009 \$'000	Nine months ended 30 Sept 2008 \$'000	Three months ended 30 Sept 2009 \$'000	Three months ended 30 Sept 2008 \$'000
Interest income				
– bank deposits	90,131	439,744	30,065	92,320
– listed available-for-sale financial assets	10,734	8,049	4,816	3,338
– unlisted available-for-sale financial assets	202,215	414,096	51,727	101,546
	303,080	861,889	86,608	197,204
Interest rebates to Participants	(2,756)	(74,798)	(513)	(2,015)
Net interest income	300,324	787,091	86,095	195,189
Net realised and unrealised gains/(losses) and interest income on financial assets and financial liabilities at fair value through profit or loss				
<u>On designation</u>				
– unlisted securities with embedded derivatives	9,090	-	(44)	-
– bank deposits with embedded derivatives	1,020	167	1,502	167
– exchange differences	1,549	-	2	-
	11,659	167	1,460	167
<u>Held for trading</u>				
– listed securities	145,569	(59,021)	61,033	(30,191)
– unlisted securities	53,226	20,989	20,856	835
– exchange differences	1,176	(27,150)	5,128	(28,613)
	199,971	(65,182)	87,017	(57,969)
	211,630	(65,015)	88,477	(57,802)
Realised gains on disposal of unlisted available-for-sale financial assets	1,500	1,460	-	-
Dividend income from listed financial assets at fair value through profit or loss	1,955	3,289	740	865
Other exchange differences on loans and receivables	(1,558)	1,434	217	56
Net investment income	513,851	728,259	175,529	138,308

7. **Net Investment Income** (continued)

	Nine months ended 30 Sept 2009 \$'000	Nine months ended 30 Sept 2008 \$'000	Three months ended 30 Sept 2009 \$'000	Three months ended 30 Sept 2008 \$'000
Net investment income/(loss) was derived from:				
Corporate Funds	253,365	52,203	105,497	(27,850)
Cash marks and cash collateral	(81)	348	(56)	1
Margin Funds	252,412	658,417	66,718	160,997
Clearing House Funds	8,155	17,291	3,370	5,160
	513,851	728,259	175,529	138,308

8. **Gain on Disposal of Properties**

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

9. **Staff Costs and Related Expenses**

Staff costs and related expenses comprised the following:

	Nine months ended 30 Sept 2009 \$'000	Nine months ended 30 Sept 2008 \$'000	Three months ended 30 Sept 2009 \$'000	Three months ended 30 Sept 2008 \$'000
Salaries and other short-term employee benefits	556,984	581,764	190,318	176,980
Employee share-based compensation benefits (note 25)				
– employee share options	878	5,487	255	1,048
– Awarded Shares	15,440	17,030	4,293	4,958
	16,318	22,517	4,548	6,006
Termination benefits	529	430	–	2
Retirement benefit costs (note a):				
– ORSO Plan	45,410	45,104	15,039	15,100
– MPF Scheme	348	393	113	134
	619,589	650,208	210,018	198,222

- (a) The Group has sponsored two defined contribution post-retirement benefit plans – the Hong Kong Exchanges and Clearing Provident Fund Scheme (“ORSO Plan”) and the AIA-JF Premium MPF Scheme (“MPF Scheme”). The retirement benefit costs charged to the condensed consolidated income statement represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees. The contribution payable to the MPF Scheme as at 30 September 2009 was \$78,000 (31 December 2008: \$109,000) and no contribution to the ORSO Plan was outstanding as at 30 September 2009 and 31 December 2008.

10. Information Technology and Computer Maintenance Expenses

	Nine months ended 30 Sept 2009 \$'000	Nine months ended 30 Sept 2008 \$'000	Three months ended 30 Sept 2009 \$'000	Three months ended 30 Sept 2008 \$'000
Costs of services and goods:				
– consumed by the Group	104,813	107,648	34,993	33,829
– directly consumed by Participants	76,821	72,006	26,872	24,299
	181,634	179,654	61,865	58,128

11. Other Operating Expenses

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

Amount for 2008 mainly included \$157,141,000 of provision for impairment loss of trade receivables arising from the default on market contracts by LBSA.

On 16 September 2008, the Securities and Futures Commission (“SFC”) issued a restriction notice on LBSA, which prohibited LBSA from settling its outstanding positions in the Central Clearing and Settlement System (“CCASS”). Following the issue of the SFC restriction notice, LBSA was declared a defaulter and its outstanding positions were closed out by HKSCC in accordance with the General Rules of CCASS. HKSCC incurred a loss of \$157,141,000 (including costs and expenses net of recoveries up to 30 September 2008) as a result of such closing-out. LBSA submitted a winding-up petition and provisional liquidators were appointed on 17 September 2008. HKSCC will seek recovery of the closing-out loss via the liquidation process and after giving due regard to its entitlement to recover the loss, or part thereof, from the HKSCC Guarantee Fund and other avenues available to HKSCC for the recovery of such loss.

- (b) Others

	Nine months ended 30 Sept 2009 \$'000	Nine months ended 30 Sept 2008 \$'000	Three months ended 30 Sept 2009 \$'000	Three months ended 30 Sept 2008 \$'000
(Reversal of provision for)/provision for impairment losses of other trade receivables	(1,176)	1,988	(1,061)	1,671
Provision for/(reversal of provision for) impairment losses of fixed assets	754	–	(46)	–
Insurance	3,077	3,589	792	1,242
Financial data subscription fees	3,816	3,302	1,328	1,145
Custodian and fund management fees	8,224	8,889	2,683	2,829
Bank charges	8,733	7,636	4,587	2,149
Repair and maintenance expenses	7,005	6,101	2,348	2,023
License fees	11,551	11,413	3,170	3,516
Communication expenses	3,811	4,006	1,300	1,241
Other miscellaneous expenses	35,408	39,837	8,125	13,661
	81,203	86,761	23,226	29,477

12. Taxation

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

	Nine months ended 30 Sept 2009 \$'000	Nine months ended 30 Sept 2008 \$'000	Three months ended 30 Sept 2009 \$'000	Three months ended 30 Sept 2008 \$'000
Provision for Hong Kong Profits Tax for the period (note a)	605,969	625,546	219,648	155,174
Overprovision in respect of prior years	(5,690)	(151)	(5,654)	(151)
	600,279	625,395	213,994	155,023
Deferred taxation	9,199	(10,725)	3,293	(8,335)
	609,478	614,670	217,287	146,688

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

13. Dividends

	Nine months ended 30 Sept 2009 \$'000	Nine months ended 30 Sept 2008 \$'000	Three months ended 30 Sept 2009 \$'000	Three months ended 30 Sept 2008 \$'000
Interim dividend paid of \$1.84 (2008: \$2.49) per share	1,979,977	2,676,436	-	-
Less: Dividend for shares held by Share Award Scheme	(1,867)	(3,061)	-	-
	1,978,110	2,673,375	-	-

14. Earnings Per Share

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

(a) Basic earnings per share

	Nine months ended 30 Sept 2009	Nine months ended 30 Sept 2008	Three months ended 30 Sept 2009	Three months ended 30 Sept 2008
Profit attributable to shareholders (\$'000)	3,475,016	3,934,053	1,274,131	959,647
Weighted average number of shares in issue less shares held for Share Award Scheme	1,074,560,764	1,071,737,234	1,074,984,200	1,073,349,273
Basic earnings per share	\$3.23	\$3.67	\$1.19	\$0.89

(b) Diluted earnings per share

	Nine months ended 30 Sept 2009	Nine months ended 30 Sept 2008	Three months ended 30 Sept 2009	Three months ended 30 Sept 2008
Profit attributable to shareholders (\$'000)	3,475,016	3,934,053	1,274,131	959,647
Weighted average number of shares in issue less shares held for Share Award Scheme	1,074,560,764	1,071,737,234	1,074,984,200	1,073,349,273
Effect of employee share options	3,307,017	5,878,512	3,087,682	4,125,086
Effect of Awarded Shares	911,753	1,148,411	915,791	1,164,812
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,078,779,534	1,078,764,157	1,078,987,673	1,078,639,171
Diluted earnings per share	\$3.22	\$3.65	\$1.18	\$0.89

15. Fixed Assets

During the nine months ended 30 September 2009, the total cost of additions to fixed assets was \$22,574,000 (2008: \$66,311,000), and the total cost and net book value of disposals and write-offs of fixed assets were \$321,965,000 and \$125,000 respectively (2008: \$28,531,000 and \$3,000 respectively). During the nine months ended 30 September 2009, an impairment loss of \$754,000 (2008: \$Nil) was charged to the condensed consolidated income statement under other operating expenses in relation to the reinstatement cost of office premises the lease of which expired in July 2009.

16. Clearing House Funds

	At 30 Sept 2009 \$'000	At 31 Dec 2008 \$'000
The Clearing House Funds comprised the following Funds (notes a and b):		
HKSCC Guarantee Fund	214,144	215,573
SEOCH Reserve Fund	273,340	208,291
HKCC Reserve Fund	989,966	578,853
	1,477,450	1,002,717
The Clearing House Funds were composed of:		
Available-for-sale financial assets:		
Debt securities, at market value:		
– listed outside Hong Kong	135,284	–
– unlisted	279,051	371,494
Time deposits with original maturities over three months	6,829	21,708
Financial assets of Clearing House Funds (note c)	421,164	393,202
Cash and cash equivalents	1,242,222	843,109
	1,663,386	1,236,311
Less: Other financial liabilities of Clearing House Funds	(24,991)	(72,319)
	1,638,395	1,163,992
Provision for loss arising from closing-out losses of defaulting Participants (note d)	(160,945)	(161,275)
	1,477,450	1,002,717
The Clearing House Funds were funded by:		
Clearing Participants' cash contributions due within twelve months	639,865	197,520
Clearing Participants' cash contributions due after twelve months	273,000	252,000
Designated reserves (note 27 and note e):		
At 1 Jan	552,383	694,853
Transfer from/(to) retained earnings (note 28 and note f)	8,321	(142,470)
At 30 Sept 2009/31 Dec 2008	560,704	552,383
Revaluation reserve (note 26(b))	3,881	814
	1,477,450	1,002,717

16. Clearing House Funds (continued)

- (a) The Clearing House Funds were established to support the respective clearing houses (ie, HKSCC, HKCC and SEOCH) to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Clearing Participants arising from depositing defective securities into CCASS.
- (b) Amounts excluded bank guarantees received and utilised as alternatives to cash contributions (note 32).
- (c) The maturity profile of the financial assets of Clearing House Funds was as follows:

	At 30 Sept 2009 \$'000	At 31 Dec 2008 \$'000
Amounts maturing after more than twelve months	416,647	–
Amounts maturing within twelve months	4,517	393,202
	421,164	393,202

- (d) In December 2008, the Board resolved to recover the closing-out losses caused by defaulting Participants (less any contributions forfeited and recoveries from the liquidation process of the defaulting Participants concerned) from the Clearing House Funds. As at 30 September 2009, the losses to be recovered totalled \$160,945,000 (31 December 2008: \$161,275,000) and, subject to further recoveries, if any, will be paid to the clearing houses after the completion of the defaulting Participants' liquidation. The provision has been eliminated against the amounts due from the defaulting Participants on consolidation.
- (e) In December 2008, the Board resolved that the closing-out losses caused by defaulting Participants incurred by the Clearing House Funds would not be allocated to any Clearing Participants except for the amounts contributed to the Clearing House Funds by the defaulting Clearing Participants. Consequently, the designated reserves of the Clearing House Funds were reduced by \$163,203,000 in the year ended 31 December 2008, which was attributable to firstly the forfeited contributions of the defaulting Clearing Participant and the accumulated net investment income net of expenses of the relevant Clearing House Funds recognised in profit or loss of the Group up to 31 December 2008 and then the clearing houses' contributions.
- (f) The amount comprised net investment income net of expenses of \$7,991,000 (year ended 31 December 2008: \$20,733,000) and reversal of provision for closing-out losses of \$330,000 (year ended 31 December 2008: provision for closing-out losses of \$163,203,000).

17. Margin Funds on Derivatives Contracts

	At 30 Sept 2009 \$'000	At 31 Dec 2008 \$'000
The Margin Funds comprised (note a):		
SEOCH Clearing Participants' Margin Funds	2,580,479	3,735,254
HKCC Clearing Participants' Margin Funds	19,087,940	38,104,737
	21,668,419	41,839,991
The net assets of the Margin Funds comprised:		
Financial assets at fair value through profit or loss, on designation:		
Unlisted debt securities with embedded derivatives, at market value (note b)	908,840	–
Bank deposits with embedded derivatives, at market value (note b)	950,965	–
Available-for-sale financial assets:		
Debt securities, at market value:		
– listed outside Hong Kong	290,277	324,301
– unlisted	6,161,874	16,116,617
Time deposits with original maturities over three months	4,335,191	3,205,408
Margin receivable from Clearing Participants	3,184	8,835
Financial assets of Margin Funds (note c)	12,650,331	19,655,161
Cash and cash equivalents	9,018,088	22,184,833
	21,668,419	41,839,994
Less: Other financial liabilities of Margin Funds	–	(3)
	21,668,419	41,839,991
The Group's liabilities in respect of the Margin Funds were as follows:		
Margin deposits from SEOCH and HKCC Participants on derivatives contracts	21,668,419	41,839,991

- (a) Amounts excluded non-cash collateral received and utilised as alternative to cash margin (note 32).
- (b) The maximum exposure to credit risk of the debt securities and the bank deposits with embedded derivatives as at 30 September 2009 was \$908,840,000 and \$950,965,000 respectively (31 December 2008: \$Nil and \$Nil respectively). No related credit derivative or similar instrument was used to mitigate the maximum exposure to credit risk. There was no fair value change of the debt securities and bank deposits with embedded derivatives attributable to changes in credit risk since their acquisition in 2009, which was determined as the amount of change in fair value that was not attributable to changes in market conditions that gave rise to market risk.

17. Margin Funds on Derivatives Contracts (continued)

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

	At 30 Sept 2009 \$'000	At 31 Dec 2008 \$'000
Amounts maturing after more than twelve months	5,989,139	–
Amounts maturing within twelve months	6,661,192	19,655,161
	<u>12,650,331</u>	<u>19,655,161</u>

18. Available-for-sale Financial Assets

	At 30 Sept 2009 \$'000	At 31 Dec 2008 \$'000
Debt securities, at market value		
– listed outside Hong Kong	311,078	160,601
– unlisted	1,263,191	2,421,082
	<u>1,574,269</u>	<u>2,581,683</u>
The maturity profile of available-for-sale financial assets was as follows:		
Non-current portion maturing after twelve months	981,651	–
Current portion maturing within twelve months	592,618	2,581,683
	<u>1,574,269</u>	<u>2,581,683</u>

19. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement ("CNS") money obligations receivable under the T+2 settlement cycle, which accounted for 90 per cent (31 December 2008: 93 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

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

	At 30 Sept 2009 \$'000	At 31 Dec 2008 \$'000
Analysis of financial assets at fair value through profit or loss:		
<u>Held for trading</u>		
Equity securities, at market value		
– listed in Hong Kong	14,891	12,701
– listed outside Hong Kong	110,947	94,680
	125,838	107,381
Debt securities, at market value		
– listed in Hong Kong	95,681	79,074
– listed outside Hong Kong	1,558,795	1,386,067
– unlisted	1,317,710	1,371,057
	2,972,186	2,836,198
Mutual funds, at market value		
– listed outside Hong Kong	72,294	57,707
Derivative financial instruments, at market value		
– forward foreign exchange contracts	4,385	18,749
<u>On designation</u>		
Unlisted debt securities with embedded derivatives, at market value (note a)	62,244	–
Bank deposits with embedded derivatives, at market value (note a)	298,000	–
	3,534,947	3,020,035
Analysis of financial liabilities at fair value through profit or loss:		
<u>Held for trading</u>		
Derivative financial instruments, at market value		
– equity index futures contracts, listed outside Hong Kong (note b)	59	627
– forward foreign exchange contracts	20,735	25,627
	20,794	26,254

- (a) The maximum exposure to credit risk of the debt securities and the bank deposits with embedded derivatives as at 30 September 2009 was \$62,244,000 and \$298,000,000 respectively (31 December 2008: \$Nil and \$Nil respectively). No related credit derivative or similar instrument was used to mitigate the maximum exposure to credit risk. There was no fair value change of the debt securities and bank deposits with embedded derivatives attributable to changes in credit risk since their acquisition in 2009, which was determined as the amount of change in fair value that was not attributable to changes in market conditions that gave rise to market risk.
- (b) The total notional amount of the equity index futures contracts outstanding was \$8,160,000 (31 December 2008: \$26,963,000).

21. Cash Marks and Cash Collateral from HKSCC Clearing Participants

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

22. 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 79 per cent (31 December 2008: 90 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.

23. Provisions

	Reinstatement costs \$'000	Employee benefit costs \$'000	Total \$'000
At 1 Jan 2009	26,669	35,104	61,773
Provision for the period	1,113	31,334	32,447
Amount used during the period	–	(30,874)	(30,874)
Amount paid during the period	(1,940)	(1,038)	(2,978)
At 30 Sept 2009	25,842	34,526	60,368
		At 30 Sept 2009 \$'000	At 31 Dec 2008 \$'000
Analysis of provisions:			
Current		34,526	36,290
Non-current		25,842	25,483
		60,368	61,773

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

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

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

Issued and fully paid:

	Number of shares of \$1 each	Share capital \$'000	Share premium \$'000	Shares held for Share Award Scheme \$'000	Total \$'000
At 1 Jan 2008	1,069,228,714	1,070,285	266,170	(47,803)	1,288,652
Shares issued under employee share option schemes (note a)	4,601,000	4,601	61,932	–	66,533
Transfer from employee share-based compensation reserve (note 25)	–	–	18,800	–	18,800
Shares purchased for Share Award Scheme (note b)	(214,600)	–	–	(32,494)	(32,494)
Vesting of shares of Share Award Scheme (note c)	324,418	–	–	15,043	15,043
At 31 Dec 2008	1,073,939,532	1,074,886	346,902	(65,254)	1,356,534
At 1 Jan 2009	1,073,939,532	1,074,886	346,902	(65,254)	1,356,534
Shares issued under employee share option schemes (note a)	1,200,000	1,200	20,193	–	21,393
Transfer from employee share-based compensation reserve (note 25)	–	–	6,212	–	6,212
Shares purchased for Share Award Scheme (note b)	(89,700)	–	–	(8,568)	(8,568)
Vesting of shares of Share Award Scheme (note c)	9,076	–	–	859	859
At 30 Sept 2009	1,075,058,908	1,076,086	373,307	(72,963)	1,376,430

- (a) During the period, employee share options granted under the first share option scheme (“Pre-Listing Scheme”) and the second share option scheme (“Post-Listing Scheme”) were exercised to subscribe for 1,200,000 shares (year ended 31 December 2008: 4,601,000 shares) in HKEx at an average consideration of \$17.83 per share (year ended 31 December 2008: \$14.46 per share), of which \$1.00 per share was credited to share capital and the balance was credited to the share premium account.
- (b) During the period, the Group’s Share Award Scheme (note 25(c)) acquired 89,700 HKEx shares (year ended 31 December 2008: 214,600 shares) through purchases on the open market. The total amount paid to acquire the shares during the period was \$8,568,000 (year ended 31 December 2008: \$32,494,000) and had been deducted from shareholders’ equity.
- (c) During the period, the Group’s Share Award Scheme transferred 9,076 HKEx shares (year ended 31 December 2008: 324,418 shares) to the awardees upon vesting of certain HKEx shares awarded (“Awarded Shares”) and the shares arising from related dividends reinvested. The total cost of the vested shares was \$859,000 (year ended 31 December 2008: \$15,043,000).

25. Employee Share-based Compensation Reserve

	2009 \$'000	2008 \$'000
At 1 Jan	47,032	49,669
Employee share-based compensation benefits (note a and note 9)	16,318	28,179
Transfer to share premium upon exercise of employee share options (note 24)	(6,212)	(18,800)
Vesting of shares of Share Award Scheme	(796)	(12,016)
At 30 Sept 2009/31 Dec 2008	<u>56,342</u>	<u>47,032</u>

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

(b) Share options

- (i) Under the terms of the Pre-Listing Scheme and the Post-Listing Scheme, share options were granted to employees in June 2000 and during the period from May 2003 to January 2005 respectively. The share options would vest progressively from the 2nd to the 5th year after the grant provided that the relevant employee remained employed by the Group. Share options of the Pre-Listing Scheme are exercisable up to 30 May 2010 and share options for the Post-Listing Scheme are exercisable up to 10 years after the grant date.

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

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

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

25. Employee Share-based Compensation Reserve (continued)

(b) Share options (continued)

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

	2009		2008	
	Average exercise price per share \$	Number of shares issuable under options granted	Average exercise price per share \$	Number of shares issuable under options granted
Pre-Listing Scheme				
Outstanding at 1 Jan	6.88	130,000	6.88	379,000
Exercised	6.88	(16,000)	6.88	(249,000)
Outstanding at 30 Sept 2009/ 31 Dec 2008	6.88	114,000	6.88	130,000
Post-Listing Scheme				
Outstanding at 1 Jan	18.30	4,555,500	16.67	9,089,500
Exercised	17.98	(1,184,000)	14.89	(4,352,000)
Forfeited	19.25	(19,000)	18.53	(182,000)
Outstanding at 30 Sept 2009/ 31 Dec 2008	18.41	3,352,500	18.30	4,555,500
Total	18.03	3,466,500	17.98	4,685,500

(c) Awarded Shares

- (i) From September 2005, a share award scheme (“the Scheme”) has been in effect. The terms of the Scheme provide for shares in HKEx to be awarded to employees of the Group (including the Executive Director) as part of their compensation package. Such shares would be vested progressively from the 2nd to the 5th year after the awards are granted, provided that the relevant awardee remained employed by the Group or retired on reaching normal retirement age. In the meantime, the Awarded Shares are held in a trust set up by the Scheme.

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

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

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

25. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

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

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

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

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

^Ω Awarded to the Chief Executive of HKEx

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

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

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

During the period, 29,800 HKEx shares were acquired by the Scheme through reinvesting dividends received at a total cost (including related transaction costs) of \$3,658,000, of which 15,394 shares were subsequently allocated to awardees prior to 30 September 2009 (year ended 31 December 2008: 59,400 HKEx shares at a total cost of \$7,167,000, of which 56,377 shares were subsequently allocated to awardees).

25. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

During the period, 570 HKEx shares (year ended 31 December 2008: 27,662 shares, including 212 shares for the Chief Executive of HKEx) at a cost of \$63,000 (year ended 31 December 2008: \$3,027,000, including \$23,000 for the Chief Executive of HKEx) acquired from reinvesting dividends received were vested and transferred to the employees at nil consideration.

(ii) Movements in the number of Awarded Shares awarded and shares acquired through reinvesting dividends received were as follows:

	2009	2008
	Number of shares awarded/allocated	Number of shares awarded/allocated
Outstanding at 1 Jan	876,813	1,024,262
Awarded *	59,900	155,165
Forfeited	(25,238)	(32,798)
Vested	(8,506)	(296,756)
Dividends reinvested:		
– allocated to awardees	15,394	56,377
– allocated to awardees but subsequently forfeited	(2,002)	(1,775)
– vested	(570)	(27,662)
Outstanding at 30 Sept 2009/31 Dec 2008	915,791	876,813

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

(iii) As at 30 September 2009, 111,647 forfeited or unallocated shares were held by the Scheme. Out of these shares, 11,484 shares were allocated to awardees on 7 October 2009, and the remaining 100,163 shares would be allocated to awardees in future (31 December 2008: 70,001 shares were held by the Scheme).

26. Revaluation Reserve

	At 30 Sept 2009 \$'000	At 31 Dec 2008 \$'000
Investment revaluation reserve	(37,966)	96,681

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

(b) Included gross investment revaluation surplus of \$3,881,000 (31 December 2008: \$814,000) which was attributable to investments of the Clearing House Funds.

27. Designated Reserves

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

	At 30 Sept 2009 \$'000	At 31 Dec 2008 \$'000
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	122,123	119,309
– SEOCH Reserve Fund reserve	108,058	106,646
– HKCC Reserve Fund reserve	330,523	326,428
	560,704	552,383

28. Retained Earnings (Including Proposed Dividend)

	2009 \$'000	2008 \$'000
At 1 Jan	5,242,692	6,288,138
Profit for the period/year (note a)	3,475,016	5,128,924
Transfer (to)/from Clearing House Funds reserves (note 16)	(8,321)	142,470
Transfer from leasehold buildings revaluation reserve on disposal of a leasehold property	–	3,155
	(8,321)	145,625
Dividends:		
2008/2007 final dividend	(1,932,993)	(3,634,850)
Dividend on shares issued for employee share options exercised after 31 Dec 2008/31 Dec 2007	(1,715)	(11,309)
	(1,934,708)	(3,646,159)
2009/2008 interim dividend	(1,977,861)	(2,670,320)
Dividend on shares issued for employee share options exercised after 30 Jun 2009/30 Jun 2008	(249)	(3,055)
	(1,978,110)	(2,673,375)
Unclaimed dividends forfeited	3,915	2,566
Vesting of shares of Share Award Scheme	(63)	(3,027)
At 30 Sept 2009/31 Dec 2008	4,800,421	5,242,692
Representing:		
Retained earnings	4,800,421	3,309,601
Proposed dividend	–	1,933,091
At 30 Sept 2009/31 Dec 2008	4,800,421	5,242,692

- (a) The Group's profit for the period included a surplus attributable to the net investment income net of expenses and reversal of provision for closing-out losses of the Clearing House Funds of \$8,321,000 (year ended 31 December 2008: net deficit attributable to the net investment income net of expenses less provision for closing-out losses of the Clearing House Funds of \$142,470,000).

29. Notes to the Condensed Consolidated Statement of Cash Flows

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

	Nine months ended 30 Sept 2009 \$'000	Nine months ended 30 Sept 2008 \$'000
Profit before taxation	4,084,494	4,548,723
Adjustments for:		
Net interest income	(300,324)	(787,091)
Net realised and unrealised (gains)/losses and interest income on financial assets and financial liabilities at fair value through profit or loss	(211,630)	65,015
Realised gains on available-for-sale financial assets of Corporate Funds	–	(23)
Dividend income from financial assets at fair value through profit or loss	(1,955)	(3,289)
Amortisation of lease premiums for land	382	382
Depreciation	73,597	79,714
Employee share-based compensation benefits (Reversal of provision for)/provision for impairment losses of trade receivables	(1,506)	165,437
Provision for impairment losses of fixed assets	754	–
Changes in provisions	(578)	4,263
Gain on disposal of properties	–	(68,641)
(Gain)/loss on disposal of fixed assets	(476)	2
Net (increase)/decrease in Clearing House Fund financial assets	(424,008)	748,407
Net increase/(decrease) in Clearing House Fund financial liabilities	416,017	(765,515)
Net decrease in Margin Fund financial assets	20,019,126	13,223,541
Net decrease in Margin Fund financial liabilities	(20,171,575)	(13,204,225)
Net (decrease)/increase in cash marks and cash collateral received from HKSCC Clearing Participants	(352,277)	2,182,206
Net increase in financial assets and financial liabilities at fair value through profit or loss	(370,473)	(158,349)
Net admission fees refunded to Participants	(1,200)	(450)
Decrease in accounts receivable, prepayments and deposits	2,526,992	7,044,029
Decrease in other current liabilities	(2,208,692)	(7,036,372)
Net cash inflow from operations	3,092,986	6,060,281
Interest received from bank deposits	90,131	436,828
Dividends received from financial assets at fair value through profit or loss	1,872	2,919
Interest received from financial assets at fair value through profit or loss	85,402	99,693
Interest paid	(2,778)	(75,244)
Hong Kong Profits Tax paid	(233,577)	(111,806)
Net cash inflow from operating activities	3,034,036	6,412,671

30. Commitments

Commitments in respect of capital expenditures:

	At 30 Sept 2009 \$'000	At 31 Dec 2008 \$'000
Contracted but not provided for	5,713	16,908
Authorised but not contracted for	43,092	66,982
	48,805	83,890

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

31. Contingent Liabilities

As at 30 September 2009, the Group's material contingent liabilities were as follows:

- (a) The Group has a contingent liability in respect of potential calls to be made by the SFC to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$72 million. Up to 30 September 2009, no calls had been made by the SFC in this connection.
- (b) The Stock Exchange has undertaken to indemnify the Collector of Stamp Revenue against any loss of revenue resulting from any underpayment or default or delay in payment of stamp duty by its Participants, up to \$200,000 in respect of the default of any one Participant.

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

In the unlikely event that all of its remaining 462 trading Participants as at 30 September 2009 (31 December 2008: 448) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to \$92,400,000 (31 December 2008: \$89,600,000).

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

- (c) HKEx gave an undertaking on 6 March 2000 in favour of HKSCC to contribute 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 debts and liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs, charges and expenses of winding up.

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

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

As at 30 September 2009, the amount of non-cash collateral received from Participants and the amount utilised for covering part of their Clearing House Fund contributions and Margin Fund obligations for derivatives contracts were as follows:

	At 30 Sept 2009		At 31 Dec 2008	
	Amount received \$'000	Amount utilised \$'000	Amount received \$'000	Amount utilised \$'000
Clearing House Funds				
Bank guarantees	1,207,150	82,495	1,226,940	26,940
Margin Funds				
Equity securities, listed in Hong Kong, at market value	1,778,089	215 *	2,865,194	864,830*
US Treasury Bills, at market value	1,627,404	1,210,255	3,560,442	2,161,732
Bank guarantees	770,000	231,645	770,000	179,739
	4,175,493	1,442,115	7,195,636	3,206,301
	5,382,643	1,524,610	8,422,576	3,233,241

* Certain equity securities received were used to cover call options issued by SEOCH Participants whose underlying stocks were the same as the collateral received. Under the Operational Clearing Procedures for Options Trading Exchange Participants of SEOCH, such call options issued are not marginable positions (ie, no margin requirements). Hence, the amount is not treated as having been utilised for covering Margin Fund obligations. As at 30 September 2009, \$1,016,120,000 (31 December 2008: \$512,584,000) of equity securities received were used for such purpose (including those amounts discovered but not yet released of \$83,799,000 (31 December 2008: \$588,000)).

33. Material Related Party Transactions

Certain Directors of HKEx may be investor participants of HKSCC (“Investor Participants”) or directors and/or shareholders of (i) Stock Exchange Participants and Futures Exchange Participants (“Exchange Participants”), Clearing Participants and Investor Participants; (ii) companies listed on the Stock Exchange; and/or (iii) Exchange Participants for buying shares on behalf of HKSCC. Securities and derivatives contracts traded by, and fees levied on, these Exchange Participants, Clearing Participants and Investor Participants, fees levied on these listed companies and fees paid to these Exchange Participants for buying shares on behalf of HKSCC are all undertaken in the ordinary course of business of the Group on the standard terms and conditions applicable to all other Exchange Participants, Clearing Participants, Investor Participants, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

33. Material Related Party Transactions (continued)

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

(a) Key management personnel compensation

	Nine months ended 30 Sept 2009 \$'000	Nine months ended 30 Sept 2008 \$'000	Three months ended 30 Sept 2009 \$'000	Three months ended 30 Sept 2008 \$'000
Salaries and other short-term employee benefits	57,135	59,955	18,082	18,812
Employee share-based compensation benefits	5,224	8,242	1,550	1,887
Retirement benefit costs	4,925	4,851	1,544	1,667
	67,284	73,048	21,176	22,366

(b) Post-retirement benefit plans

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

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

34. Financial Risk Management

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

(a) Market risk management

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

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

(i) Foreign exchange risk management

Foreign exchange risk is the risk that the value of an asset, liability or highly probable forecast transaction denominated in foreign currency will fluctuate because of changes in foreign exchange rates. When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency bank deposits have been used to hedge the currency exposure of the Group's non-HKD investments and liabilities to mitigate risks arising from fluctuations in exchange rates.

34. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

The investment in non-HKD securities is governed by the Group's investment policy and subject to the following restrictions:

- up to 20 per cent of the Corporate Funds may be invested in non-HKD or non-USD investments after hedging;
- only USD investments are permitted for the Clearing House Funds; and
- foreign currency investments or deposits of the Margin Funds are permitted to the extent that they fully match the liabilities of the respective currencies, except up to 25 per cent of the HKD liabilities may be invested in USD deposits for a maximum maturity of two weeks.

As at 30 September 2009, the aggregate net open foreign currency positions amounted to HK\$3,834 million, of which HK\$194 million were non-USD exposures (31 December 2008: HK\$6,584 million, of which HK\$211 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK\$3,305 million (31 December 2008: HK\$3,219 million). All forward foreign exchange contracts would mature within two months (31 December 2008: two months).

(ii) Equity and commodity price risk management

The Group is exposed to equity price risk as equities and equity index futures and options contracts may be held as part of the Corporate Fund's investments. Equity price risk is capped by an asset allocation limit. The Group sets prudent investment limits and restrictions to control investment in equity securities. The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's investment policy.

(iii) Interest rate risk management

There are two types of interest rate risk:

- Fair value interest rate risk – the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and
- Cash flow interest rate risk – the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to both fair value and cash flow interest rate risks as the Group has significant assets and liabilities which are interest-bearing. The Group manages its interest rate risks by setting limits on the residual maturity of investments and on the fixed and floating interest rate mismatches of its assets and liabilities.

34. Financial Risk Management (continued)

(a) Market risk management (continued)

(iv) Risk management techniques

Value-at-Risk (“VaR”) based on historical simulation and portfolio stress testing are used to identify, measure, monitor and control foreign exchange risk, equity price risk and interest rate risks of the Group’s investments. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (one year is used by the Group). The Board sets a limit on total VaR of the Group and VaR is monitored on a weekly basis.

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

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

	Nine months ended 30 Sept 2009			Nine months ended 30 Sept 2008		
	Average \$'000	Highest \$'000	Lowest \$'000	Average \$'000	Highest \$'000	Lowest \$'000
Foreign exchange risk	11,192	14,993	6,709	5,741	7,480	4,448
Equity price risk	22,089	31,543	10,413	12,849	16,499	9,765
Interest rate risk	45,677	66,464	27,885	33,111	40,093	27,290
Total VaR	46,921	69,650	31,356	30,290	37,025	25,135

VaR for each risk factor is the independently derived largest potential loss due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors. Moreover, in respect of the highest and lowest VaRs during the period, the highest and lowest VaRs in each market did not necessarily occur on the same day.

(b) Liquidity risk management

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

34. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. In addition, banking facilities have been put in place for contingency purposes. As at 30 September 2009, the Group's total available banking facilities amounted to \$9,050 million, of which \$9,000 million was repurchase facilities (31 December 2008: \$3,850 million, of which \$3,000 million was repurchase facilities and \$800 million was a facility to draw down against certain bank deposits).

(c) Credit risk management

(i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's investments and trade receivables. Impairment provisions are made for losses that have been incurred at the end of the reporting period. The Group limits its exposure to credit risk by rigorously selecting the counterparties (ie, deposit-takers, bond issuers and debtors) and by diversification. As at 30 September 2009, the investment in debt securities for Margin Funds, Clearing House Funds and Corporate Funds held were of investment grade and had a weighted average credit rating of Aa2 (31 December 2008: Aa2), and there were no financial assets whose terms were renegotiated (31 December 2008: \$Nil). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time. All investments are subject to a maximum concentration limit approved by the Board and there was no significant concentration risk to a single counterparty. The Group mitigates its exposure to risks relating to accounts receivable from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

(ii) Clearing and settlement-related risk management

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

34. Financial Risk Management (continued)

(c) Credit risk management (continued)

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

The Group mitigates its exposure to risks described above by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants, monitoring compliance with risk management measures such as position limits established by the Group and requiring Clearing Participants to deposit margins and cash marks and contribute to the Clearing House Funds set up by HKSCC, SEIOCH and HKCC. After the LBSA default in September 2008, HKSCC has implemented measures permitted under the CCASS Rules to require additional cash collateral from its Clearing Participants to increase the level of protection not just for HKSCC but also for the HKSCC Guarantee Fund from the risk of material loss in the event of another sizeable default. HKSCC also retains recourse against those Participants whose securities are deposited and accepted in the CCASS depository.

Position limits are imposed by HKCC and SEIOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. As of 30 September 2009, bank guarantees of \$2,203,100,000 (31 December 2008: \$4,534,000,000) were accepted for such purpose.

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

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

As at 30 September 2009, the age analysis of the financial assets (which only related to trade receivables) of the Group that were past due but not determined to be impaired according to the period past due was as follows:

	At 30 Sept 2009 \$'000	At 31 Dec 2008 \$'000
Up to six months	69,717	206,847
Over six months to one year	198	–
Over one year to three years	300	–
Over three years	141	141
Total	70,356	206,988

The fair value of cash deposits placed by the related trade debtors with the Group was \$10,867,000 (31 December 2008: \$10,117,000).

34. Financial Risk Management (continued)

(c) Credit risk management (continued)

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

As at 30 September 2009, trade receivables of the Group amounting to \$165,929,000 (31 December 2008: \$167,449,000) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days as at the end of the reporting period or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired were disclosed in the 2008 annual accounts. No cash deposits had been received in relation to the impaired trade receivables (31 December 2008: \$Nil).

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

As soon as a loan or receivable becomes impaired, the Group may continue to allow the debtors concerned to participate in our markets but no further accounts receivable will be recognised on the condensed consolidated statement of financial position as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when cash is received. As at 30 September 2009, the amount of doubtful deferred revenue amounted to \$38,173,000 (31 December 2008: \$49,455,000).

35. Comparative Figures

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

GLOSSARY

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
CER	Certified Emission Reduction
CG Code	Code on Corporate Governance Practices
CSR	Corporate Social Responsibility
DCASS	The Derivatives Clearing and Settlement System
Director(s)	Director(s) of HKEx
DW(s)	Derivative Warrant(s)
eIPO	Electronic IPO
EP(s) or Participant(s)	Exchange Participant(s)
ETF(s)	Exchange Traded Fund(s)
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of the Hong Kong Special Administrative Region of the People's Republic of China
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
Government Appointed Directors	Directors appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKATS	The Hong Kong Futures Automated Trading System
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKSCC	Hong Kong Securities Clearing Company Limited
Hong Kong Government	Government of the Hong Kong Special Administrative Region of the People's Republic of China
H-shares Index	Hang Seng China Enterprises Index
HSI	Hang Seng Index
INED(s)	Independent Non-executive Director(s)
IPO(s)	Initial Public Offering(s)
IV(s)	Information Vendor(s)
JP	Justice of the Peace
Listing Rules	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDF	Market Datafeed System
MH	Medal of Honour
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MOU	Memorandum of Understanding
OTEP(s)	Options Trading Exchange Participant(s)
Post-Listing Scheme	Post-Listing Share Option Scheme approved by the Shareholders on 31 May 2000 which was subsequently amended by the Shareholders on 17 April 2002
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by the Shareholders on 31 May 2000
PRS	Price Reporting System
REIT(s)	Real Estate Investment Trust(s)
SBS	Silver Bauhinia Star
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
SI(s)	Settlement Instruction(s)
Shareholders	Shareholders of HKEx
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended by the Board on 16 August 2006
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
USD	US Dollar
\$/HKD	Hong Kong Dollar

Hong Kong Exchanges and Clearing Limited

12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong

Tel: +852 2522 1122

Fax: +852 2295 3106

Website: www.hkex.com.hk

Email: info@hkex.com.hk

