

CORPORATE GOVERNANCE REPORT 2008

(Financial figures in this Report are expressed in HKD)

Corporate Governance Practices

We engaged an independent consultant eight years ago to conduct an evaluation of HKEx's corporate governance to strengthen our corporate governance practices in discharging our responsibilities to act in the interests of the public and maximising Shareholders' value while ensuring an orderly, fair and transparent marketplace. In the past years, our efforts have been recognised and highly rated by independent agencies/organisations. This Corporate Governance Report serves to keep our Shareholders abreast of our corporate governance policies and practices. Shareholders may also visit our Corporate Governance section on the HKEx website at <http://www.hkex.com.hk> for a view of our governance measures and updated information.

As an exchange controller, HKEx sets and articulates corporate governance practices for the business community and continues to refine and assess corporate governance standards against evolving global developments to reinforce Hong Kong's position as an international financial centre. As a listed issuer, we strive for excellence in corporate governance practices. The Board believes that corporate governance is a crucial element in helping to steer the Company towards achieving sustainable growth in today's highly competitive business environment. A good governance structure not only ensures better internal processes but also boosts investor confidence and the Company's goodwill. Accountability, transparency, fairness and integrity are the four cornerstones on which the Board has formulated our corporate governance policies to guide the Company in discharging its public and corporate responsibilities. We have applied the principles in the CG Code of the Main Board Listing Rules in our corporate governance structure, which is established to cover all the relationships and responsibilities of the external and internal corporate governance with stakeholders in a comprehensive and structured way.

As a company governed by the SFC, HKEx has a comprehensive framework of checks and balances, which is built on the SFO in order to ensure proper performance of our dual roles. As a listed issuer, HKEx has to comply with the Main Board Listing Rules but instead of being regulated by the Exchange, it is regulated by the SFC to avoid any potential conflicts of interest and to ensure a level playing field between HKEx and other listed issuers.

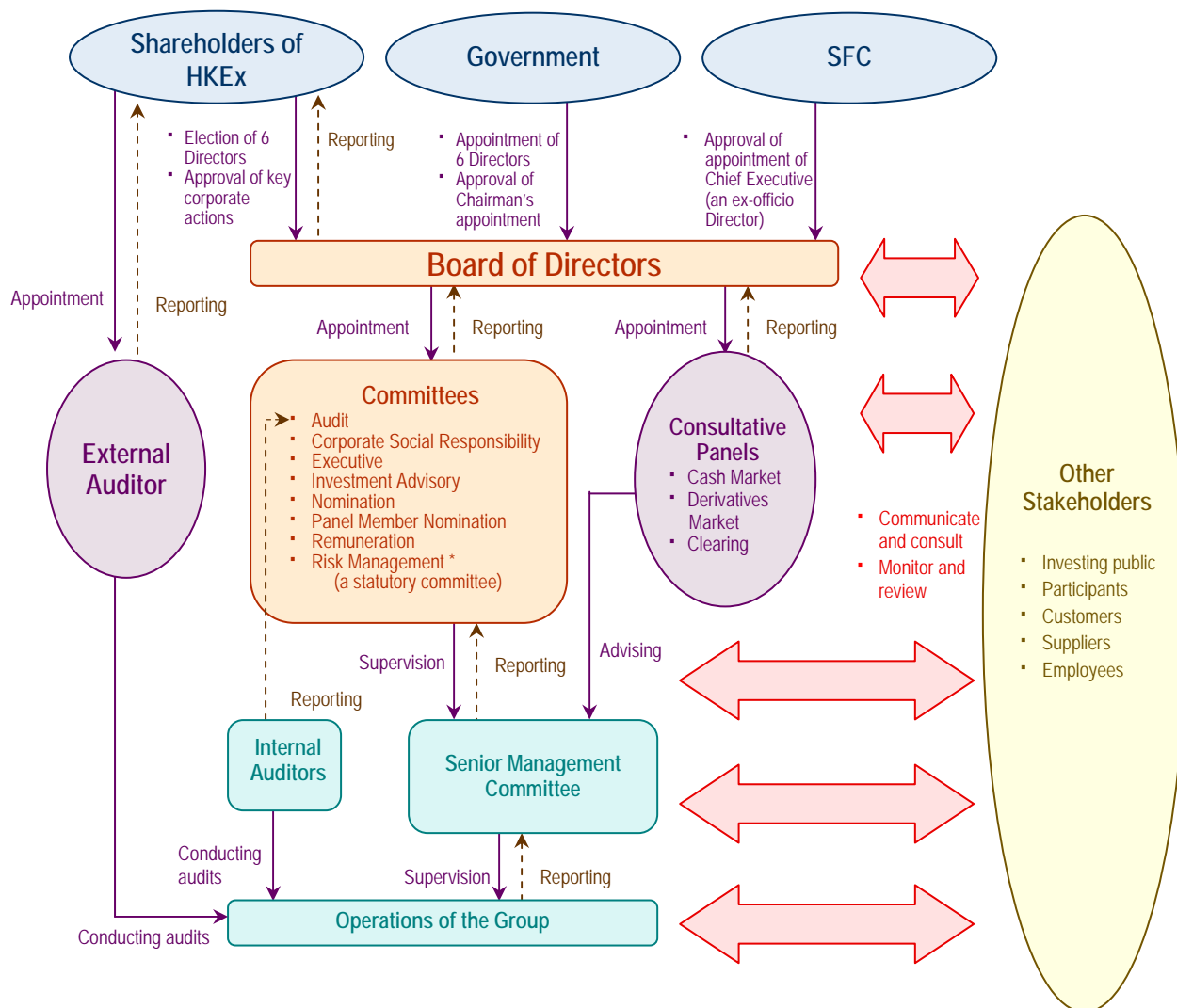
CG Code Compliance

Throughout 2008, HKEx fully complied with all the code provisions set out in the CG Code contained in Appendix 14 to the Main Board Listing Rules, and where appropriate, adopted the recommended best practices, except that the Government Appointed Directors and the Chief Executive, in his capacity as an ex-officio Board member, are not subject to election or re-election by Shareholders, and their appointments are governed by Section 77 of the SFO and HKEx's Articles respectively. HKEx's Articles are available on the HKEx website.

Despite the removal of the requirement for a qualified accountant in the Main Board Listing Rules effective 1 January 2009, the Group continues to maintain a team of qualified accountants to oversee its financial reporting and other accounting-related issues in accordance with the relevant laws, rules and regulations.

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CORPORATE GOVERNANCE STRUCTURE



* HKEx shall appoint not more than 2 members pursuant to section 65 of the SFO.

Note: The Listing Committees of the Stock Exchange operate independently, under no influence from the Board. A regulatory function of the Stock Exchange is assumed by the Listing Division, which is functionally separated from the income-generating business operations of HKEx.

The Board

Board Process and Effectiveness

The Board provides leadership and guidance to the Group's activities. Every Board member is given a Director's Handbook, which sets out key governance issues, including without limitation the Board procedures and all applicable laws, rules and regulations that they are required to observe during their service on Board. The Handbook is updated periodically with the last update in June 2008 and it is posted on the HKEx website. An induction

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programme is provided for newly appointed Directors to familiarise them with the Group's operations and businesses as well as their obligations on the Board. In June 2008, an induction programme was arranged for Mr John M M Williamson upon his appointment as an INED to fill a casual vacancy.

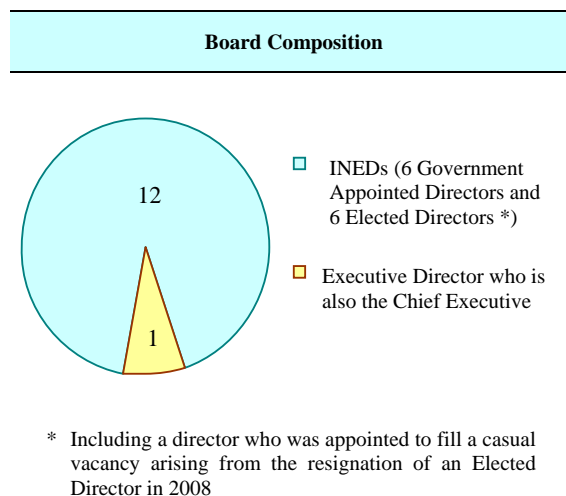
Under the SFO, Directors are required to act in the interest of the public, having particular regard to the interest of the investing public. They have to ensure that the interest of the public prevails where it conflicts with HKEx's any other interest. The principal responsibilities of the Board and some of the key features of the Board processes are highlighted in the table below.

Principal Responsibilities of the Board
<ul style="list-style-type: none"> ▪ To lay down the Group's objectives, strategies, policies and business plan and to monitor implementation ▪ To monitor and control the Group's operations and financial performance through the determination of the annual budgets in particular, the capital expenditure budget ▪ To set appropriate policies to manage risks in pursuit of the Group's strategic objectives ▪ To determine the appropriate systems of control, including systems for risk management, financial and operational control, as the foundation for ensuring the integrity of the Company's accounting and financial reporting system ▪ To review the adequacy of the resources, qualifications and experience of staff for the Company's accounting and financial reporting function
Key Features of the Board Processes
<ul style="list-style-type: none"> ▪ The meeting schedule of the following year is given to all Directors normally within the last quarter of the year. In 2008, a total of 13 Board meetings were held, and the attendance record of each Director is shown on page 7 of this Report. The overall attendance rate of Board meetings was 88 per cent (2007: 92 per cent). ▪ The agenda and accompanying papers are normally sent to Directors 4 days before the date of meeting. Members can at any time request relevant information in their role as Directors. ▪ At each of its meetings, the Board receives a full written report from the Chief Executive on the Company's major events, projects and initiatives, the key matters in each of the divisions/departments and the corporate activities. ▪ Other than regular meetings, non-executive Directors also meet periodically without the management to discuss matters of particular interest. ▪ Sufficient resources are available for Directors to discharge their duties, and procedures are in place to enable Directors to seek independent professional advice at the Company's expense, where relevant to the discharge of their duties. ▪ Directors are required to declare their direct/indirect interests, if any, in any proposals or transactions to be considered by the Board and to withdraw from the relevant meetings, as appropriate. During 2008, there were 2 occasions when a non-executive director declared his interest and withdrew from the relevant discussions at the Board meetings. In addition, at each financial reporting period, the Company seeks confirmation from Directors in respect of any related party transactions under Hong Kong Accounting Standard 24 and connected transactions under the Main Board Listing Rules. The relevant information will be set out in the 2008 Annual Report. ▪ Insurance cover in respect of legal proceedings and other claims against Directors arising from their office and execution of their powers, duties and responsibilities has been arranged. In 2008, no legal actions were made against any of our Directors in relation to their duties performed for HKEx.

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Board Composition

The Board structure is governed by Article 90 of HKEx's Articles and Section 77 of the SFO. Pursuant to the SFO, the Financial Secretary may appoint any person as a Government Appointed Director but the number of such shall not exceed the number of the Elected Directors, excluding the Chief Executive. As at the date of this Report, the Board comprised 13 members with professional background and/or extensive expertise in the financial markets. The list of Directors, their biographies and respective terms of office will be set out in the 2008 Annual Report. They are also available on the HKEx website.



The roles of the Chairman and the Chief Executive are segregated and assumed by Mr Ronald J Arculli and Mr Paul M Y Chow respectively and their respective responsibilities are set out in the Corporate Governance section on the HKEx website. The Chairman has the primary responsibility of selecting matters and documents to be brought to the Board's attention, in formulating the policy of the Board and in promoting the Company. In addition, the Chairman takes on the responsibility for ensuring good corporate governance practices are in place. The Chief Executive has delegated authority from, and is responsible to, the Board for managing the Company's business.

Every non-executive Director submits to the SFC a written confirmation, stating his/her independence upon his/her appointment with reference to the criteria affecting independence, as set out in the Main Board Listing Rules. Each of them has declared his or her past or present financial or other interest in the business of the Company or its subsidiaries or his or her connection with any connected person (as defined in the Main Board Listing Rules) of the Company, if any. Details of the information are disclosed under Continuing Connected Transactions and Related Party Transactions in this Report. All Directors (including, in particular between the Chairman and the Chief Executive) do not have any financial, business, family or other material/relevant relationships with each other.

Appointments and Re-election of Directors

The rules governing the appointment, re-election and removal of Directors are laid down in HKEx's Articles. The service term of every Director, other than that of the Chief Executive who is an ex-officio member, is not longer than 3 years. Retiring Directors are eligible for re-appointment or re-election. The staggered structure enables the Board to change its membership in an orderly manner over time while maintaining leadership, stability and continuity, and allows for regular evaluation of the mix of skills and experience of the Board.

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On 24 April 2008, the Financial Secretary re-appointed Mr Ronald J Arculli, Mrs Laura M Cha and Dr Moses M C Cheng as Government Appointed Directors each for a term of approximately 2 years from 24 April 2008 until the conclusion of the AGM to be held in 2010. The Board subsequently on 25 April 2008 re-appointed Mr Ronald J Arculli as the Chairman of the Board, which appointment was approved by the Chief Executive of Hong Kong on 29 April 2008.

Mr Paul M Y Chow was appointed the Chief Executive on 1 May 2003 for a 4-year term, and the contract was renewed in 2007 for another 2 years. On 5 March 2008, Mr Chow, at the request of the Board, agreed to extend his employment contract for a further year until 30 April 2010. Pursuant to Section 70 of the SFO, the SFC on 10 March 2008 approved the extension.

Candidates standing for election at general meetings are recommended by either the Shareholders or the Board. The Board's recommendations are made in accordance with proposals submitted by the Nomination Committee which comprises 5 members who are all INEDs. Its member list is shown on page 7 of this Report, and together with its terms of reference are available on the HKEx website. In addition, it is also mandated to nominate candidates to fill casual vacancies of Elected Directors, and to review the independence of INEDs on an annual basis.

In the nomination of Directors, the Nomination Committee makes reference to criteria including reputation for integrity, accomplishment and experience in the financial service sector, in particular in the Cash and Derivatives Markets and the clearing business, professional and educational background, and commitment in respect of available time.

During 2008, 3 meetings were held by the Nomination Committee and the attendance record of its members is shown on page 7 of this Report. At its meeting on 5 March 2008, the Nomination Committee (a) reviewed and confirmed the independence of the 12 INEDs for the year ended 31 December 2007, and (b) nominated Dr Bill C P Kwok and Mr Vincent K H Lee for the Board's recommendation to stand for election by Shareholders at the 2008 AGM. On 24 April 2008, Dr Kwok and Mr Lee were re-elected by Shareholders as Directors and their service terms are approximately 3 years from 24 April 2008 until the conclusion of the AGM to be held in 2011.

On 15 May 2008, Mr David M Webb served a notice to the Company to resign with immediate effect as a Director. On 10 June 2008, the Nomination Committee nominated, and the Board on 18 June 2008 appointed Mr John M M Williamson as an INED to fill the casual vacancy that resulted from Mr Webb's resignation. Pursuant to Article 92 of HKEx's Articles, Mr Williamson shall retire at the next general meeting and shall be eligible for re-appointment.

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On 4 March 2009, the Nomination Committee assessed the annual confirmations of independence received from the INEDs pursuant to Rule 3.13 of the Main Board Listing Rules. As a good corporate governance practice, every member of the Nomination Committee abstained from assessing his or her own independence.

Mrs Laura M Cha also confirmed her independence as HKEx's INED despite Tata Consultancy Services Limited ("TCS"), of which she is a non-executive director, was appointed by HKEx in July 2008 to provide consultancy services to the first phase of the Project "LISA" (Listing Information Support Application). The consultancy fee as at 31 December 2008 was \$4,427,634. Taking into account that TCS was selected to provide consultancy services following to a tendering exercise undertaken by HKEx which was considered fair and transparent, other than being a non-executive director of TCS, Mrs Cha has no interest in TCS, and the services provided by TCS were on normal commercial terms and in the ordinary course of HKEx's business, the Nomination Committee affirmed that Mrs Cha remained independent for the year ended 31 December 2008.

In addition, after taking into consideration that the Government is a Minority Controller of the Company, the Nomination Committee, by majority, affirmed that all the other INEDs remained independent for the year ended 31 December 2008 albeit 6 were Government-appointed of whom 4 were Executive Councillors.

Dr Christine K W Loh has indicated that she will not stand for re-election at the 2009 AGM and will retire as a Director with effect from the conclusion thereof. The Nomination Committee considered and nominated Mr John M M Williamson and Mr Ignatius T C Chan to stand for election by Shareholders at the 2009 AGM. The said recommendation was accepted by the Board on 4 March 2009. The two proposed candidates do not have service contracts with any member of the Group that is not determinable by the Group within one year without payment of compensation (other than statutory compensation), and their particulars will be set out in the circular to the Shareholders sent together with the 2008 Annual Report.

The 3 Government Appointed Directors, namely Dr Marvin K T Cheung, Mr Henry H L Fan and Mr Fong Hup, will also retire in accordance with their respective terms of service at the conclusion of the 2009 AGM. Pursuant to Article 93(5) of HKEx's Articles, they are eligible for re-appointment. The Financial Secretary has not yet informed HKEx of the persons he intends to appoint or re-appoint as Directors. An announcement will be made once HKEx is notified.

Board Committees

A total of 7 Board committees and 1 statutory committee have been formed with specific roles and responsibilities. Their terms of reference are available on the HKEx website. The Audit Committee, Nomination Committee, Remuneration Committee, and Panel Member Nomination Committee comprise solely INEDs. The composition of the 8 committees are set out on page 7 of this Report as well as on the HKEx website. All the Board committees follow the same principles, procedures and arrangements as that of the Board and are provided with sufficient resources to discharge their duties. The Board receives the minutes and updates from the chairman of each of the committees on a regular basis including, their decisions and recommendations.

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In 2008, each INED served on one or more committees and actively participated in the meetings. Their respective attendance records on the Board/committees are set out in the following table.

Meetings Held in 2008										
	2008 AGM	Board	Audit Committee	Corporate Social Responsibility Committee	Executive Committee	Investment Advisory Committee	Nomination Committee	Panel Member Nomination Committee	Remuneration Committee	Risk Management Committee
Number of Meetings	1	13	7	2	15	4	3	0	5	10
Independent Non-executive Chairman										
Ronald J Arculli	1/1	13/13			14/15		3/3		5/5	10/10
INEDs										
Laura M Cha	0/1	8/13				3/4		0/0	3/5	
Moses M C Cheng	1/1	12/13	6/7						4/5	
Marvin K T Cheung	1/1	9/13	7/7							4/10
Henry H L Fan ¹	1/1	10/13					3/3			
Fong Hup	1/1	13/13	6/7		15/15			0/0		9/10
Bill C P Kwok	1/1	13/13			15/15			0/0		10/10
Vincent K H Lee	1/1	11/13	6/7		13/15		3/3	0/0	4/5	
Christine K W Loh	1/1	10/13							5/5	
John E Strickland	1/1	11/13				4/4	3/3			
David M Webb ²	1/1	5/5	4/4			1/1	1/1			
John M M Williamson ³	-/-	5/5	2/3			1/2				
Oscar S H Wong ⁴	1/1	13/13				4/4	-/-	0/0		
Executive Director										
Paul M Y Chow (Chief Executive)	1/1	13/13		2/2	15/15					
Market Professionals										
Chan Ka-lok										8/10
Benjamin P C Hung										8/10
Edmond Y P Lau										9/10
Keith K K Lui										10/10
David T K Sun						3/4				
Senior Management										
Eddie L S Chow				2/2						
Peter J Curley				2/2						
Joseph K S Mau				2/2						
Alfred K K Wong				2/2						
Brenda T M Yen				2/2						
Average Attendance Rate	92%	88%	89%	100%	96%	84%	100%	—	84%	85%

Notes:

- On 22 October 2008, Mr Henry H L Fan took a leave of absence from meetings of the Board and the Nomination Committee until further notice.
- On 15 May 2008, Mr David M Webb resigned from the Board and his membership of the Audit Committee, Investment Advisory Committee and Nomination Committee.
- Mr John M M Williamson was appointed a Director on 18 June 2008 to fill the casual vacancy arising from Mr Webb's resignation, and subsequently a member of the Audit Committee and the Investment Advisory Committee.
- Mr Oscar S H Wong was appointed a member of the Nomination Committee on 18 June 2008.

Consultative Panels

To facilitate the decision-making of the Board, 3 Consultative Panels have been established, namely the Cash Market Consultative Panel, Derivatives Market Consultative Panel and Clearing Consultative Panel. Their major responsibility is to provide market expertise and advice to the Board on international market trends, the demand of intermediaries, issuers, investors and other market participants, technological challenges and new product opportunities relating to the Cash and Derivatives Markets and clearing business.

Meetings Held in 2008	
Panel	Number of Meetings
Cash Market Consultative Panel	1
Derivatives Market Consultative Panel	4
Clearing Consultative Panel	4

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The Panel Member Nomination Committee under the Board is mandated to identify and nominate candidates for appointment or re-appointment to the Consultative Panels for the Board's consideration and approval. The composition and respective terms of reference of the Consultative Panels are available on the HKEx website.

Delegation by the Board

While matters relating in particular to the Group's strategies, policies and business plan require the Board's direction and approval, the day-to-day operational responsibilities are delegated to the executive management under the instruction/supervision of the Chief Executive. All management and staff have a clearly defined set of responsibilities and are subject to a Code of Conduct, as set out in the Human Resources Manual, which places them under specific obligations as to the ethics and principles in accordance with which our business is conducted.

Remuneration of Directors and Senior Management

The Remuneration Committee has prepared a report summarising its work in 2008, and which will be set out in the 2008 Annual Report. It encapsulates the Group's remuneration structure and policy, and discloses, on a named basis, the remuneration of every Director and member of the Senior Management for the year ended 31 December 2008. The biographies of HKEx's Senior Management will be set out in the 2008 Annual Report.

Accountability and Audit

Financial Reporting

The Board acknowledges its responsibility for overseeing the preparation of the annual accounts which give a true and fair view of the Group's state of affairs, results and cash flows for the year. In preparing the accounts for the year ended 31 December 2008, the Directors (i) adopted all HKFRSs which are in conformity to the International Financial Reporting Standards in all material respects; (ii) selected suitable accounting policies and applied them consistently; (iii) made prudent and reasonable judgements and estimates; and (iv) ensured that the accounts were prepared on the going concern basis.

HKEx recognises that high quality, transparent and timely financial reporting is important to secure the confidence of stakeholders in the Company, and reviews and approves the annual, interim, and quarterly results for publication within three months, two months and 45 days respectively after the end of the relevant periods.

Internal Controls

The Board also acknowledges its responsibility for the effectiveness of the Group's internal control and risk management system. The internal control system is designed to provide reasonable, though not absolute, assurance against material misstatement or loss, and manage rather than eliminate risks of failure to achieve business objectives.

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The key processes that the Board has applied in reviewing the effectiveness of the internal control system are summarised below. Full details are available in the Corporate Governance section on the HKEx website.

Internal Control Measures

- The internal control system serves as an integral part of HKEx's management system. The management and individual divisions/departments take part in the day-to-day management of operational risks and implementation of mitigation measures. All the division and department Heads are required to sign annual statements confirming compliance with the internal control policy and procedures.
- The Senior Management Committee which includes the Head of Risk Management Division as a member is responsible for monitoring and assessing risks for individual business initiatives as well as providing oversight of risk management across the Company.
- The Risk Management Division is responsible for supervising the risk management functions of HKEx.
- To ensure the integrity, availability and stability of the IT services and application systems of HKEx, the Board resolved the commissioning of consultants to perform, in phases, independent reviews of the overall effectiveness of the Group's IT risk management processes covering the IT Governance and the core mission critical IT application systems. Phase one, ie, the independent reviews of the IT Governance and EDS, commenced in April 2008 and was completed on 1 September 2008. The review results were generally satisfactory. Phase two which covers HKATS, DCASS and PRS, is expected to commence in the second quarter of 2009 and to be completed by the end of the year.

Annual Assessment of Internal Control System

The Internal Audit Department ("IAD") performed independent reviews and reported regularly the review results to the Board through the Audit Committee ("AC") on the adequacy and effectiveness of the Group's internal control and risk management systems. The IAD also assessed the Group's internal control structure using the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework to provide confirmation of the effectiveness of the Group's internal control systems in the following aspects:

- the provision of sufficient explanation and information to the AC and the Board to enable them to effectively assess the state of controls at HKEx in areas such as the reliability of financial reporting, compliance with applicable laws, rules and regulations, and the effectiveness of risk management functions;
- the responses to changes in HKEx's business and external environment;
- the efficiency in rectifying identified internal control deficiencies and implementing recommendations of the IAD, external auditor and/or regulator;
- the promptness in handling operating errors or failures; and
- the control of price-sensitive information in accordance with the Exchange's guidelines.

Audit Committee

The AC on behalf of the Board assesses the effectiveness of the internal control system in detecting fraud and other irregularities on a regular basis by reviewing IAD's work and findings. During 2008, no suspected frauds, irregularities or infringement of laws, rules and regulations or material control failures were reported. At the meeting on 26 February 2009, the AC concluded that the Group's internal control system was effective and adequate, and

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that the Group had adopted the necessary control mechanisms to monitor and rectify non-compliance throughout 2008.

To ensure on-going compliance with the newly amended CG Code, AC's Terms of Reference have been revised to take into account the Board's responsibility for reviewing the adequacy of staffing of the financial reporting functions and the oversight role of the AC. At the meeting on 26 February 2009, the AC also reviewed and was satisfied with the adequacy of resources, qualifications and experience of the employees of the Group's accounting and financial reporting function, and their training programmes and budget. More information about the AC, including a summary of its work in 2008, will be set out in the AC Report of the 2008 Annual Report.

Independence of External Auditor

The AC is mandated to monitor the independence of the external auditor to ensure true objectivity in the financial statements. The external auditor is refrained from engaging in non-audit services except for limited tax-related services or specific approved items. The AC reviews the external auditor's statutory audit scope and non-audit services and approves its fees.

External Auditor's Services and Fees Paid		
	2008	2007
Audit	\$2,876,500	\$2,585,000
Permissible Non-audit Services:		
• Taxation services	\$457,573	\$406,000
• Training	\$1,450	\$4,100
Total	\$3,335,523	\$2,995,100

Pursuant to the adopted 5-year rotation policy, the engagement partner of the external auditor was first rotated in 2005. Moreover, it is the Group's policy not to hire employees of external auditors who are or have been involved in the Group's audit so as to ensure no impairment of the auditor's judgement or independence in respect of an audit. The policy was strictly complied with in 2008.

Compliance with Model Code

HKEx has adopted the Model Code as its own code of conduct regarding Directors' securities transactions for compliance by Directors. In response to the specific enquiry by the Company, all Directors confirmed that they complied with the required standard set out in the Model Code throughout the year ended 31 December 2008.

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

As at 31 December 2008, the interests and short positions of the Directors and the Chief Executive in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code are set out below.

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Long Positions in Shares and Underlying Shares of HKEx

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

Notes:

1. It is based on 1,074,886,346 shares of HKEx in issue as at 31 December 2008.
2. It included Mr Chow's interests in 12,846 Awarded Shares and 847 shares further acquired by reinvesting the dividends received therefrom according to the Share Award Scheme. Details of Mr Chow's Awarded Shares will be set out in the 2008 Annual Report.
3. Such shares were held by Mr Strickland as beneficial owner.

Save for those disclosed above, as at 31 December 2008, 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.

Save for the share options and Awarded Shares as disclosed in the Remuneration Report of the 2008 Annual Report, none of the Directors or the Chief Executive (including their spouses and children under the age of 18), during the year ended 31 December 2008, held any interests in or was granted any right to subscribe for the securities of HKEx and its associated corporations within the meaning of the SFO, or had exercised any such rights.

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

As at 31 December 2008, the interests and short positions of other persons in the shares and underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange are set out below.

Long Positions in Shares and Underlying Shares of HKEx

Name	Capacity	Number of Shares/ Underlying Shares Held	Total	% of the Issued Share Capital (Note 1)
JPMorgan Chase & Co	Beneficial owner	11,839,156	55,686,139 (Note 2)	5.18
	Investment manager	8,269,300		
	Custodian corporation/ approved lending agent	35,577,683		
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	62,919,500 (Note 3)	62,919,500	5.85

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Short Positions in Shares and Underlying Shares of HKEx

Name	Capacity	Number of Shares/ Underlying Shares Held	Total	% of the Issued Share Capital (Note 1)
JPMorgan Chase & Co	Beneficial owner	18,610,193	18,679,193 (Note 4)	1.74
	Investment manager	69,000		

Notes:

1. It is based on 1,074,886,346 shares of HKEx in issue as at 31 December 2008.
2. It included aggregate interests in 4,938,800 underlying shares through its holding of certain cash settled listed equity derivatives (1,200 underlying shares), and physically settled unlisted equity derivatives (4,937,600 underlying shares). It also included 35,577,683 shares in the lending pool.
3. This is based on a DI filing made by the Government on 10 September 2007 which it stated was voluntary.
4. It included aggregate interests in 13,815,037 underlying shares through its holding of certain listed equity derivatives (physically settled - 54,000 underlying shares, and cash settled - 35,100 underlying shares) and unlisted equity derivatives (physically settled - 3,355,937 underlying shares, and cash settled - 10,370,000 underlying shares).

Save for those disclosed above, as at 31 December 2008, 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.

Interests of Senior Management in Shares and Underlying Shares of HKEx

The Senior Management are obliged to follow strictly the Company's restrictions on dealing in securities, futures contracts and derivatives, which are on terms no less stringent than the Model Code, as set out in the Human Resources Manual. As at 31 December 2008, the interests of the Senior Management in the shares and underlying shares of HKEx are set out below.

Name of Employee	Number of Shares Held	Number of Shares Issuable Under Share Options Granted	Number of Awarded Shares (Note)	Derivatives (Number of Underlying Shares)
Gerald D Greiner	115,048	200,000	40,819	-
Lawrence K M Fok	912,270	80,000	17,353	-
Mary M L Kao	810,799	80,000	21,156	-
Henry M W Law	141,107	65,000	21,799	-
Stewart S C Shing	101,437	273,500	5,746	-
Archie T C Tsim	23,006	123,000	30,438	-
Richard G Williams	3,352	-	18,111	-
Alfred K K Wong	284,802	75,000	30,657	-

Note: The number included further shares acquired through reinvesting dividend received.

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Continuing Connected Transactions

During the year ended 31 December 2008, the Group had the following continuing connected transactions. All of them were entered into by the Group in the ordinary and usual course of business and on normal commercial terms.

Continuing Connected Transactions for the year ended 31 December 2008	
A.	Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with the use of (i) the facilities provided by the Group for the trading, clearing and/or settlement of securities and futures products and transactions; and (ii) all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:
(a)	Mr Ronald J Arculli, the Chairman, was interested in the transactions entered into by Bokhary Securities Limited (“BSL”), an EP and a Clearing Participant, in which his sister has a 50 per cent interest.
(b)	Dr Bill C P Kwok, an INED, was interested in the transactions entered into by Wocom Securities Limited (“WSL”) and Wocom Limited, EPs and Clearing Participants, which are associates of Dr Kwok by virtue of the Main Board Listing Rules.
(c)	Mr Vincent K H Lee, an INED, was interested in the transactions entered into by Tung Tai Securities Company Limited (“TTS”) and Tung Tai Futures Limited, EPs and Clearing Participants, which are associates of Mr Lee by virtue of the Main Board Listing Rules.
B.	Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with (i) the listing of securities on the Stock Exchange; and (ii) all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:
(a)	Mrs Laura M Cha, an INED, was interested in the transactions entered into by her associates, HKR International Limited and Hanison Construction Holdings Limited. Both of them are listed on the Stock Exchange.
(b)	Dr Bill C P Kwok, an INED, was interested in the transactions entered into by his associate, Wing On Company International Limited which is listed on the Stock Exchange.
C.	Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with the HKSCC arrangement on behalf of Clearing Participants for (i) carrying out “buy-in” when a Clearing Participant failed to deliver securities on time for settlement under the CNS System or the Isolated Trades System operated by CCASS; (ii) the purchase or sale of securities in connection with the liquidation of the positions of a CCASS Participant that has been declared by HKSCC to be in default; and (iii) the sale of entitlements of securities held through CCASS (collectively referred as “Buy-in Transactions”):
(a)	Mr Ronald J Arculli, the Chairman, was interested in the Buy-in Transactions entered into by BSL, in which his sister has a 50 per cent interest. For the year ended 31 December 2008, the total consideration of such transactions was \$11,063,328.76, comprising an aggregate of buy-in cost of \$11,035,396.93 and related brokerage fee of \$27,931.83 earned by BSL.
(b)	Dr Bill C P Kwok, an INED, was interested in the Buy-in Transactions entered into by WSL which is an associate of Dr Kwok by virtue of the Main Board Listing Rules. For the year ended 31 December 2008, the total consideration of such transactions was \$21,295,725.84, comprising an aggregate of buy-in cost of \$21,268,708.87 and related brokerage fee of \$27,016.97 earned by WSL.
(c)	Mr Vincent K H Lee, an INED, was interested in the Buy-in Transactions entered into by TTS which is an associate of Mr Lee by virtue of the Main Board Listing Rules. For the year ended 31 December 2008, the total consideration of such transactions was \$1,621,277.51, comprising an aggregate of buy-in cost of \$1,618,808.07 and related brokerage fee of \$2,469.44 earned by TTS.

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In respect of the above continuing connected transactions (“Transactions”), the AC comprising 5 INEDs, under the authority delegated by the Board, reviewed the above transactions, pursuant to Rule 14A.37 of the Main Board Listing Rules. As a good corporate governance practice, Mr Vincent K H Lee had abstained from reviewing the transactions in which he had an interest. The AC confirmed that:

- (a) the Transactions disclosed above were entered into in the ordinary and usual course of business of the Group and conducted on an arm’s length basis on normal commercial terms or on terms no more favourable than terms available to independent third parties;
- (b) in respect of the transactions as disclosed under (A) and (B) above, they were conducted in accordance with the rules and regulations of the relevant Group company governing such transactions and where the rules and regulations do not govern those transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;
- (c) in respect of the transactions as disclosed under (C) above, ie, the Buy-in Transactions, they were conducted in accordance with the standard terms and conditions of HKSCC applicable generally to all buy-in brokers in such transactions acting for and on behalf of HKSCC and at the agreed commission rate payable by HKSCC in respect of all such Buy-in Transactions; and
- (d) the Transactions disclosed above were conducted in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of Shareholders as a whole.

Pursuant to Rule 14A.38 of the Main Board Listing Rules, the external auditor also confirmed that:

- (a) the Transactions disclosed above had been approved by the Board;
- (b) the pricings of the Transactions were in accordance with the pricing policies of the Group; and
- (c) the Transactions had been entered into in accordance with the relevant agreements governing them.

Related Party Transactions

The Group also entered into certain transactions with parties regarded as “related parties” under the applicable accounting standards. Details of these transactions will be disclosed in the 2008 Annual Report.

Communications with Shareholders

To account to Shareholders and other stakeholders for the Group’s performance and operations, HKEx has a comprehensive investor relations programme. This includes: (i) publication of quarterly, interim and annual reports; (ii) publication of circulars and letters to Shareholders; (iii) publication of results summary in English and Chinese newspapers; (iv) issuance of news releases; (v) regular updates on corporate information on the HKEx website; (vi) publication of the “Exchange” newsletter and the status report on new products and market development initiatives on a quarterly basis; (vii) regular meetings with investors and

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media; and (viii) market consultations. Starting from 2008, presentations on interim and annual results have been accessible via webcasts through the HKEx website to facilitate stakeholders' understanding of the Group's performance and prospects.

Registered Shareholders can notify HKEx by email at communicationrequest@hkex.com.hk of any change in their choice of language or means of receiving any corporate communications from HKEx. Shareholders are encouraged to access corporate communications from the Company through the HKEx website to help protect the environment. We believe that it is also the most efficient and convenient method of communication with our Shareholders.

The Investor Services team has primary responsibility for day-to-day contact with Shareholders and holds regular meetings with financial analysts who produce research reports on the Company. To ensure equal access by our stakeholders to material information, all discussions with analysts are conducted by designated persons, ie, the Chief Executive, the Chief Financial Officer and the Investor Services team, and are limited to explanations of previously published material and general discussions of non-price sensitive information.

Shareholders are encouraged to attend the AGM which is the principal forum for them to meet and raise questions to their Directors, the management and the external auditor. The full Board (except one member) and key executives along with the external auditor were present at the last Shareholders' meeting, the 2008 AGM held at the Exchange Auditorium in the Exchange Exhibition Hall of SEHK on 24 April 2008 at 4:30pm. Poll voting has been adopted for decision-making at general meetings since 2003, way ahead of poll voting being made mandatory for all general meetings effective 1 January 2009. Details of the poll voting procedures were set out in the circular sent to Shareholders prior to the meeting and explained at the commencement of the meeting. The poll voting procedures as well as the particulars of Shareholders' rights including, the way in which extraordinary general meetings are convened and the procedures for putting forward proposals at a Shareholder's meeting, are set out in the Corporate Governance section on the HKEx website.

At the 2008 AGM, HKEx continued to propose a separate resolution for each substantive issue, including election of individual Directors, and adopted poll voting to ensure that each share is entitled to one vote. The poll voting results and the minutes of the 2008 AGM are available on the HKEx website. The matters resolved thereat are summarised below.

Matters Resolved at the 2008 AGM

- | |
|--|
| <ul style="list-style-type: none"> ▪ Receipt of the audited accounts for the year ended 31 December 2007 together with the Reports of the Directors and the Auditor ▪ Payment of a final dividend of \$3.40 per share for the year ended 31 December 2007 ▪ Election of Dr Bill C P Kwok and Mr Vincent K H Lee as Directors ▪ Re-appointment of PricewaterhouseCoopers as Auditor of the Company and authorisation of the Board of Directors to fix the remuneration of the Auditor ▪ Approval of granting a general mandate to the Board for the repurchase of not exceeding 10 per cent of the aggregate nominal amount of the Company's issued share capital as at the date of 2008 AGM |
|--|

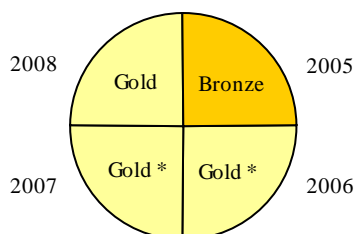
The 2008 Financial Calendar will be set out in the 2008 Annual Report, which together with the 2009 Financial Calendar (with tentative important dates) will be available at the Investor Relations Corner on the HKEx website.

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Corporate Governance Scores and Ratings

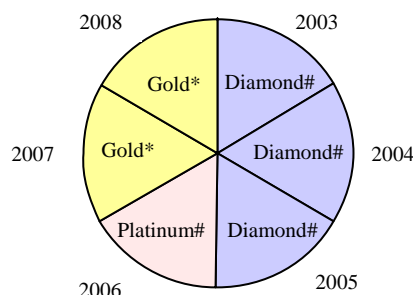
HKE_x has been included as a constituent of the FTSE4Good Index since September 2005. Other recognition for HKE_x's corporation governance achievements are set out below.

HKMA Best Annual Reports Awards (General Category) of The Hong Kong Management Association



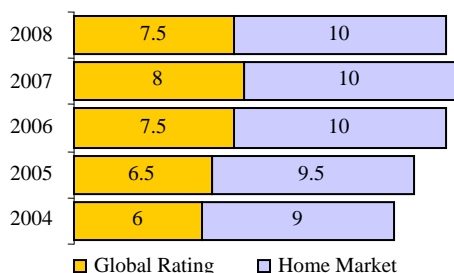
* Also the Winner in Citation for Achievement in Corporate Governance Disclosure

Best Corporate Governance Disclosure Awards of Hong Kong Institute of Certified Public Accountants



* HSI Category # Non-HSI Category

Corporate Governance Rating of GovernanceMetrics International Inc



Note: The above scores were the last scores obtained in the year and the full score was 10

IR Magazine Hong Kong and Taiwan Awards 2008

HKE_x received the Certificates of Excellence and has been awarded points in the following three categories:

- Grand Prix for best overall investor relation by a Hong Kong domiciled large cap listed on the Hong Kong Exchange
- Best Investor Relations Officer at a Hong Kong domiciled company listed on the Hong Kong Exchange
- Best investor relation by a CEO at a Hong Kong domiciled company listed on the Hong Kong Exchange

The Asset Corporate Governance Ranking

2007
One of the best companies in Hong Kong in terms of corporate governance

2008
The best company in Hong Kong in terms of corporate governance

CSR Development

As a listed issuer with public interest responsibilities, HKE_x has to also safeguard the interests of its stakeholders, particularly its shareholders, employees and customers, and be mindful of its wider obligations to support the community and help preserve the environment. With a view to further enhance HKE_x's CSR measures and to develop CSR practices that are both appropriate and sustainable, we took a series of actions at the beginning of 2008 to improve HKE_x's CSR development, in particular, the formation of a CSR Committee in September 2008. Details of the HKE_x's CSR performance in 2008 are set out in the 2008 CSR Report which is posted on the HKE_x website. The CSR Committee has prepared a report summarising its work in 2008 and setting out its plan for 2009, and which will be set out in the 2008 Annual Report.

We continue in our commitment to make further progress in the evolution of our corporate governance practices, in line with the ongoing developments in global corporate governance practices and the interests of our stakeholders. All comments – particularly on areas where we can do better are invaluable to us and are most welcome, which can be sent to us in writing or by email to ssd@hkex.com.hk.

On behalf of the Board
MAU Kam Shing, Joseph
 Company Secretary
 Hong Kong, 4 March 2009

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Glossary

2008 AGM	Annual general meeting held on 24 April 2008
2009 AGM	Annual general meeting to be held on 23 April 2009
AGM	Annual general meeting
Awarded Shares	Shares awarded under the Share Award Scheme
Board	Board of HKE _x
CCASS	The Central Clearing and Settlement System
CG Code	Code on Corporate Governance Practices
CNS	Continuous Net Settlement
CSR	Corporate Social Responsibility
DCASS	The Derivatives Clearing and Settlement System
Director(s)	Director(s) of HKE _x
DI	Disclosure of Interests
EDS	Electronic Disclosure System
Elected Directors	Directors elected by the Shareholders at general meetings
EP(s) or Participant(s)	Exchange Participant(s)
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of the Government
Government Appointed Directors	Directors appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKE _x and its subsidiaries
HKATS	The Hong Kong Futures Automated Trading System
HKE _x or the Company	Hong Kong Exchanges and Clearing Limited
HKE _x 's Articles	Articles of Association of HKE _x
HKSCC	Hong Kong Securities Clearing Company Limited
Hong Kong	Hong Kong Special Administrative Region of the People's Republic of China
Government	The Government of the Hong Kong Special Administrative Region of the People's Republic of China
INED(s)	Independent Non-executive Director(s) of HKE _x
IT	Information Technology
Listing Committees	Listing Committee and the GEM Listing Committee
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
PRS	The Price Reporting System
Senior Management	Senior executives of HKE _x as referred to in the 2008 Annual Report
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	Shareholders of HKE _x
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
\$/HKD	Hong Kong Dollar