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

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

(Financial figures in this announcement are expressed in HKD unless otherwise stated.)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

The Board submits the Group's consolidated results for the year ended 31 December 2009. The Group's financial information for the year ended 31 December 2009 in this announcement was prepared based on the consolidated financial statements which have been reviewed by the auditor. The Group has agreed with the auditor as to the contents of this results announcement.

FINANCIAL HIGHLIGHTS

	2009	2008	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	\$62.3 billion	\$72.1 billion	(14%)
Average daily number of derivatives contracts traded on the Futures Exchange	206,458	207,052	(0%)
Average daily number of stock options contracts traded on the Stock Exchange	191,676	225,074	(15%)

	2009	As restated ¹ 2008	Change
	\$'000	\$'000	
RESULTS			
Revenue and other income	7,035,040	7,549,090	(7%)
Operating expenses	1,492,949	1,620,953	(8%)
Profit before taxation	5,542,091	5,928,137	(7%)
Taxation	(838,047)	(799,506)	5%
Profit attributable to shareholders	4,704,044	5,128,631	(8%)
Basic earnings per share	\$4.38	\$4.78	(8%)
Diluted earnings per share	\$4.36	\$4.75	(8%)
Interim dividend per share	\$1.84	\$2.49	(26%)
Final dividend per share	\$2.09	\$1.80	16%
	\$3.93	\$4.29	(8%)
Dividend payout ratio	90%	90%	N/A

	2009	As restated ¹ 2008	Change
KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds (\$'000)	8,027,326	7,293,614	10%
Total assets ² (\$'000)	45,332,002	62,822,112	(28%)
Net assets per share ³	\$7.46	\$6.79	10%

Notes:

- Certain figures previously reported have been restated due to changes in accounting policies.
- The Group's total assets include the Margin Funds received from Participants on futures and options contracts.
- Based on 1,075,514,581 shares as at 31 December 2009, being 1,076,190,346 shares issued and fully paid less 675,765 shares held for the Share Award Scheme (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)

CHAIRMAN'S STATEMENT

While our markets were not immune from the impact of the global financial crisis, we remained focused on our businesses and maintained an orderly, informed and fair market amid turbulence, and delivered solid returns to our shareholders in 2009.

HKEx's Performance

In 2009, the average daily turnover value on the Stock Exchange decreased about 14 per cent to \$62.3 billion, and the average daily turnover of derivatives contracts and stock options contracts dropped marginally to 206,458 contracts and 15 per cent to 191,676 contracts respectively. Against this backdrop, our revenue and other income fell by 7 per cent to about \$7 billion and the profit attributable to shareholders declined by 8 per cent to \$4.7 billion as compared to that for 2008. The Board is proposing a final dividend of \$2.09 per share, which brings the full-year dividend to a total of \$3.93 per share, a payout ratio of 90 per cent.

Uncertainties Ahead

The world economy is creeping out of the woods with recovery expected to be slow. Although Asia is rebounding from the depths of the global crisis, countries in the region face the potential risk of sharp asset price increases, which may be disconnected from the fundamentals. Governments are working hard to strike the right balance between maintaining the economic recovery momentum and containing inflated asset values in an environment of abundant liquidity. Investors should be cautious about investment risks and the possibility of reverse capital flows.

As the Vice Chairman of the World Federation of Exchanges, I am working with other member exchanges to promote standards for fair, transparent and efficient markets. Amid market uncertainties, we will continue to be vigilant about global financial development trends, study recommendations from international financial institutions (including the G-20 and the Financial Stability Forum), and be responsive to market views. HKEx is on a firm foundation to face mounting challenges and will continue to explore opportunities under a well-structured strategic plan.

Mainland Opportunities Abound

China has been the engine of economic growth in Asia, and its influence in the global arena is increasing. The International Monetary Fund forecast that the Mainland's gross domestic product will continue growing between 9.5 and 10 per cent annually in the coming 5 years. The Central Government has expressed its intentions to adhere to the overall macroeconomic policy of keeping fiscal policy "proactive" and monetary policy "moderately loose". Despite these positive statements, investors should nevertheless not be surprised should there be "adjustments" during this year.

Our continuous Mainland focus resulted in the majority of listing applicants coming from the Mainland to raise capital funds for their development and growth. In 2009, funds raised by Mainland enterprises accounted for over 82 per cent of IPO funds raised. Although there is no certainty regarding the timing of new issues, the pipeline of new IPO applicants appears promising for 2010. Under the closer cooperation agreement with the Shanghai Stock Exchange in January this year, HKEx is committed to fostering closer links with the Shanghai Stock Exchange over the listing of enterprises, development and collaboration of products as well as sharing of information.

Given the Central Government's measures to enhance the role of the RMB in international trade and finance, our cultural affinities, strong risk management systems and close economic ties with the Mainland are key contributing factors that can position Hong Kong as a robust and reliable testing ground for the development of RMB business outside the Mainland. We are fully supportive of the Hong Kong Government's effort to elaborate on the current choices of RMB-related investment product in alignment with the progressing liberalisation of the RMB.

Pursuing Organic Growth

Focusing on our core business and pursuing organic growth have been the Group's persistent strategy adopted to compete with other established exchanges and alternative trading platforms. The launch of Callable Bull/Bear Contracts and development of the Exchange Traded Fund market illustrate the success of our organic growth strategy. We will increase our efforts to expand asset coverage and issuer participation in the Callable Bull/Bear Contract market, and to introduce innovative products such as flexible index options and volatility indices, and more stock option classes to provide more choice for investors. More information is set out in the Business Review of this announcement.

HKEx is also committed to broadening the source of listed issuers. In recent years, HKEx has been working closely with the SFC in implementing a series of measures to facilitate listing of overseas issuers and streamlining the listing process for overseas issuers. Some consider the first listing by a Russian enterprise, United Company RUSAL Plc (formerly known as United Company RUSAL Limited), in Hong Kong on 27 January 2010 another watershed event in the Hong Kong securities market. I am cautiously optimistic that we will see more interest from Russian companies and we will continue to attract more listing of overseas companies, especially those with business interests in China and Asia.

Quality Market

HKEx continued to receive rigorous annual performance assessments from our regulator on our role as the frontline regulator. It is our objective to further refine our listing regime without compromising market quality. Efforts were made to streamline procedures, lower costs and enhance disclosure, aiming at making our market more appealing to both local and overseas issuers and investors. We will continue working with our regulator to improve our regulatory regime, taking into account global financial developments and home market needs.

The other aspect instrumental to market quality is corporate governance. As the role in the development and enforcement of corporate governance regulation in Hong Kong rests primarily with HKEx, we appreciate and will stress the importance of the international best practices. In 2010, we will continue with our corporate governance initiatives and fully support the electronic submission of Disclosure of Interests notices and statutory backing for disclosure requirements. With the support of issuers and market practitioners, I am confident that corporate governance practices in Hong Kong will continue to be on a par with international standards.

An efficient and reliable market infrastructure is indispensable to a quality market. We will continue with our best efforts to ensure our market systems operate at the top levels. In recognition of our efforts in the development of the securities trading infrastructure, HKEx was named the "best venue in Asia-Pacific for algorithmic/electronic trading" by *AsianInvestor* magazine in 2009. Our commitment to technological robustness continues despite the economic downturn and we have embarked on an initiative to further upgrade our AMS/3 and data dissemination system during 2010.

Sustainable Development

Having the dual role of a frontline regulator and a listed company, our attraction and growth depend on the sustainable development of our marketplace and community. Notwithstanding the market volatility that we experienced last year, we remained mindful of our stakeholders' interests to secure their confidence. In 2009, we received *The Asset's* Platinum Award for All-Round Excellence in Financial Performance, Management, Corporate Governance, Social Responsibility, Environmental Responsibility and Investor Relations.

We have also broadened our social responsibility efforts and became a participant in the 2009 Information Request of the Carbon Disclosure Project which provides primary climate change data to the global market place. A host of programmes continue to be developed to meet the different and ongoing needs of our stakeholders. More relevant information will be set out in our 2009 Corporate Social Responsibility Report which will be published in mid-March 2010.

Acknowledgments

In April 2009, Messrs Henry Fan and Fong Hup and Dr Christine Loh retired from the Board and on behalf of the Board, I would like to extend our thanks to them for their considerable contributions to the Group. At the same time, I was pleased to welcome Messrs Ignatius Chan, Stephen Hui and Michael Lee who were newly appointed as our Directors. I thank all my fellow Board members for their support and contributions throughout 2009.

A key task for the Board in 2009 was to appoint and achieve a seamless transition to a new Chief Executive. In June 2009, the Board announced the appointment of Mr Charles Li as Chief Executive to succeed Mr Paul Chow who retired in January 2010. Mr Chow had been the Chief Executive since May 2003 and led the development of the organisation into today's high-performing international exchange. His achievements at HKEx were enormous and nothing short of remarkable. I am sure our Shareholders and other stakeholders join all of us from the Group in thanking Mr Chow for his outstanding contribution to HKEx's success and continued development of the Hong Kong financial market. Personally, it has been a pleasure and a privilege being his colleague, a sentiment, I have no doubt, shared by many.

We also welcome Mr Charles Li who assumed the role of Chief Executive on 16 January 2010. HKEx will benefit from Mr Li's extensive experience and knowledge in international securities and investment markets, his in-depth understanding and insight of China's capital markets and his broad-based network in China.

I would like to offer the Board's sincere gratitude to the management team and all other employees for their hard work and dedication. Their excellence and commitment are of vital importance in enhancing HKEx's sustainability.

Finally, we thank our shareholders and all other stakeholders for their continued support and confidence in us, and wish to assure them that the whole team at HKEx will continue to work hard in their interest.

THE HKEx STRATEGIC PLAN 2010-2012

Background

Our Strategic Plan for 2010-2012 is launched following a 3-year period during which HKEx consolidated and strengthened its market position amidst significant market volatility. HKEx successfully navigated a challenging market environment which included both record high levels of market turnover and valuations in 2007 as well as some of the most difficult economic conditions internationally seen in generations over the past 2 years. By maintaining our focus on improving the quality and efficiency of our core operations while expanding our business offerings selectively, we believe HKEx has been a positive stabilising force of continuity in the marketplace.

In our 2007-2009 Strategic Plan, the mission of HKEx was expressed through 3 strategic themes:

- **Mainland Positioning**

In this area we have made considerable progress through capturing a healthy share of Mainland-related listings, trading more Mainland-related products, including stocks, derivatives and ETFs, and engaging and cooperating further with Mainland-related participants.

- **Business Expansion**

We have sought to expand our business through broadening our range of products and services to meet our stakeholders' evolving needs, reducing market barriers and strengthening our trading infrastructure. Our efforts to enhance market quality, which in turn drives business expansion, include a continued focus on superior regulatory standards, greater transparency and robust risk management.

- **Service Improvements**

Despite volatile market conditions, we have improved the quality of our services to issuers, EPs and investors, rationalised the listing regulation and related processes, and strengthened the reliability and capabilities of our IT infrastructure.

Outlook

As we look ahead to the future, we believe our established track record of focus and discipline places HKEx in an excellent position to face both the business challenges and opportunities on the horizon. A distinguishing factor of this strategic plan from prior ones is the recognition that the opportunities available to us within our core market of Greater China are global, not just regional, in scale and scope. Geopolitical factors across economies, commodities and currencies present expansion prospects straddling international issuers, new asset classes and access to larger pools of investor capital.

Going forward, we see 2 major forces of opportunity and competition at play – opportunities resulting from the further opening of the Mainland market and more intense competition from exchanges and trading platforms around the world and in the region. The increasing internationalisation of the RMB will further advance these 2 forces: it will significantly expand the Mainland opportunities for HKEx as well as intensify the competitive pressures facing HKEx as these Mainland opportunities will make our market more attractive to our competitors as well. Our dual tasks will therefore be to capture the new Mainland opportunities and position ourselves competitively against emerging international competition.

With respect to the Mainland, we remain convinced that a cooperative and complementary relationship with the Mainland is fundamentally important to our business in the future. However, the increasing ability of Mainland markets in both Shanghai and Shenzhen to provide capital formation services makes it more important than ever for HKEx to define and deliver a unique value proposition for companies choosing to list in Hong Kong and for investors trading in our markets. Preparing for the internationalisation of the RMB by developing new products, platforms and infrastructure is a critical component of our Strategic Plan.

On the competition front, the importance of financial technology has increased significantly due to investments made by both incumbents and various new players entering the exchange and electronic trading marketplace in Europe and North America, making it increasingly important for us to ensure our own trading platform meets the growing expectations of our customer base. Although alternative trading systems have not yet gained significant market share in Asia, we need to protect our current position and prepare for such competition by investing in IT infrastructure.

While there is no doubt that we will continue to develop and benefit from our core businesses, we will at the same time leverage on our capabilities to extend and expand across functions, products and geographies. We must continue to strengthen and enhance our market structure, specially our 3 clearing houses, which have played a critical role in acting as stabilising forces in the market during the recent turbulent period. We also believe our current suite of derivative products can be considerably enlarged over time, in particular through the introduction of RMB-based products.

We are pleased to present our 2010-2012 Strategic Plan, which has been developed against the backdrop of these challenges and opportunities.

Mission

Our mission is to create and operate active international public financial markets in Hong Kong.

Vision

Our vision is to make HKEx the leading global financial exchange by combining the best characteristics of Chinese and international markets, including:

- trusted legal, governance and market standards;
- advanced trading and clearing technologies and infrastructure; and
- products and services that position HKEx as the China exchange of choice for our global investors and issuers and the international exchange of choice for our Greater China issuers and investors.

Strategies

We intend to achieve our vision by pursuing 3 basic strategies:

- **Core Strategy** to generate organic growth in our current businesses.
- **Extension Strategy** to preserve our current position and prepare for future opportunities we foresee.
- **Expansion Strategy** to expand our product platform, investor base and geographic coverage over time.

Core Strategy

We aim to generate organic growth by:

1. **Attracting New Listings.** We will strive to attract new listings from Greater China or with a China orientation, as well as from other strategically important international markets. We expect to continue to attract new international listings from emerging markets, in particular companies operating in the metals and mining and traditional and alternative energy sectors. Our proactive approach to issuer marketing in today's increasingly geopolitical landscape will encompass working with regulators and other stakeholders to continually streamline the listing process and improve market standards and practices, while maintaining our quality standards.
2. **Growing Cash and Derivatives Market Volumes.** We will work to enhance trading dynamics and widen product and service offerings to promote organic market growth. Our efforts will include new features and products in cash and derivatives; supporting a scripless market and other improvements to market structure; introducing a single license for securities and derivatives market data products; upgrading the capacity and technology of our derivatives trading system; and further strengthening our risk management function.

Extension Strategy

We intend to extend our existing business into new areas by **preserving** our leadership positions in core markets with new investment and by **preparing** to capture new growth opportunities associated with emerging trends.

1. We intend to **preserve** our leadership position by investing in our IT infrastructure to maintain its competitive edge regionally, meet emerging expectations of our most demanding customers and position ourselves effectively to capture longer term growth opportunities in Greater China. These programmes are presented in greater detail in the following section under IT Initiatives.
2. We intend to **prepare** for the strategic expansion of our business by advocating regulatory and market reforms necessary to support our introduction of multi-currency products, new asset classes and geographies and the entry of new investors from the Mainland into our markets. These plans are identified in the following section as new initiatives under the areas of Primary Market, RMB Product Development, Trading and Clearing.

Expansion Strategy

We expect to expand our product platform, investor base and geographic coverage over time by:

1. **Adding New Asset Classes and Geographies.** We will endeavor to expand the breadth of our business by working closely with market participants, establishing new relationships and making investments in selected additional asset classes. Our efforts will include:
 - Considering opportunities to pursue alliances, partnerships and other relationships internationally that present strategically compelling benefits consistent with our focus on markets in Greater China.
 - Positioning HKEx as an aggregator of significant product categories, asset classes and financial market services that contribute to market development in Hong Kong.
2. **Introducing RMB Products.** We will work to use Hong Kong's unique position as a gateway to China and our established position as an international financial marketplace to encourage internationalisation of the RMB by:

- Creating a platform designed to raise and manage funds using multi-currency products.
- Ultimately becoming the exchange of choice for international investors to access RMB-based products outside of Mainland China.

3. **Accommodating Mainland Investors.** We will work to facilitate Mainland investors access to international markets by:

- Working with regulators, exchanges and other institutions in Hong Kong and the Mainland to design and introduce properly approved systems and market practices appropriate for the growing participation of Mainland investors in offshore markets.
- Positioning HKEx as the market of choice for Chinese investors to invest in securities and derivative products offshore.

Conclusion

In conclusion, we would like to highlight the prudent structure of our new plan. Not all the initiatives identified below can be implemented immediately; several require careful and detailed studies; others are dependent on the continued development of the markets in which we operate and required regulatory changes. We recognise also that in order to achieve our plan, in some instances we will have to overcome the divergent interests of our constituents and align parties towards common goals. Hence, our strategic and growth plans are staged over time and flexible in focus and scope as our markets continue to evolve.

Fundamentally, however, we are prepared to invest in our future to pursue the substantial opportunities we believe are open to us, as well as preserve our existing competitive position. In addition, where appropriate, we may seek strategic alliances with technology providers, industry participants and our regional and global counterparts to expedite our growth initiatives. We believe the implementation of this Strategic Plan will position HKEx well for the future, building on our strong current base of operations, market quality and financial strength.

Key Initiatives

The Strategic Plan will be effected through the evaluation and implementation of initiatives. These initiatives will be confirmed through the annual budget and operating plan exercises to be conducted over the 3-year period. At this stage we have identified the following key initiatives which are likely to play a major part in attaining the objectives of the Strategic Plan.

Market Development
<ol style="list-style-type: none"> 1. Establish a new Market Development group to provide HKEx with a development capability, incorporating existing business units and adding new teams to drive the implementation of the Strategic Plan and its initiatives 2. Through a dedicated Mainland Development team, build greater collaboration and partnership with our counterparts and other Mainland constituents to steer the next phase of our Mainland-related strategy
Primary Markets
<ol style="list-style-type: none"> 3. Work towards mutual recognition of listing rules and standards between HKEx and Hong Kong regulators and Mainland exchanges and regulators 4. Continue to streamline listing process and implement governance-related post-listing initiatives to increase the attractiveness of Hong Kong as a listing venue 5. With respect to international issuers, enhance current listing rules and consider market segmentation
RMB Product Development
<ol style="list-style-type: none"> 6. Facilitate access of Hong Kong market data by Mainland investors and IVs through expansion of service and product offerings 7. Coordinate with Mainland and Hong Kong regulators and authorities to support and facilitate cross-border RMB-related initiatives 8. Identify new products linked to the increasing internationalisation of the RMB, particularly in the areas of fixed income, ETFs and derivatives 9. Evaluate, and as appropriate, commence the development of clearing, infrastructure and IT platforms to support future RMB-related projects
Trading
<ol style="list-style-type: none"> 10. Improve execution efficiency and trading structure through potential initiatives that meet the needs of EPs, including: <ul style="list-style-type: none"> • considering the introduction of new order types in the Cash Market • introducing volatility index and expanded continuous quotations in the Derivatives Market 11. Diversify market data products and services to serve specialised trading needs
Clearing
<ol style="list-style-type: none"> 12. Support the introduction of a scripless securities market 13. Consider expanding clearing to OTC clearing for selected products 14. Develop proposals to enhance clearing house capital adequacy and access to liquidity to meet our current and future needs 15. Evaluate the consolidation of HKEx's 3 clearing houses into a unified clearing house
Information Technology
<ol style="list-style-type: none"> 16. Implement a plan for a consolidated data centre to meet our business expansion and long term market development needs 17. Invest in AMS/3.8 to improve latency, capacity and features of existing IT architecture 18. Develop proposal to introduce next generation IT platforms necessary for future expansion 19. Evaluate platforms and systems to facilitate Mainland connectivity

BUSINESS REVIEW

Listing

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

The Listing Rules amendments for 15 of the 18 issues contained in the 2008 Combined Consultation Paper became effective 1 January 2009, except those relating to the extension of the black out period, which were subsequently modified and took effect on 1 April 2009. As a result of the modification, the black out periods applicable to the publication of annual and interim financial results are 60 days and 30 days respectively.

The consultation conclusion on the proposal under Issue 15 (Self-construction of Assets) of the 2008 Combined Consultation Paper was published on 31 July 2009 and the Rule amendments became effective 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, SEHK published the consultation conclusion on Issue 11 (General Mandates), and concluded that there were no compelling grounds for amending the Listing Rules in this aspect.

Report on CG Code Implementation

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

Potential Waiver from Profit Test Requirement

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

Report on Review of Listed Issuers’ Financial Reports

For the purpose of promoting higher standards of financial disclosure, the Exchange reviewed 100 financial reports released by listed issuers in 2007 and 2008, which formed part of the Exchange’s Financial Statements Review Programme. On 12 June 2009, the Exchange published the key observations and findings which indicated that some disclosures could be improved and that listed issuers should reassess the adequacy and effectiveness of their existing financial reporting systems periodically and make changes where necessary so they can meet all disclosure requirements in their future financial reports.

Review of IPO Processes and Requirements

On 26 June 2009, SEHK published a consultation paper on streamlining the listing process to help reduce costs and paper burden for both IPO and listing of securities by listed issuers. The relevant amendments to the Listing Rules took effect on 2 November 2009. In response to market views obtained during the consultation process, the Exchange also published a number of guidance

materials in July 2009 to enhance the transparency of the IPO application process.

On 4 December 2009, HKEx issued a statement in response to media enquiries regarding dissemination of information concerning companies listed by way of introduction. In view of the large amount of information which may be relevant to investors for making investment decisions and limited space available on the trading screen, HKEx discontinued the practice of displaying on its securities trading screens the latest reported audited net tangible asset value per share on the shares' first trading day effective 7 December 2009. Companies listing by way of introduction are encouraged to issue an announcement to provide intermediaries and investors with the last closing price of their shares on any other markets on or before the first day of trading on the Stock Exchange. Investors are urged to seek advice from brokers or professional advisers if they have any doubt.

Proposals to Accelerate Rights Issues and Open Offers

On 31 July 2009, SEHK published a consultation paper on proposals to accelerate rights issues and open offers. Among the 37 responses received, the responses generally supported the proposals in relation to rights issues. The consultation conclusions were published on 18 December 2009, which concluded that the minimum notice period for book closure for rights issues would be reduced to 6 business days and that the notice period for book closure for open offers would remain unchanged. The relevant amendments to the Listing Rules took effect on 1 February 2010.

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

On 28 August 2009, SEHK 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 Exchange received a total of 30 responses. Regulators in the Mainland and Hong Kong are working closely to finalise necessary arrangements for implementation of the proposals.

Consultation Paper on New Listing Rules for Mineral and Exploration Companies

On 11 September 2009, SEHK published a consultation paper proposing a revamp of Chapter 18 of the Main Board Listing Rules. The proposed Rule amendments are intended to ensure that mineral companies provide investors with material, relevant and reliable information, and to align the Listing Rules with globally recognised standards. SEHK plans to publish the consultation conclusions and the proposed new Chapter 18 in 2010.

Proposed Changes to Requirements for Circulars and Listing Documents of Listed Issuers

The Exchange is reviewing the 34 responses received regarding the consultation paper published on 18 September 2009 on proposed changes to streamline requirements for circulars and listing documents of listed issuers to improve the disclosure standards.

Review of Connected Transaction Rules

On 2 October 2009, SEHK published a consultation paper on proposed changes to simplify the Listing Rules in relation to connected transactions. The paper includes proposals to review the definition of a connected person, to provide exemptions for connected transactions which are immaterial or involve persons not in a position to exercise significant influence, and to amend the Listing Rules to address technical issues. The Exchange is reviewing the 70 responses received.

Collective Investment Schemes under Chapter 20 of the Main Board Listing Rules

Following a review of Chapter 20 of the Main Board Listing Rules conducted during 2009, the Listing Committees were of the view that changes to Chapter 20 or the related listing fees were not appropriate. SEHK issued a guidance letter on 23 November 2009 to all authorised collective investment scheme operators to clarify that the equity and debt sections of the Listing Rules do not apply to ETFs listed under Chapter 20. The guidance letter is posted on the HKEx website.

Consultation on Quarterly Financial Reporting

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

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

The MMO proposal, a joint project of the SFC and HKEx, is designed to reduce the number of printed prospectuses without compromising shareholder protection. In light of the Lehman mini-bond incident which has raised concerns about the preparation and distribution of prospectuses, the SFC decided, in early 2009, to temporarily put the MMO proposal on hold to further examine the shareholder protection impact.

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

Corporate Actions Disclosure Guides

HKEx is committed to developing issuer guidelines to improve Hong Kong market practices in corporate action disclosure. Subsequent to the release of the guides on trading arrangements and the disclosure of record date and book closure, which were warmly received by market practitioners, the Exchange further issued a Guide on Distribution of Dividends and Other Entitlements in December 2009. The development of guidelines for other corporate actions will continue in 2010.

IPO Processing

The Exchange has continued to process applications for new equity listings, including transactions by listed companies deemed to be new listings, and handled pre-IPO enquiries. The relevant statistics relating to its IPO work in 2009 are set out in the following table.

Record of IPO Work

	2009	2008
Number of listing applications vetted	150 ¹	179
Number of first comment letters issued to new listing applicants	91 ²	122
Average time (in calendar days) between receipt of application and issuance of first comment letter	19	20
Number of applications brought to the Listing Committees (or their delegates) for decisions	98	113
Number of applications reviewed by Listing Committees (or their delegates) within 120 calendar days	86	83
Number of applications reviewed by Listing Committees (or their delegates) within more than 180 calendar days	7	4
Number of applications to which approval was granted in principle	99 ³	105
Number of requests for guidance from listing applicants or their advisers seeking clarifications of Listing Rules relevant to new listing applications responded	92	74
Average response time (in calendar days)	6	7
Number of listing applications for transfer of listing from GEM to Main Board accepted	4 ⁴	15

Notes:

- 123 were new applications and 27 applications were brought forward from 2008.
- The number was less than the total number of new applications accepted because a number of cases (eg. investment vehicles seeking for listing under Chapter 20 and transfer of listing from GEM to Main Board) required no comments from the Listing Division and proceeded to the approval process directly.
- As at the end of the year, 13 approved applications have not yet been listed, and 1 of them lapsed during the year.
- 3 applications were reviewed by the Listing Committee within 35 calendar days, and the remaining 1 case was reviewed within 90 calendar days.

Number of IPO Transactions

	2009	2008	2007	2006	2005
New listing applications accepted	123	137	125	88	111
Applications listed	93	57	96	65	76
Companies listed on Main Board pursuant to Chapter 8	64	29	78	54	55
Investment vehicles listed on Main Board	19	7	11	3	6
Transfer of listing from GEM to Main Board	4	18	4	2	2
Companies listed on GEM	5	2	2	6	10
Deemed new listings	1	1	1	0	3
New listing applications rejected	0	1	0	7	5
New listing applications withdrawn	3	8	3	4	5
Applications in process as at year-end	31	27	42	29	32
Active applications with approval granted but not yet listed at year-end	12	24	9	6	6

Number of Listed Companies (as at year-end)

	2009	2008	2007	2006	2005
Main Board	1,145	1,087	1,048	975	934
GEM	174	174	193	198	201
Total	1,319	1,261	1,241	1,173	1,135

Number of Listed Companies by Industry Classification¹ – Main Board and GEM (as at year-end)

	2009	2008	2007	2006	2005
Energy	44	34	28	21	20
Materials	105	93	81	69	62
Industrial Goods	111	113	114	103	92
Consumer Goods	330	327	336	327	317
Services	209	198	188	168	165
Telecommunications	18	17	18	16	17
Utilities	32	24	20	22	22
Financials	102	100	103	103	100
Properties & Construction	191	174	166	158	151
Information Technology	154	158	161	161	162
Conglomerates	23	23	26	25	26
Total	1,319	1,261	1,241	1,173	1,134 ²

Notes:

- According to the Hang Seng Indexes Company Limited
- Excluded 1 listed company which issued participating preference shares only and was delisted in 2006

Compliance and Monitoring

The Exchange has continued to monitor listed issuers' compliance with the Listing Rules by targeting its resources in areas which pose the greatest risks to the maintenance of an orderly, informed and fair market. It conducted a range of activities, including vetting of issuers' documents, monitoring market activities and providing guidance and rules interpretation.

Number of Compliance and Monitoring Actions (as at year-end)

	2009	2008	2007	2006	2005
Announcements of listed issuers vetted	27,588	20,784	19,025	11,579	11,092
Pre-vetted	1,589	4,266	5,215	3,915	7,655
Post-vetted ¹	25,999	16,518	13,810	7,664	3,437
Circulars of listed issuers vetted	1,731	2,849	3,048	2,488	2,409
Pre-vetted	1,275	2,761	3,023	2,488	2,409
Post-vetted	456	88	25	0	0
Share price and trading volume monitoring actions undertaken	8,112	8,439	10,083	7,716	6,200
Clarification announcements published by listed issuers in response to share price and trading volume monitoring actions undertaken ²	840	2,627	5,597	3,556	3,172
Press enquiries raised	311	536	495	587	835
Clarification announcements published by listed issuers in response to press enquiries raised	81	43	50	101	N/A
Complaints handled	599	516	512	252	262
Cases (including complaints) referred to Listing Enforcement Department for investigation	54	86	90	141	88

Notes:

1. Included clarification announcements published by listed issuers in response to share price and/or trading volume movements in their securities
2. 398 qualified announcements and 2,229 standard negative announcements in 2008, and 220 qualified announcements and 620 standard negative announcements in 2009.

The Exchange continued its shift in regulatory focus from pre-vetting and clearance of announcements to post-vetting and monitoring. This approach minimises delay in issuers' dissemination of information to the public, and promotes a self-compliant culture among issuers. Phase 1 of post-vetting was implemented in 2009, under which announcements related to fundraisings and smaller notifiable transactions were not pre-vetted. Post-vetted announcements increased from 16,518 in 2008 to 25,999 in 2009. Most issuers were able to comply with the Listing Rules under the new regime. Effective 1 January 2010, the Exchange under Phase 2 ceased to pre-vet issuers' announcement for major transactions and connected transactions. It will take a further 12 months for the final phase to be implemented to cover all categories of announcements.

The post-vetting process was fine-tuned in 2009, under which a high-level review of all announcements and notices was conducted before the commencement of each trading session, and a more detailed review of announcements related to more significant transactions or that posed a high risk to rule compliance was performed. This revised approach accounted for the significant increase in vetted announcements in 2009, of which 11,521 were post vetted in detail (2008: 16,518). Only 5 per cent of all post-vetted announcements required follow-up enquiries, of which 22 per cent resulted in follow-up actions taken by issuers. When issuers are more adapted to the post-vetting regime, the Exchange will further reduce the scope of detailed post-vetting.

In respect of circulars, the implementation of Phase 1 of post-vetting also helped reduce the number of circulars vetted by the Exchange by 39 per cent in 2009, as the requirement of producing a circular for discloseable transactions (there were 531 discloseable transactions in 2009) was removed and circulars regarding routine matters were post-vetted on a selective basis.

While issuers have a positive obligation to disclose price-sensitive information to the market in a timely manner, the Exchange monitors issuers' compliance with their continuing obligations to ensure the trading of their securities is in an orderly, informed and fair market. In 2009, 1,755 enquiries on unusual share price and trading volume movements (2008: 3,675) and 311 press enquiries (2008: 536) were raised by the Exchange resulting in 840 (2008: 2,627) and 81 (2008: 43) clarification announcements published by issuers respectively. There were 110 resumption announcements (2008: 69) published in circumstances where issuers were unable to timely publish announcements regarding price-sensitive information and had therefore requested temporary suspensions. In 2009, 741 waiver applications for particular Listing Rules were processed (including 404 waivers on extension of time for the despatch of circulars) (2008: 759).

During 2009, the Compliance and Monitoring Department referred 54 cases (2008: 86) to the Exchange's Listing Enforcement Department for suspected breaches of the Listing Rules. Meanwhile, the Department continued to provide specific written or verbal guidance to resolve insignificant non-compliance cases. In 2009, the Exchange handled 502 written enquiries on rule interpretation and related matters (2008: 350). Occasionally, the Exchange also issued general guidance to all issuers.

To promote issuers' self-compliance with the Listing Rules, the Exchange encourages issuers to improve their knowledge of the Listing Rules. In 2009, the Exchange implemented a number of initiatives in this regard: (i) organised 2 series of issuer seminars on "Listing Rules Amendments" and "Notifiable Transactions", which attracted an overall attendance of over 3,000 participants; (ii) revamped the Rules and Guidance on Listing Matters section of the HKEx website to facilitate easier search and access to the guidance materials; (iii) commenced an outreach programme with issuers and market practitioners to learn their needs and to facilitate mutual understanding of regulatory issues through continuing dialogue; and (iv) met 171 representatives of issuers and market practitioners through lunch sessions and small group breakfast meetings.

To improve transparency, quality and predictability of service, the Compliance and Monitoring Department has progressively established service standards for itself to measure the timeliness of its monitoring and guidance actions as well as its subsequent responses to issuers' actions, and plans to refine these standards after a review, which is underway. The Department also tracks the overall response time and efficiency in bringing cases to resolution. In 2009, the Department was able to meet the service standards for a majority of cases handled but needed a longer initial response time for those with higher complexity.

Service Standard Set for Initial Responses in 2009

	Service Standard	% of Cases Meeting the Service Standard
Pre-vetting Activities		
Initial response to pre-vetted announcements	Same day	90%
Initial response to pre-vetted circulars	5 business days	99%
Issuer Enquiries		
Initial response to issuer's enquiries	5 business days	85%
Waiver Applications		
Initial response to waiver applications (other than application for delay in despatch of circulars)	5 business days	89%
Post-vetting Activities		
Initial response to post-vetted results announcements	5 business days	92%
Initial response to post-vetted announcements (other than results announcements)	1 business day	92%

Status of Long Suspended Companies (as at year-end)

	Main Board		GEM	
	2009	2008	2009	2008
Resumption of trading of securities during the year	16	12	2	6
Cancellation of listing during the year	1	4	0	3
Companies in the third stage of delisting	2	6	N/A	N/A
Companies notified of Exchange's intention to cancel their listing	1	1	1	2
Companies suspended for 3 months or more	28	32	11	8

Listing Enforcement

The Exchange's strategy for enforcement of the Listing Rules is set out in the *Exchange Newsletter* (October 2004) on the HKEx website. In summary, egregious conduct which may involve a breach of the SFO is referred to the SFC and any serious breaches of the Listing Rules will be subject to disciplinary actions by the Exchange. Other conduct may be disposed of by warning or, if appropriate, no action.

Where the SFC commences an investigation of a case, the Exchange will normally suspend its investigation and give its support to the SFC. Under this arrangement, the Exchange is currently suspending the investigation of 8 cases pending SFC's actions. After the SFC's completion of the investigation of a case, the Exchange will consider if a reactivation of its investigation is required for possible disciplinary action.

The Exchange will also provide technical advice on the application of the Listing Rules in given circumstances and witness statements to support prosecutions by other law enforcement agencies such as the Independent Commission Against Corruption and the Commercial Crime Bureau of the Hong Kong Police.

In order to further improve the efficiency of investigations, training was offered to staff, and changes were introduced to the internal decision-making structure which are aimed at earlier identification of serious misconduct and breaches of the Listing Rules. The objective of the improvement measures is to facilitate the delivery of regulatory outcomes as quickly as possible while observing the principles of natural justice and due process.

On the other hand, transparency of the disciplinary process has been improved by providing more details in announcements when disciplinary actions are concluded. Another example of increased transparency is the publication of guidance letters on the HKEx website on a redacted and anonymous basis where no action has been taken but the Exchange believes it appropriate to communicate its expectations to listed issuers and their management in certain circumstances. Furthermore, Listing Enforcement Announcements are published on the HKExnews website, if appropriate, with the aim of locating directors who may be in a position to assist enquiries into matters of regulatory concern.

During the year, a number of investigations arising from breaches of the Listing Rules were completed, leading to the imposition of public and private sanctions by the Listing Committees. The relevant information can be found on the HKExnews website. There are currently 6 ongoing disciplinary actions at various stages of the disciplinary process.

Number of Disciplinary Actions (as at year-end)

	2009	2008	2007	2006	2005
Investigations ¹	147	171	167	216	332
Public censures ²	4	10	9	9	10
Public statements/criticisms ²	4	5	7	11	8
Private reprimands	1	0	0	2	3
Warning/caution letters ³	28	68	63	96	109

Notes:

1. Included investigations in existence and carried forward from the preceding year but concluded during the year; investigations begun and concluded during the year; and those remained active as at year-end.
2. Recorded only the primary regulatory action from a disciplinary matter, and excluded any other actions taken at a lower level, for example, private reprimand in the same case.
3. The warning and caution letters were primarily delivered by the Listing Division in circumstances where action before the Listing Committees was not considered appropriate.

In 2009, 4 cases were referred to the Listing Enforcement Department originating from a complaint, which might give rise, after investigation, to disciplinary proceedings. Investigations are in process.

Compliance with the Listing Rules is the collective and individual responsibility of directors whether they hold executive or non-executive roles in the management of listed issuers. The responsibility may arise from the obligation to procure compliance from having specific knowledge of certain events or developments affecting the business affairs of a listed issuer. It may also arise from the obligation to create the conditions by which compliance can be achieved through the creation of compliance systems and controls sufficient to ensure that the directors as a body can discharge that responsibility. Directors may be subject to disciplinary sanctions imposed by the Listing Committees should they be held liable for breaches of Listing Rules.

Number of Directors Subject to Disciplinary Actions as a Result of Contested or Settlement Cases

	2009	2008	2007
Executive Directors	20	67	48
Non-Executive Directors	10	17	20
INEDs	16	26	18
Total	46	110	86

Note: 48 executive and non-executive directors are subject to ongoing disciplinary action whose cases are at various stages of the process or subject to settlement negotiations as at 31 December 2009.

In addition, the Exchange continued to make recommendations to the Listing Committees in appropriate cases to direct remedial action to correct breaches and to improve corporate governance in the future. Such directions covered, for example, an obligation to retain external assistance in the creation or revision of adequate and effective compliance structures and a requirement for directors to undergo training at recognised professional bodies for specific periods of time to improve their knowledge of, and performance in, compliance matters. The following table sets out the different types of directions involved.

Number of Contested or Settlement Cases

	2009	2008	2007
Involving "Internal Control Review" Direction	6	4	3
Involving "Retention of Compliance Adviser" Direction	5	5	4
Involving "Training of Directors" Direction	7	4	7

In terms of policy development, the Exchange has been providing input and contributions to the Hong Kong Government in formulating its proposals to give statutory backing to listed issuers' continuing obligation to disclose price-sensitive information.

Listing Operations

During the year, a total of 4,434 DW listing applications were processed (2008: 5,031), of which 4,230 were new issues (2008: 4,822) and 204 further issues (2008: 209). The Listing Operations Department also processed 8,121 CBBC listing applications (2008: 4,281), of which 8,072 were new issues (2008: 4,231) and 49 further issues (2008: 50) during the year. A total of 23 new debt securities, including Exchange Fund Notes, were listed in 2009 (2008: 20).

Number of DWs (as at year-end)

	2009	2008	2007	2006	2005
Newly listed DWs	4,230	4,822	6,312	2,823	1,682
Delisted DWs	3,874	6,294	3,788	2,168	1,241
DWs listed as at year-end	3,367	3,011	4,483	1,959	1,304
Percentage change in number of listed DWs	12%	(33%)	129%	50%	51%

Number of CBBCs * (as at year-end)

	2009	2008	2007
Newly listed CBBCs	8,072	4,231	391
CBBC knockouts	5,899	2,837	250
Delisted CBBCs	1,795	211	34
CBBCs listed as at year-end	1,692	1,314	131
Percentage change in number of listed CBBCs	29%	903%	446%

* The first CBBC was listed on 12 June 2006.

During the year, the Latest Listed Company Information section remained one of the most popular sections on the HKExnews and GEM websites. The majority of issuers' submissions were uploaded within 2 seconds (excluding the Internet transmission time which is beyond HKEx's control). Up to the end of 2009, the HKEx website housed a total of 895,166 archived issuer documents for public access free of charge. During the year, it recorded over 25 million searches for these issuer documents and 80 per cent of searches were responded to within 0.2 seconds (excluding the Internet transmission time which is beyond HKEx's control). SEHK also administers the filing and publication of DI notices through the HKEx website in accordance with the SFC's requirements and specifications under Part XV of the SFO. Some statistics relating to issuer news and DI are set out in the following table.

Primary Market Information * (as at year-end)

	2009	2008	2007	2006	2005
Number of issuer news filings processed	191,266	143,410	120,622	94,666	81,692
Hit rates for issuer news website (in mil)	176	121	151	94	59
Number of DI filings processed by the Exchange	46,574	54,965	62,211	38,809	32,315
Hit rates for DI filings (in mil)	27	28	31	13	9

* Primary Market Information statistics cover Main Board and GEM issuers. Due to technical setup and recording, hit rates for issuers' news between 2003 and 2005 included those of Main Board only. For reference, hit rates for GEM issuers' news from 2006 to 2009 were about 9 million, 9 million, 5 million and 4 million respectively.

Cash Market

Market Performance

In 2009, 68 companies (including transfers from GEM) were newly listed on the Main Board (5 on GEM), and 10 Main Board companies (1 on GEM) were delisted. Total capital raised, including post-listing funds, reached \$642.1 billion. As of 31 December 2009, 1,145 and 174 companies were listed on the Main Board and GEM respectively with a total market capitalisation of \$17,874.3 billion. In addition, there were 3,367 DWs, 1,692 CBBCs, 7 REITs, 43 ETFs and 157 debt securities listed as at 31 December 2009. The average daily turnover in 2009 was \$62.0 billion on the Main Board and \$304.3 million on GEM.

Structured Product Development

HKEx's structured product market, consisting of DWs and CBBCs, has continued to grow. There are 20 active DW issuers and 14 CBBC issuers. During 2009, the average daily turnover of DWs and CBBCs reached \$6.6 billion and \$6.7 billion respectively, accounting for about 22 per cent of total turnover of the Main Board.

Closing Indices (as at year-end)

	2009	2008	Change
HSI	21872	14387	52%
Hang Seng Composite Index	3052	1982	54%
H-shares Index	12794	7891	62%
Hang Seng China-affiliated Corporations Index	4059	3292	23%
S&P/HKEx LargeCap Index	25564	17891	43%
S&P/HKEx GEM Index	677	385	76%

HSI 01/2005 - 12/2009



S&P/HKEx GEM Index 01/2005 - 12/2009

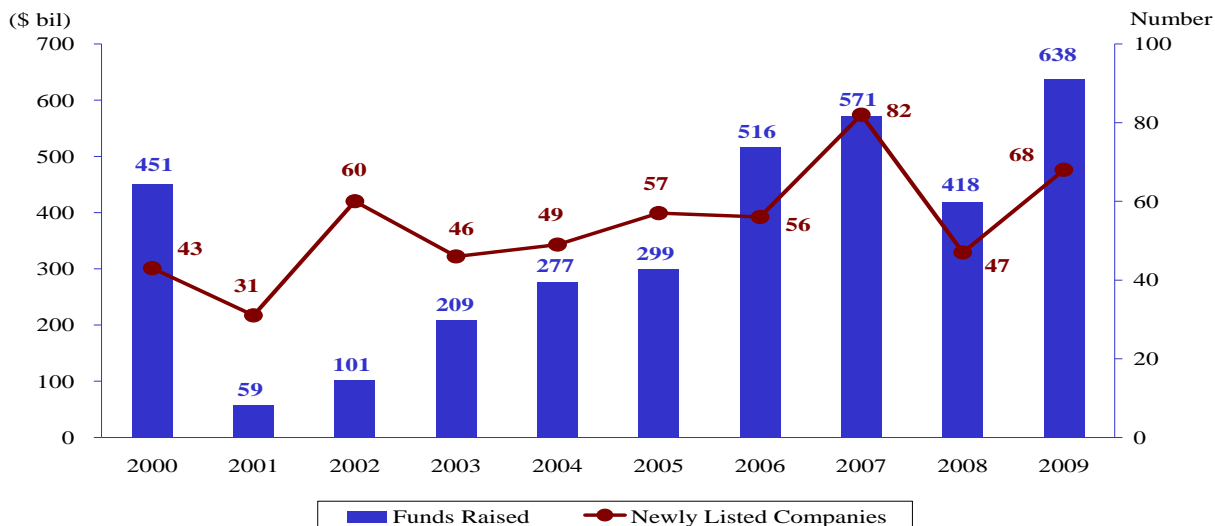


Market Performance of the Main Board and the GEM (as at year-end)

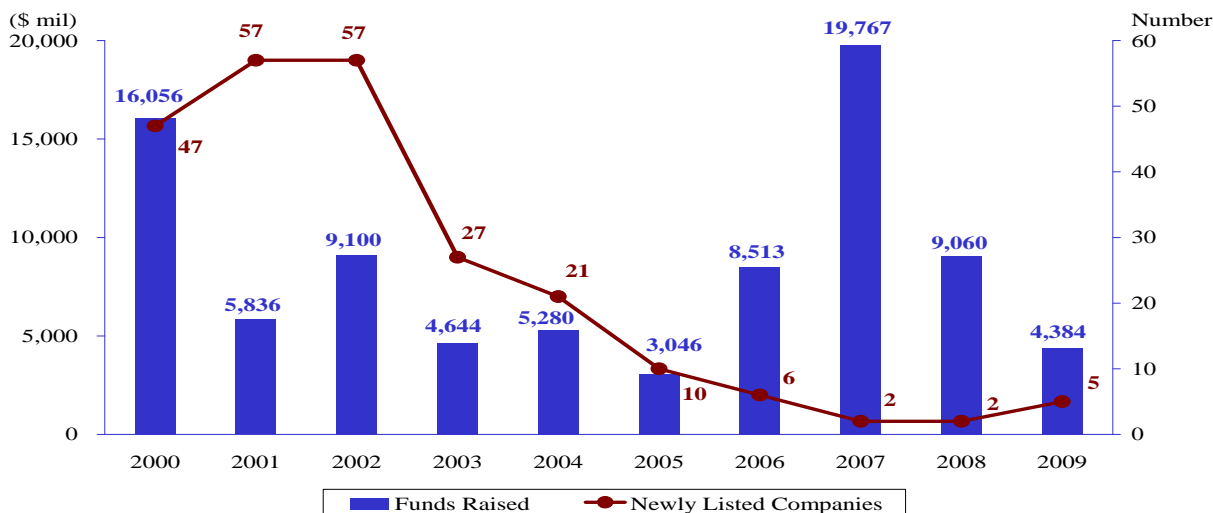
	Main Board			GEM		
	2009	2008	Change	2009	2008	Change
IPO funds raised for the year (\$bil)	248	66	276%	0.4	0.2	100%
Market capitalisation (\$bil)	17,769	10,254	73%	105	45	133%
Number of listed companies	1,145	1,087	5%	174	174	0%
Number of listed securities	6,441	5,654	14%	175	177	(1%)
Total turnover for the year (\$bil)	15,439	17,601	(12%)	76	52	46%
Average daily turnover (\$mil)	62,006	71,840	(14%)	304	213	43%

Note: Figures have been rounded.

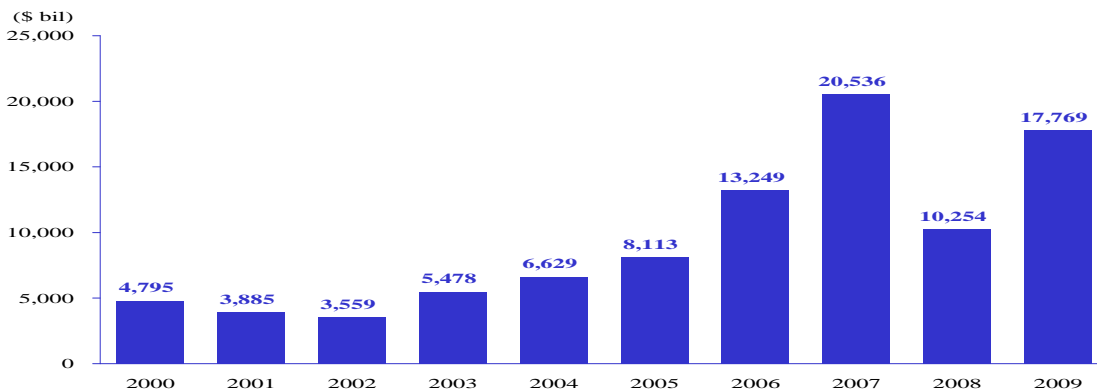
Main Board – Total Equity Funds Raised and Number of Newly Listed Companies



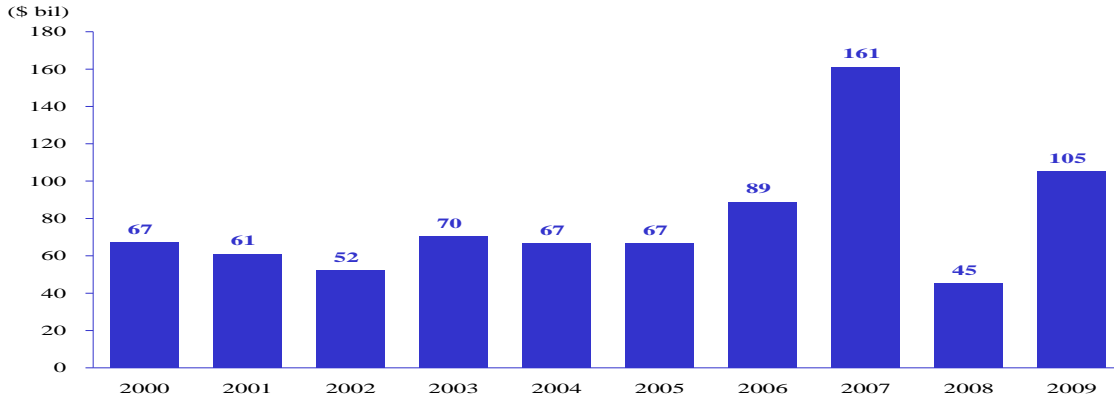
GEM – Total Equity Funds Raised and Number of Newly Listed Companies



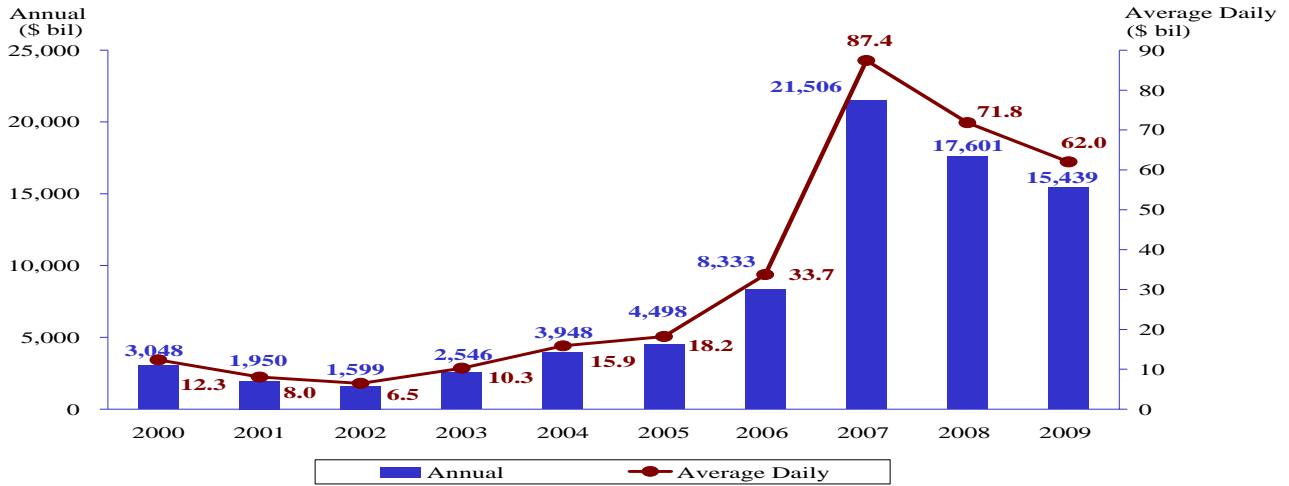
Main Board – Market Capitalisation (as at year-end)



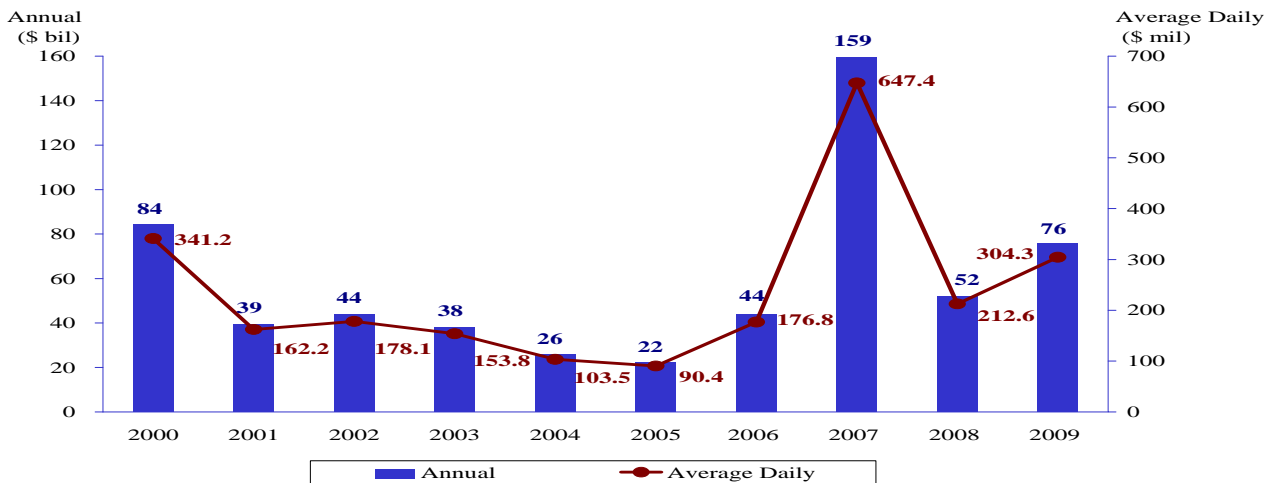
GEM – Market Capitalisation (as at year-end)



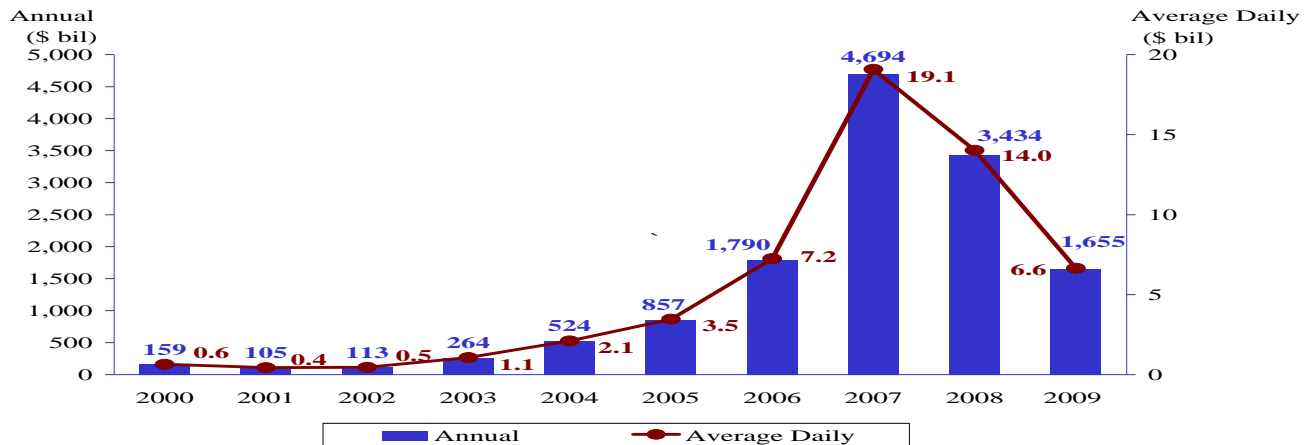
Main Board – Total Annual and Average Daily Trading Value



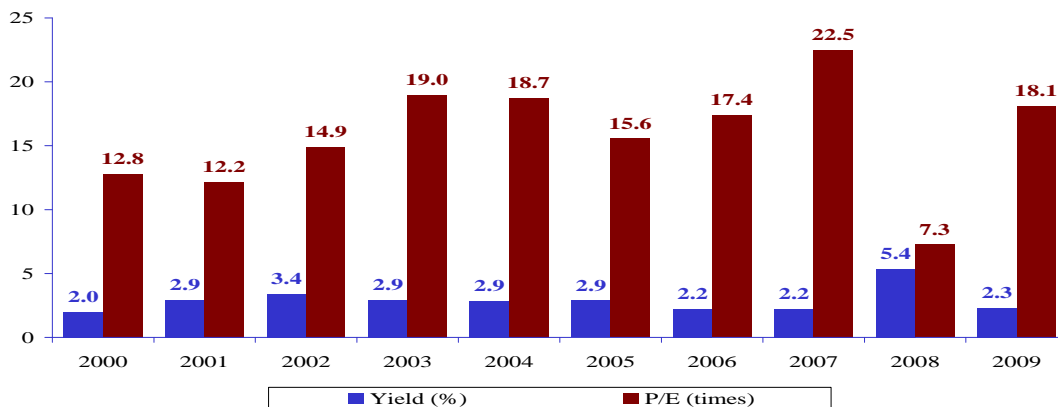
GEM – Total Annual and Average Daily Trading Value



Main Board – Total Annual and Average Daily Trading Value of DWs



Main Board – Average Yield and P/E Ratio (year-end figures)



Note: The above figures have been rounded.

Main Board – New Listings

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Listed Companies ¹	68	47	82	56	57	49	46	60	31	43
Preference Shares	0	0	0	1	0	0	0	0	0	0
Warrants	4,241	4,840	6,329	2,835	1,694	1,273	688	671	212	325
Equity Warrants	11	18	17	12	12	14	10	27	31	46
DWs	4,230	4,822	6,312	2,823	1,682	1,259	678	644	181	279
CBBCs ²	8,072	4,231	391	83	-	-	-	-	-	-
ELI ³	0	0	0	0	0	46	16	25	-	-
Debt Securities	23	20	26	46	32	49	20	18	21	20
Unit Trusts and Mutual Funds	19	7	11	3	6	2	1	1	1	0

Notes:

1. Included the number of companies transferred from GEM
2. Commenced trading on 12 June 2006
3. Commenced trading on 5 August 2002

Suspension of Closing Auction Session (“CAS”)

In light of the price volatility during the CAS since its introduction on 26 May 2008, the CAS in the securities market was suspended effective 23 March 2009 to maintain public confidence in the orderliness, fairness and transparency of the market.

The pre-CAS closing time at 4 pm and the method for calculating closing prices for securities (ie, based on the median of 5 snapshot nominal prices taken during the last minute prior to the end of the market’s afternoon session) were resumed.

HKEx will, in the meantime, continue to explore possible alternative CAS arrangements. Any future proposals concerning the CAS will be put forward for public consultation before implementation.

Expansion of Market Education on Securities Products

More education materials have been posted on the HKEx website to further clarify the potential areas of risk that market participants may face when trading in Hong Kong-listed securities. The risks include price and liquidity risks as well as counterparty risk which can stem from financial intermediaries involved in structuring, managing and providing liquidity. Currently, the ETF product corner provides a list of ETFs classified by their underlying assets and their trading arrangements. There are also individual product corners for different structured products such as DWs and CBBCs which serve as useful resource centres for market participants who are interested in structured products.

ETF Market Development

HKEx’s ETF market continued to show strong growth in 2009. As at the end of December 2009, there were 43 ETFs listed on the Exchange, including 19 newly listed in 2009 by 5 different fund managers. The listed ETFs track a wide range of underlying assets including 8 Hong Kong, 8 Mainland, 15 regional and 7 international equity indices as well as 2 bond, 2 commodity and 1 money market benchmarks. In 2009, the average daily turnover of ETFs amounted to \$2 billion, constituting approximately 3 per cent of the total turnover of the Main Board.

On 22 May 2009, the SFC and the Taiwan Financial Supervisory Commission reached an agreement whereby ETFs listed on the Exchange and the Taiwan Stock Exchange (“TWSE”) 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, and 3 Hong Kong-listed ETFs were cross listed on TWSE, which were actively traded by the investors in Taiwan.

HKEx is the first exchange to list Mainland A-share industry sector ETFs. As at the end of December 2009, there were 8 ETFs on Mainland A-share indices, including the 4 Mainland A-share industry sector ETFs listed on the Exchange on 18 November 2009.

To promote greater transparency, HKEx has also posted the obligations of market makers for individual ETFs on its website.

Derivatives Market

Market Performance

In 2009, the total turnover of futures and options recorded a 6 per cent decrease from the previous year. As compared with the performance last year, the turnover of stock options and HSI Futures declined by 13 per cent and 5 per cent respectively, but the turnover of index options and HSI options posted significant increases of 36 per cent and 40 per cent respectively.

In 2009, record high daily volume and open interest were achieved for various products. They are highlighted as follows:

Record High Daily Volume and Open Interest Achieved in 2009

Products	Daily Volume		Open Interest	
	Date	Number of Contracts	Date	Number of Contracts
Mini-HSI Futures	-	-	29 Jul	11,148
Mini H-shares Index Futures	27 Aug	5,326	-	-
Mini-HSI Options	28 Apr	4,584	26 Jun	9,893
H-shares Index Options	11 Dec	41,229	29 Dec	344,647
Gold Futures	-	-	10 Dec	278

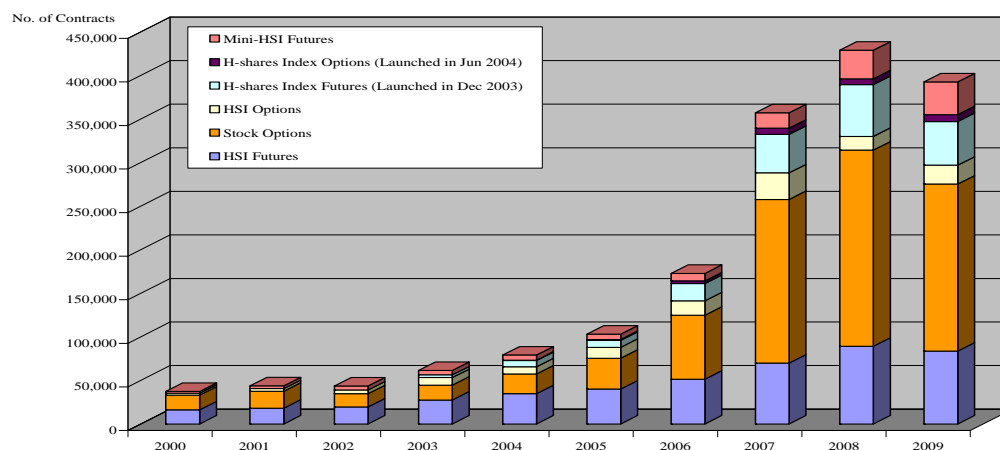
Derivatives Market Statistics (as at year-end)

	2009		2008	
	Volume (Contracts)	Period-end Open Interest (Contracts)	Volume (Contracts)	Period-end Open Interest (Contracts)
Futures				
HSI Futures	20,728,034	68,456	21,716,508	73,034
Mini-HSI Futures	9,279,877	4,447	7,961,028	2,945
H-shares Index Futures	12,394,116	74,324	14,440,965	96,120
Mini H-shares Index Futures ¹	799,894	741	318,395	345
FTSE/Xinhua China 25 Index Futures ²	0	0	39	0
Hang Seng China H-Financials Index Futures ³	0	0	9	0
Stock Futures	271,766	4,407	257,015	9,449
1-Month HIBOR Futures	204	0	891	91
3-Month HIBOR Futures	2,573	103	23,818	2,435
3-Year Exchange Fund Note Futures	0	0	0	0
Gold Futures ⁴	6,773	119	3,075	132
Total	43,483,237	152,597	44,721,743	184,551
Options				
HSI Options	5,367,403	175,720	3,820,797	75,829
Mini-HSI Options	286,591	3,551	156,957	1,796
H-shares Index Options	1,961,131	124,030	1,613,988	59,592
FTSE/Xinhua China 25 Index Options ³	0	0	386	0
Stock Options	47,439,896	3,848,117	54,692,865	3,984,346
Total	55,055,021	4,151,418	60,284,993	4,121,563
Total Futures and Options	98,538,258	4,304,015	105,006,736	4,306,114

Notes:

1. Launched on 31 March 2008
2. Last trading on 30 December 2008
3. Last trading on 23 December 2008
4. Launched on 20 October 2008

Average Daily Turnover of Major Derivatives Products (2000 - 2009)



No-action Relief for Mini Futures Contracts

On 16 January 2009, the Commodity Futures Trading Commission (“CFTC”) granted HKFE no-action relief in connection with the offer and sale in the United States of mini futures contracts based on the HSI and HSCEI. With the relief, EPs may offer and sell mini futures contracts based on the HSI and HSCEI in the United States by observing the relevant CFTC rules. Similar no-action reliefs have been granted to HSI Futures and H-shares Index Futures by the CFTC since June 1994 and September 2006 respectively.

Introduction of New Stock Option Classes and Revision of Position Limit

A total of 6 new stock option classes were introduced for trading in 2009, namely options on China Overseas Land & Investment Limited, Tencent Holdings Limited and Zijin Mining Group Company Limited in July, and options on BYD Company Limited, China COSCO Holdings Company Limited and Guangzhou R&F Properties Co., Ltd. in November.

In order to cope with the growing stock options market, HKEx 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. These 6 option classes are options on CITIC Pacific Limited, Henderson Land Development Company Limited, HKEx, Li & Fung Limited, Swire Pacific Limited ‘A’ and The Wharf (Holdings) Limited.

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 in H-shares Index Futures and Options and Mini H-shares Index Futures effective 14 September 2009.

Offering More Choice of Strikes and Maturities for Stock Options Trading

With rule amendments 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 so as to allow investors to trade in stock options with strike prices closer to the underlying stock prices. The revised strike intervals are 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.

Introduction of Flexible Index Options

HKEx introduced HSI and H-shares Index options contracts with flexible strike prices and expiry months (collectively, “Flexible Index Options”) as of 8 February 2010. The Flexible Index Options will provide OTC market participants with an attractive counterparty risk alternative and help increase market transparency by attracting more OTC deals through HKEx’s block trade facility.

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

HKEx published its consultation conclusions on CER Futures on 29 December 2009. HKEx received a total of 24 submissions from financial intermediates (carbon trading desks from investment banks and a financial services company), Clean Development Mechanism (“CDM”) project advisory companies, carbon trading companies, industrial and professional associations, utility companies in Hong Kong, an overseas governmental body and 2 individuals. None of the submissions were from EPs, CDM project developers or compliance buyers. Having considered the market responses and based on an analysis of the current facts and circumstances, HKEx considers that there is no imminent need for a CER futures market in Hong Kong. Nevertheless, HKEx reckons the carbon emission markets may become more important in the long run, and it will continue to monitor the development of emission policies in the Mainland and other markets, and revisit the product concept of CER Futures at an appropriate time.

Clearing

CCASS Statistics (up to year-end)

	2009	2008
Average daily Exchange Trades handled by CCASS		
Number of trades	713,412	577,110
Value of trades (\$bil)	62.3	72.1
Share quantity involved (bil)	99.6	110.6
Average daily SIs settled by CCASS		
Number of SIs	69,658	63,433
Value of SIs (\$bil)	164.0	193.1
Share quantity involved (bil)	40.6	50.0
Average daily ISIs settled by CCASS		
Number of ISIs	560	566
Value of ISIs (\$mil)	291.8	220.2
Share quantity involved (mil)	111.7	181.6
Average daily settlement efficiency of CNS stock positions on due day (T+2)	99.85%	99.81%
Average daily settlement efficiency of CNS stock positions on the day following the due day (T+3)	99.99%	99.98%
Average daily buy-ins executed on T+3		
Number of brokers involved	8	8
Number of buy-ins	9	11
Value of buy-ins (\$mil)	3.4	8.4
Shares deposited in the CCASS depository		
Number of shares (bil)	3,286.6	3,408.3
Percentage of total issued share capital of the admitted securities	70.93%	72.57%
Value of shares (\$bil)	9,245.1	5,040.5
Percentage of the total market capitalisation of the admitted securities	49.19%	44.62%

Participanship Opens to Overseas Clearing Houses and Central Depositories

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

CCASS Service Enhancement

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

In addition to providing custody services to its Participants for securities listed and/or traded on the Stock Exchange, HKEx is planning to expand the CCASS service scope to unlisted equity linked investments and is working closely with an issuer to admit its new issues into CCASS.

MOU with The National Depository Center

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

DCASS Service Enhancement

Effective 5 October 2009, DCASS’s capital adjustment processing time for derivatives contracts to conserve the contract value as a result of corporate action of the underlying securities was substantially reduced. 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.

T+2 Finality for Stock Exchange Trades

Securities trades executed on the Stock Exchange are currently settled in CCASS on T+2 while the money settlement is completed in the morning of T+3. HKEx plans to implement T+2 Finality for Stock Exchange Trades to reduce the overnight counterparty risk created by the settlement time gap. With the support of the Hong Kong Monetary Authority and HKICL, a model has been proposed to effect money settlement at the end of T+2 so as to bring finality of securities and money settlement for Stock Exchange Trades and SIs on the same business day. On 27 November 2009, HKEx published a consultation paper on the proposed T+2 Finality model to seek views and comments from market players. The consultation conclusions are planned to be published in the second quarter of 2010.

Scripless Securities Market

The SFC set up a working group in April 2009 to study the feasibility of a scripless securities market in Hong Kong. The working group, comprising representatives of the SFC, HKEx and the Federation of Share Registrars Limited, published a joint consultation paper on 30 December 2009 on a proposed operational model for implementing a scripless securities market. The consultation will last for 3 months, and the conclusions are planned to be published in the second quarter of 2010.

Development of Debt Market

In September 2009, the first Government Bond targeting institutional investors was admitted into CCASS as one of the eligible securities. As at the end of 2009, 2 issues of the Government Bonds raising a total of \$5.5 billion were admitted into CCASS.

In view of the fast growing debt securities market, an enhancement was made on 18 January 2010 to the tender functions to support debt securities trading in all currencies including RMB and USD.

System Readiness for Clearing RMB Products

All trading and clearing systems of the HKEx markets support multi-currency transactions. At present, only HKD and USD transactions are being processed. As HKSCC is not a member of HKICL, it now relies on its agent bank and HKICL to settle CCASS money transactions (fund transfers for the clearing and settlement of securities trades on the Stock Exchange) between Designated Banks of its Participants. To prepare for the processing of RMB transactions when the relevant policies and arrangements are in place, HKEx worked with the Hong Kong Monetary Authority and HKICL to upgrade the inter-bank clearing system in mid-2009. Both the securities clearing and inter-bank clearing systems are now ready to support clearing of RMB-denominated products.

Participant Services

Non-transferability of Stock Exchange Trading Right (“SETR”)

HKEx issued a circular to EPs on 24 July 2009 reminding them that, pursuant to the merger documents, the SETR conferred on the then SEHK’s shareholders upon merger of the exchanges and their clearing houses on 6 March 2000 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. SETRs issued by the Exchange subsequent to 6 March 2000 are non-transferable at all times.

Participant Training and Market Education

In 2009, HKEx organised 39 Continuous Professional Training (“CPT”) courses jointly with the Hong Kong Securities Institute on HKEx’s services and products for about 1,200 market participants. A number of the training courses on AMS/3, HKATS, CCASS and DCASS were also held to familiarise EPs with the operation of the trading and clearing devices, and the relevant rules and procedures.

Knowledge of our products as well as the risks associated with them is critical for market participants. Much of our education material and product information is delivered via the HKEx website. In addition, we held 46 briefing sessions and seminars on our derivatives products for over 2,500 representatives from EPs in 2009. We also organised 28 interactive training courses on Stock Options to EPs’ frontline sales teams and attracted more than 500 attendees. We sponsored 6 EPs with prizes and real-time market data feed for online simulation games of HSI

futures during the second half of 2009, which attracted a strong response with over 6,600 participants.

EP Recruitment

In 2009, 19 SEHK Participants and 22 HKFE Participant were newly admitted, including those from France, India, Korea, Switzerland, the Mainland, the Netherlands, the United Kingdom and the United States, and Taiwan.

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

	SEHK		HKFE	
	Trading Right Holders	Trading Rights Held	Trading Right Holders	Trading Rights Held
EPs	495	910	167	192
Trading	463	873	167	192
Non-trading	32	37	0	0
Non-EPs	30	30	44	46
Total	525	940	211	238

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

	HKSCC
Clearing Agency Participant	1
Custodian Participants	35
Direct Clearing Participants	452
General Clearing Participants	7
IPs	22,208
Stock Lender Participant	0
Stock Pledgee Participants	5
Total	22,708

Promotional Activities

Listing Promotional Activities for Mainland Enterprises

In 2009, we continued to organise events and roadshows in the Mainland, with focus on the more strategically important cities and regions, to promote Hong Kong as the most active international capital market for Mainland enterprises to raise capital. Hong Kong Government officials and Hong Kong intermediaries firms were invited to join our promotional activities. The Secretary for Financial Services and the Treasury, Professor K C Chan, participated in our conferences held in Guangzhou and Quanzhou and led the delegation of Hong Kong intermediaries to explain various aspects of listing requirements to potential applicants.

Among the 18 promotional events which included large scale conferences, roundtables and workshops, a seminar mainly for retail and domestic consumption enterprises was held in Guangzhou and another targeted at Guangxi enterprises was held for the first time in Nanning.

Exchange executives also made over 80 trips to different Mainland cities to give speeches and meet with government officials to promote listing in Hong Kong. We also conducted one-on-one visits to interested companies and leading enterprises in various sectors and industries, including those already listed on other exchanges.

Major Events Organised by HKEx in the Mainland during 2009

Date	Place	Event / Joint Organiser(s)	Number of Attendees
19 May	Guangzhou	Financing Strategy under the Financial Crisis - 2009 and Listing Seminar in Guangzhou / FSTB, The Finance Affairs Office of People's Government of Guangdong Province and The Economic & Trade Commission of Guangdong Province	250
23 Sep	Wuhan	Listing in Hong Kong Seminar and Roundtable Meeting / Hubei Provincial Government, Wuhan Municipal Government, The Administration Committee of Wuhan East Lake High-tech Development Zone	390
21 Oct	Nanning	HKEx Seminar on Listing and Fund Raising / The Secretariat of China-Asean Expo and Department of Commerce of Guangxi Investment Promotion Bureau of Guangxi	300
30 Oct	Dongguan	Dongguan-Hong Kong Financing & Merging Forum / Science and Technology Bureau of Dongguan and Hong Kong Productivity Council	250
9 Dec	Quanzhou	Listing and Fund Raising Seminar for Fujian Enterprises / Fujian Hongkong Economic Cooperation Committee, Fujian Development and Reform Commission, Quanzhou Municipal People's Government and FSTB	250

Listing Promotional Activities Targeting Overseas Companies

During 2009, with increased interest in seeking new listings or dual listings to access the ample liquidity in Asia, HKEx organised 3 events in Japan, Korea and Russia to promote listing on the Exchange and the strategic advantages of using Hong Kong as the key fund-raising platform for the China-related business operations of regional companies. The Financial Secretary, Mr John Tsang, and our Chairman were key note speakers at a conference in Moscow.

Mining companies from around the world gathered in Hong Kong in June 2009 to take part in the "Mines and Money Asia" conference which has gained prominence as an important annual event to discuss financing trends of mining companies. Hong Kong was introduced as a key capital market for natural resources companies.

Executives also travelled to Australia, Japan, Korea, Mongolia, Russia, the United Kingdom and Vietnam, and Taiwan during the year to discuss with potential listing companies and their market intermediaries.

Major Events Organised by HKEx in Hong Kong and Overseas during 2009

Date	Place	Event / Joint Organiser(s)	Number of Attendees
2 Jun	Moscow	Hong Kong: The Ideal Fund-Raising Centre in Asia / Hong Kong Trade Development Council	200
3 Jun	Hong Kong	Hong Kong as an International Metals and Mining Capital Formation Centre in Asia / The Mining Journal and Beacon Event	200
10 Nov	Tokyo	Capitalising on China's Growth through Hong Kong – China's International Financial Centre / Hong Kong Trade Development Council and InvestHK	254

Training Programmes on Listing in Hong Kong

HKEx co-organised 2 training programmes in Hong Kong with the Hong Kong Polytechnic University and the State Council's Office of Hong Kong and Macau Affairs Research Institute in 2009. The training programmes were targeted at senior accounting and finance officials of Mainland enterprises, and covered corporate governance practices and the latest rules and regulations relating to listing in Hong Kong.

Promoting HKEx's Markets

HKEx participated in different activities in relation to the financial industry organised by various Hong Kong and overseas financial organisations. These included our participation in (i) the "Cross Border ETF Market Forum" organised by the Taiwan Stock Exchange in Taipei to promote the Hong Kong ETF market; (ii) the Investment Expo jointly held with 11 EPs in Hong Kong to promote Stock Options and Gold Futures; and (iii) the Futures Industry Association Asia Derivatives Conference held in Singapore to promote HKEx's Derivatives Market.

Since June 2009, we have commenced the Joint Promotional Programme on Stock Options with 6 OTEPs. Under the programme, 13 seminars were organised by EPs with the objective of increasing retail participation. Market makers were invited as guest speakers at these seminars which attracted over 3,000 participants.

In November 2009, HKEx, as a Financial Information Services Division ("FISD") member, co-hosted the Asia Pacific Financial Information Conference with the FISD in Hong Kong. During the year, HKEx also participated in major market data industry conferences held by the FISD in Athens, Hong Kong and Shanghai to share latest development in the market data industry with market practitioners including global exchanges, market data vendors and international financial institutions.

To promote HKEx market data in the Mainland, we visited Mainland television stations in Beijing and Shanghai in early September 2009, and the Hubei television station and Shenzhen television station in November 2009. In this connection, we also visited IVs in Beijing and Shanghai to explore ways to facilitate direct connection of Mainland IVs to the HKEx market data systems.

Information Services**Market Performance**

As at the end of 2009, there were 124 and 49 real-time IV licences for Cash Market data and Derivatives Market data respectively (2008: 112 and 41). The licensed IVs altogether offered a total of 777 types of real-time market data services to the market (2008: 699). The number of delayed market data vendors increased to 85 as at the end of 2009 (2008: 75).

Provision of Free Real-time Basic Market Prices on Websites

On 1 January 2010, the Free Real-time Basic Market Prices Website Service, or Free Prices Website Service was officially launched 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. Under this pilot programme, which will last till the end of December 2011, real-time basic securities prices on the Hong Kong market can be accessed by investors at the designated websites free of charge. The main objectives of the Free Prices Website Service are to expand dissemination of Hong Kong securities market information and to raise the Hong Kong securities market's profile in the Mainland. HKEx will review the pilot programme at its later stage to determine whether the service should continue after 2011, and in what form.

Service Enhancement and New Market Data Policies

HKEx has revised some of its information services policies to meet changing business and market needs. To increase market transparency and provide additional information to investors, HKEx, effective 1 November 2009, broadened the scope of the delayed content for its securities and traded options market data service to include the last 4 transactions. HKEx also issued an

updated Guideline on Third Party Website Service (previously known as Framing Quotation Service on Third Parties' Websites) to waive the minimum monthly fee of \$6,000 for such services provided by IVs on the websites and in-house systems of EPs in order to further support EPs' on-line trading services.

From September 2009 onwards, all IV notices are posted on the HKEx website to enhance communication with IVs. Other notices since January 2007 are also available on the HKEx website for IVs' reference.

Extended Discount Programme of Real-time Market Data for Mainland Users

HKEx has reviewed the planned fee adjustments announced in September 2008. In view of market development and market feedback, the monthly fees of \$80 (retail clients)/\$120 (corporate clients) for the Mainland China Discount Programme will remain unchanged until the end of 2010. A futures data package without price depth will continue to be offered together with the securities information package free of charge under the discount programme.

Mainland Market Data Collaboration Programme

The Mainland Market Data Collaboration Programme between HKEx and the SSE commenced on 1 January 2009. Under the programme, both HKEx and SSE are allowed to redistribute the other party's basic real-time market data of companies dually listed on the 2 markets to their own authorised IVs for onward transmission to their subscribers for internal display purposes. Up to the end of December 2009, a total of 18 HKEx IVs and 7 SSE IVs had participated in the programme.

Compliance and Unauthorised Dissemination

With the objectives of maintaining a level playing field and promoting fair competition, HKEx delivers presentations on vendor management and selects vendors for annual inspection to ensure compliance with the contractual requirements. In 2009, a total of 55 (2008: 24) IVs were included in the Vendor Inspection Programme, representing 65 per cent (2008: 68 per cent) of our total information income. A total of 17 unauthorised dissemination cases were resolved in 2009 (2008: 20) to better protect investors.

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 during the year despite the market volatility. HKEx remains committed to upholding system reliability, availability and stability.

System Capacity Planning and Upgrade

The AMS/3 technical revamp was implemented on 18 January 2010 as part of HKEx's effort to pursue continuous improvement in 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 new business initiatives and further growth of trading activity in the securities market.

Corresponding design enhancements were also implemented for CCASS/3 and MDF for capacity alignment with AMS/3. New interface architecture for AMS/3 will also be introduced to facilitate higher scalability of the satellite systems.

To cope with anticipated capacity demand of the securities market for the next few years, HKEx plans to further initiate a major software redevelopment and hardware upgrade exercise for AMS/3 and MDF in 2010. The aim is to improve the system capacity and reduce order execution latency by at least 5 times with implementation scheduled for the end of 2011.

To support increased volume of orders and market making activities for the Derivatives Market, the capacity of HKATS was upgraded by 50 per cent in April 2009 to support about 8,100 order book changes per second. The capacity of PRS was also expanded in July 2009 as part of the exercise to cope with the projected increases in the market data volume and number of IV connections. In October 2009, PRS was further enhanced to enrich the real-time market data content, including information on standard combination orders, cumulative volume of block trades, high priority market messages, opening price and net open interest, to raise the transparency of the Derivatives Market.

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.

In November 2009, HKEx also upgraded the internal HKATS/DCASS gateway servers which required replacement due to technology obsolescence.

System Consolidation and Operational Efficiency

HKEx implemented a number of initiatives during 2009 to improve operational efficiency and save paper. These included implementation of the e-Securities Declaration and Approval System and e-Performance Management System and production of data centre reports in electronic copies as far as possible. HKEx will explore opportunities to enhance various management information systems and support systems as an ongoing effort to improve the efficiency and environmental friendliness of daily operations.

Independent Review of Derivatives Market Systems

The independent review of the core application systems (including trading, clearing and settlement, and market data dissemination systems) serving the Derivatives Market has been substantially completed and the preliminary findings re-affirmed that the core Derivatives Market systems were well managed and operated at a high standard of compliance with international best practices. The review is expected to be completed by the end of March 2010.

As part of HKEx's ongoing efforts to pursue operational excellence for its mission critical systems, another independent review of the clearing and settlement systems serving the Cash Market will commence in 2010.

HKEx Website Revamp

In 2009, HKEx engaged a consultant to revamp its website, aiming to benchmark its information architecture against local and international best practices. The revamped website, with an enhanced interface design, will be launched in the first quarter of 2010.

HKEx Data Centre and IT Office Consolidation

The relocation of the primary data centre for the Derivatives Market and the related IT staff from Central to an expanded data centre in Quarry Bay was completed in June 2009. This expanded data centre provides additional space and facilities to support growth of Derivatives Market activities.

HKEx plans to build a production data centre (“PDC”) which will be equipped with modernised facilities and infrastructure to host the existing Exchange Square data centre, 2 other secondary data centres as well as IT development and support staff. It will also provide additional space to cope with HKEx’s new business development and expansion. In February 2010, the Board accepted the offer of a land site in Tseung Kwan O Industrial Estate at a land premium of about \$26 million for building the PDC which is scheduled for completion in 2013. Total development costs are estimated at \$700 million over the next 3 years.

Risk Management**Establishment of Enterprise Risk Management (“ERM”) Framework**

To assure that risks within HKEx are managed at acceptable levels, we have developed an ERM framework and related methodology and processes to identify, assess, score, report and review significant risks across the organisation. Appropriate decisions and actions will be taken as part of the risk reviews to ensure that our risk control measures are adequate and risks across the organisation are managed in an effective and consistent manner. The ERM framework and processes are supported by ERM software applications which are specifically designed to meet the Company’s ERM requirements.

Buy-in Execution Efficiency Enhancement

To further improve the efficiency of the buy-in execution process and to ensure a competitive commission rate from all authorised brokers, HKSCC invited the participants who met our requirements to become authorised brokers for buy-in transactions. In November 2009, a total of 10 authorised brokers were appointed based on the selection criteria.

Market Surveillance

Under the MOU between the SFC and HKEx on matters relating to market surveillance, HKEx refers to the SFC from time to time suspected violations of Hong Kong laws or the SFC codes, rules and/or regulations relating to HKEx’s Cash and Derivatives Markets. During 2009, 112 cases (40 were Cash Market related and 72 were Derivatives Market related) were referred. The SFC might make criminal prosecutions and/or disciplinary actions against licensed persons in respect of market misconduct matters.

Completion of Liquidation of Tai Wah Securities Limited (“TWSL”)

In respect of the failure of TWSL to meet its obligations to HKSCC in 2003, the liquidation process was completed with a release granted to the liquidators by the High Court of Hong Kong in October 2009. In December 2009, \$1.7 million was recovered from the designated reserves of the HKSCC Guarantee Fund.

Treasury

The Group’s funds available for investment comprise Corporate Funds, cash collateral, Margin Funds and Clearing House Funds, totalling \$40.1 billion on average in 2009 (2008: \$62.3 billion).

As compared with 31 December 2008, the overall size of funds available for investment as at 31 December 2009 decreased by 38 per cent or \$20.2 billion to \$33.6 billion (2008: \$53.8 billion). Details of the asset allocation of the investments as at 31 December 2009 against those as at 31 December 2008 are set out below.

	Investment Fund Size \$ billion		Bonds		Cash or Bank Deposits		Global Equities	
	2009	2008	2009	2008	2009	2008	2009	2008
	Corporate Funds	8.2	7.2	69%	76%	28%	22%	3%
Cash collateral	3.4	3.6	0%	0%	100%	100%	0%	0%
Margin Funds	20.2	41.8	34%	39%	66%	61%	0%	0%
Clearing House Funds	1.8	1.2	24%	30%	76%	70%	0%	0%
Total	33.6	53.8	38%	41%	61%	59%	1%	0%

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the cash collateral, Clearing House Funds and Margin Funds. Excluding equities and mutual funds held under the Corporate Funds (\$0.2 billion as at 31 December 2009 and at 31 December 2008), which have no maturity date, the maturity profiles of the remaining investments as at 31 December 2009 (\$33.4 billion) and 31 December 2008 (\$53.6 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	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	Corporate Funds	8.0	7.0	16%	13%	1%	6%	24%	56%	45%	16%	14%
Cash collateral	3.4	3.6	100%	100%	0%	0%	0%	0%	0%	0%	0%	0%
Margin Funds	20.2	41.8	33%	32%	10%	35%	23%	33%	34%	0%	0%	0%
Clearing House Funds	1.8	1.2	67%	66%	5%	13%	4%	21%	24%	0%	0%	0%
Total	33.4	53.6	37%	35%	7%	28%	20%	34%	33%	2%	3%	1%

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 31 December 2009, had a weighted average credit rating of Aa2 (2008: Aa2) and a weighted average maturity of 2.3 years (2008: 0.6 year). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk ("VaR") and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (1 year is used by the Group). The overall risk, as measured by the VaR methodology, during 2009 and 2008 was as follows:

	Average VaR \$ million		Highest VaR \$ million		Lowest VaR \$ million	
	2009	2008	2009	2008	2009	2008
Corporate Funds	28.1	17.9	35.3	22.0	20.8	15.0
Cash collateral	0.0	0.0	0.2	0.0	0.0	0.0
Margin Funds	31.1	23.8	47.9	31.3	17.9	17.1
Clearing House Funds	2.3	0.6	4.4	0.9	0.3	0.2

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

FINANCIAL REVIEW

Overall Performance

	Note	2009 \$'000	As restated * 2008 \$'000	Change
RESULTS				
Revenue and other income:				
Income affected by market turnover	(A)	4,573,644	4,704,991	(3%)
Stock Exchange listing fees	(B)	728,477	711,983	2%
Income from sale of information	(C)	694,563	673,445	3%
Other revenue	(D)	417,402	390,855	7%
Net investment income	(E)	620,954	999,175	(38%)
Gain on disposal of properties	(F)	–	68,641	(100%)
		7,035,040	7,549,090	(7%)
Operating expenses		1,492,949	1,620,953	(8%)
Profit before taxation		5,542,091	5,928,137	(7%)
Taxation		(838,047)	(799,506)	5%
Profit attributable to shareholders		4,704,044	5,128,631	(8%)

* Certain figures previously reported have been restated due to changes in accounting policies.

Profit attributable to shareholders decreased by 8 per cent to \$4,704 million for the year ended 31 December 2009 against \$5,129 million for 2008 mainly due to lower turnover-related income, lower net investment income, and the one-off gain on disposal of properties in 2008 which was not repeated in 2009, but the decrease was partly offset by lower operating expenses.

The negative market sentiment caused by the financial tsunami persisted in the first quarter of 2009. Although considerable growth in market activity was recorded in the last 3 quarters of 2009 due to improved sentiment driven by ample liquidity, the average daily turnover value on the Stock Exchange for 2009 still dropped by 14 per cent as compared to 2008. As a result, the Group's total turnover-related income fell by \$131 million to \$4,574 million for 2009.

The drop in net investment income was largely attributable to the significant decrease in net interest income resulting from lower interest rates and Margin Fund size, but the drop was partly offset by the increase in fair value gains of Corporate Fund investments.

Total operating expenses decreased by 8 per cent during the year mainly due to the lower provision for impairment losses of trade receivables from defaulting Participants, as the provision relating to the Lehman Brothers Group of \$157 million made in 2008 was not repeated in 2009 but the savings were partly offset by an increase in premises expenses.

The accounts have been prepared in accordance with the HKFRSs issued by the HKICPA, which are in alignment with the requirements of IFRSs in all material respects as at 31 December 2009.

Revenue and Other Income

(A) Income affected by Market Turnover

	2009 \$'000	2008 \$'000	Change
Trading fees and trading tariff	2,586,297	2,803,081	(8%)
Clearing and settlement fees	1,424,748	1,405,202	1%
Depository, custody and nominee services fees	562,599	496,708	13%
Total	4,573,644	4,704,991	(3%)

Key Market Indicators

	2009	2008	Change
Average daily turnover value on the Stock Exchange	\$62.3 billion	\$72.1 billion	(14%)
Average daily number of derivatives contracts traded on the Futures Exchange	206,458	207,052	(0%)
Average daily number of stock options contracts traded on the Stock Exchange	191,676	225,074	(15%)

Trading Fees and Trading Tariff

	2009 \$'000	2008 \$'000	Change
Trading fees and trading tariff were derived from:			
Securities traded on the Cash Market	1,834,097	2,028,480	(10%)
Derivatives contracts traded on the Derivatives Market	752,200	774,601	(3%)
	2,586,297	2,803,081	(8%)

The decrease in trading fees and trading tariff from the Cash Market was mainly due to the lower market turnover.

The decrease in trading fees and trading tariff from the Derivatives Market was mainly driven by the decrease in the number of contracts traded.

Clearing and Settlement Fees

Clearing and settlement fees are derived predominantly from Cash Market transactions. 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 the changes in the turnover of the Cash Market. In 2009, clearing and settlement fees increased despite the drop in the turnover of Cash Market since 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

Depository, custody and nominee services fees mainly comprise scrip fees, eIPO handling fees, stock custody fees, dividend collection fees, corporate action fees and stock withdrawal fees. Depository, custody and nominee services fees rose mainly due to the increase in corporate action fees, scrip fees and eIPO handling fees but the increases were partly offset by the decrease in dividend collection fees. The increase in eIPO handling fees was attributable to the increase in the number of newly listed companies and eIPO allotments. Other than eIPO handling fees, the other fees are generally 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.

(B) Stock Exchange Listing Fees

	2009 \$'000	2008 \$'000	Change
Annual listing fees	361,912	346,263	5%
Initial and subsequent issue listing fees	360,985	360,944	0%
Others	5,580	4,776	17%
Total	728,477	711,983	2%

Annual listing fees increased in line with the increase in the total number of listed companies.

Initial and subsequent issue listing fees remained at a similar level to 2008 despite a rise in the total number of newly listed securities as the increase in listing fees generated from the higher number of newly listed CBBCs and newly listed companies was offset by the drop in fees from the lower number of newly listed DWs and a decrease in initial listing fees forfeited due to a lower number of lapsed and withdrawn IPO applications not listed within 6 months of application.

Key Drivers for Annual Listing Fees

	As at 31 Dec 2009	As at 31 Dec 2008	Change
Number of companies listed on Main Board	1,145	1,087	5%
Number of companies listed on GEM	174	174	0%
Total	1,319	1,261	5%

Key Drivers for Initial and Subsequent Issue Listing Fees

	2009	2008	Change
Number of newly listed DWs	4,230	4,822	(12%)
Number of newly listed CBBCs	8,072	4,231	91%
Number of newly listed companies on Main Board	68	47	45%
Number of newly listed companies on GEM	5	2	150%
Number of other newly listed securities on Main Board and GEM	91	77	18%
Total number of newly listed securities	12,466	9,179	36%
	2009	2008	Change
	\$ billion	\$ billion	
Total equity funds raised on Main Board			
– through IPOs	247.9	65.8	277%
– Post-IPO	389.8	352.4	11%
Total equity funds raised on GEM			
– through IPOs	0.4	0.2	100%
– Post-IPO	4.0	8.8	(55%)
Total	642.1	427.2	50%

(C) Income from Sale of Information

	2009	2008	Change
	\$'000	\$'000	
Income from sale of information	694,563	673,445	3%

Income from sale of information rose as demand for information increased due to improved market sentiment and the strong market rebound which started in March 2009 and continued up to the end of the year.

(D) Other Revenue

	2009	2008	Change
	\$'000	\$'000	
Network, terminal user, dataline and software sub-license fees	320,829	289,783	11%
Participants' subscription and application fees	35,037	34,614	1%
Brokerage on direct IPO allotments	16,467	5,313	210%
Trading booth user fees	15,132	9,603	58%
Accommodation income on securities deposited by Participants as alternatives to cash deposits of Margin Funds	4,908	21,844	(78%)
Sales of Trading Rights	9,500	8,335	14%
Miscellaneous revenue	15,529	21,363	(27%)
Total	417,402	390,855	7%

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

Brokerage on direct IPO allotments trebled as the number of newly listed companies and direct IPO allotments increased.

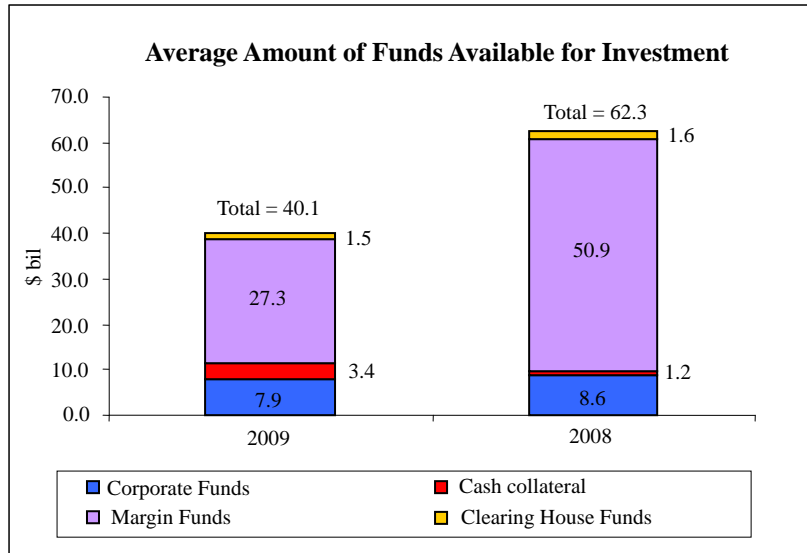
Trading booth user fees rose as the monthly user fees were raised in 2009 as a result of the rise in the Trading Hall rental.

Accommodation income dropped mainly due to the decrease in utilisation of non-cash collateral by Participants to meet their margin obligations, which was caused by the low interest rate environment.

(E) Net Investment Income

	2009 \$'000	2008 \$'000	Change
Gross investment income	624,300	1,075,590	(42%)
Interest rebates to Participants	(3,346)	(76,415)	(96%)
Net investment income	620,954	999,175	(38%)

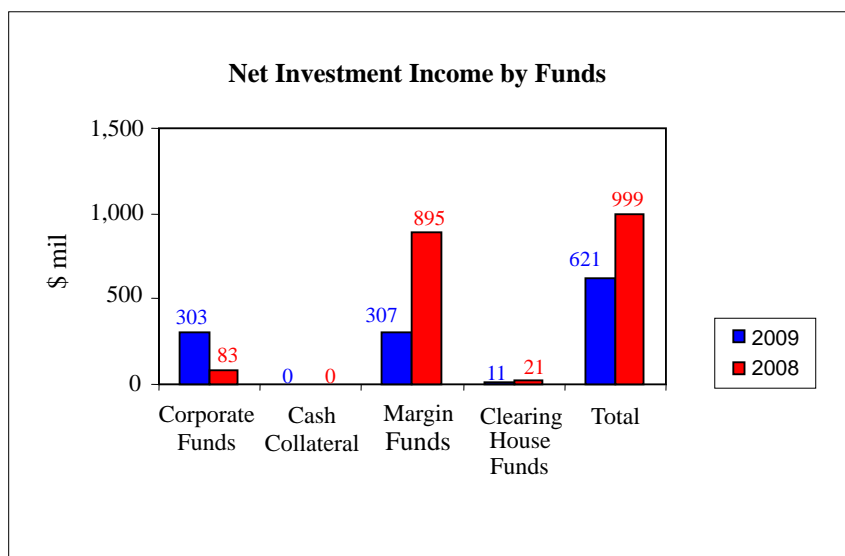
The average amount of funds available for investment was as follows:



The average amount of 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 LBSA in September 2008.

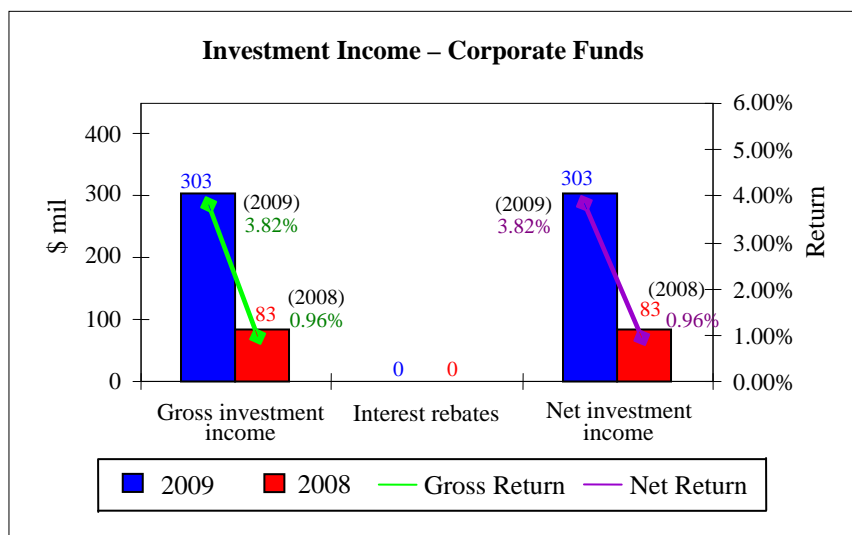
The drop in the average amount of Margin Funds available for investment was primarily caused by the decrease in open interest in futures contracts and the lower margin rate applicable per futures contract.

The movements in net investment income by Funds were as follows:

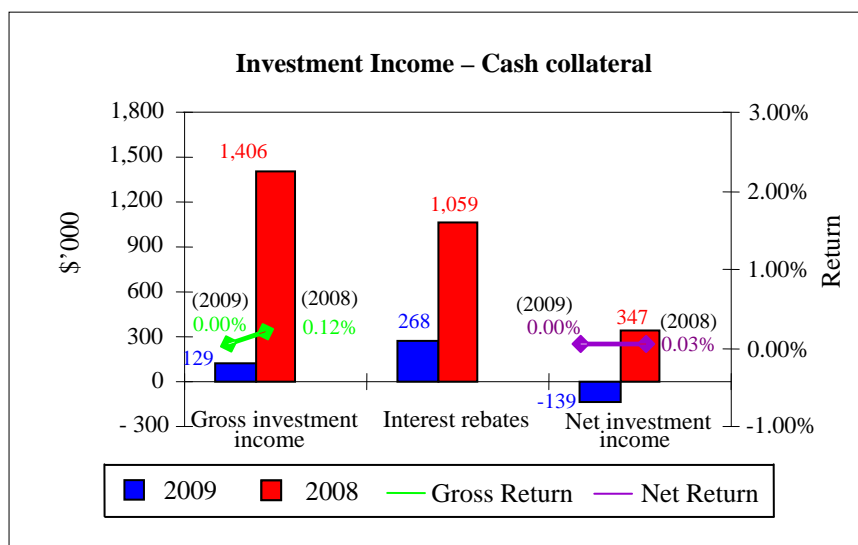


The lower net investment income was mostly due to the drop in net investment income of the Margin Funds, but was partly offset by the increase in net investment income of the Corporate Funds.

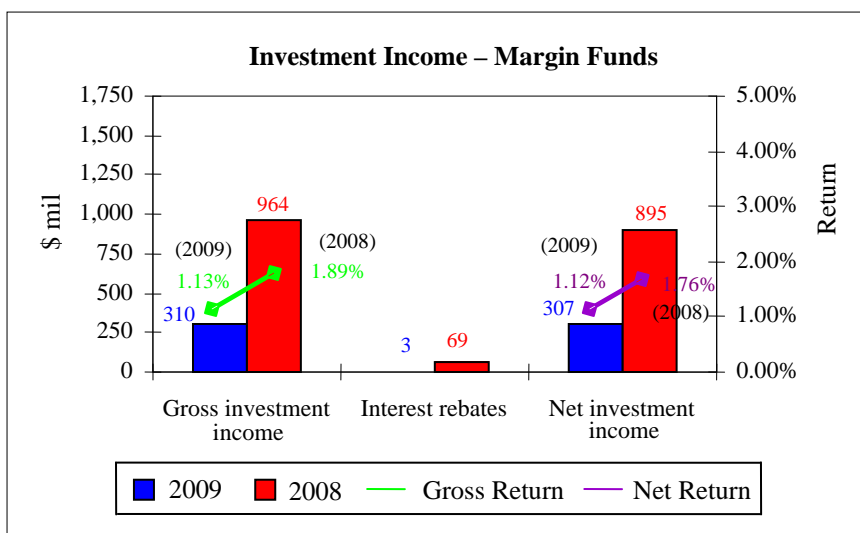
The analysis of investment income by Funds is as follows:



Investment income of Corporate Funds increased mainly due to the fair value gains of investments reflecting market movements during the year, as opposed to the fair value losses of investments in 2008, which led to a significant rise in the income and rate of return in 2009.

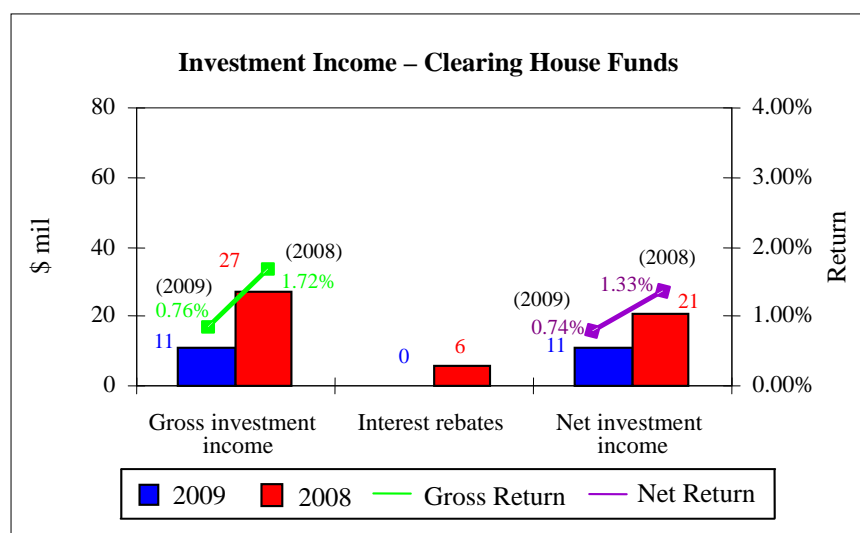


Cash collateral was only placed in savings accounts earning a very low rate of return. Interest rebates were paid to Participants at the average savings rate of 3 major banks.



The net investment income of Margin Funds dropped due to the significant decrease in net interest income arising from lower interest rates and Margin Fund size.

The gross return on Margin Fund investments was brought down by the decrease in interest rates. The net return in 2009 was similar to the gross return as very small amounts of interest rebates were paid to Participants since the rate of interest rebates (savings rate) fell to almost zero.



The investment income of Clearing House Funds fell mainly due to the drop in interest rates.

The lower gross return was mainly due to the drop in interest rate for overnight deposits. The net return in 2009 was similar to the gross return as very small amounts of interest rebates were paid to Participants since the rate of interest rebates was very low.

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

(F) Gain on Disposal of Properties

	2009 \$'000	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

	2009 \$'000	As restated 2008 \$'000	Change
Staff costs and related expenses	793,503	803,106	(1%)
Information technology and computer maintenance expenses	246,291	238,917	3%
Premises expenses	219,084	149,786	46%
Product marketing and promotion expenses	12,622	16,986	(26%)
Legal and professional fees	13,282	25,128	(47%)
Depreciation	101,173	109,646	(8%)
Other operating expenses	106,994	277,384	(61%)
Total	1,492,949	1,620,953	(8%)

Staff costs and related expenses fell by \$9 million, primarily due to a decrease in share-based compensation expenses as certain share options and Awarded Shares became fully vested.

The Group's information technology and computer maintenance expenses, excluding costs of services and goods directly consumed by the Participants of \$105 million (2008: \$97 million), were \$141 million (2008: \$142 million). The rise in costs of services and goods directly consumed by the Participants was due to the increase in AMS/3 line rentals and HKATS maintenance expenses incurred by the Participants, but was partly offset by the reduction in AMS/3 hardware and software purchased by the Participants. Costs of services and goods consumed by Participants were mostly recovered from the Participants and the income was included as part of network, terminal user, dataline and software sub-license fees under Other Revenue.

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

Legal and professional fees dropped as less was spent on listing-related matters and lower professional fees were incurred for the review of certain information technology systems in 2009.

Other operating expenses dropped mainly 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 \$157 million) and the one-off donation of \$10 million for the Sichuan earthquake made in 2008.

Taxation

	2009 \$'000	As restated 2008 \$'000	Change
Taxation	838,047	799,506	5%

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

Liquidity, Financial Resources and Gearing and Capital Commitment

Working capital fell by \$1,467 million to \$5,710 million as at 31 December 2009 (2008: \$7,177 million). The reduction was due to the increase in investments in financial assets and time deposits maturing over 1 year of \$2,278 million for the purpose of enhancing the return of investments, the payment of the 2008 final dividend of \$1,935 million and the 2009 interim dividend of \$1,978 million, which was partly offset by the profit generated during the year of \$4,704 million and the increase in other working capital of \$20 million.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. As at 31 December 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).

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

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

The Group's capital expenditure commitments as at 31 December 2009 amounted to \$66 million (2008: \$84 million) and mainly related to the upgrade and enhancement of trading and clearing systems, development and purchases of various computer systems. The Group has adequate internal resources to fund its capital expenditure commitments.

Charges on Assets

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

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

Save for those disclosed in this announcement, there were no significant investments held, nor were there material acquisitions and disposals of subsidiaries during the year. Apart from the plan to develop the PDC in Tseung Kwan O Industrial Estate, there is no other plan for material investments or capital assets as at the date of this announcement.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

As at 31 December 2009, the aggregate net open foreign currency positions amounted to HK\$3,140 million, of which HK\$193 million were non-USD exposures (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\$3,405 million (2008:

HK\$3,219 million). All forward foreign exchange contracts would mature within 2 months (2008: 2 months).

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

Contingent Liabilities

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 31 December 2009, no calls had been made by the SFC in this connection.

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 31 December 2009 (2008: 448) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to \$92,400,000 (2008: \$89,600,000).

HKEx gave an undertaking on 6 March 2000 in favour of HKSCC to contribute an amount not exceeding \$50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within 1 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.

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Note	2009 \$'000	As restated 2008 \$'000
Trading fees and trading tariff		2,586,297	2,803,081
Stock Exchange listing fees		728,477	711,983
Clearing and settlement fees		1,424,748	1,405,202
Depository, custody and nominee services fees		562,599	496,708
Income from sale of information		694,563	673,445
Other revenue	4	417,402	390,855
REVENUE		6,414,086	6,481,274
Investment income		624,300	1,075,590
Interest rebates to Participants		(3,346)	(76,415)
Net investment income	5	620,954	999,175
Gain on disposal of properties	6	-	68,641
	3	7,035,040	7,549,090
OPERATING EXPENSES			
Staff costs and related expenses		793,503	803,106
Information technology and computer maintenance expenses		246,291	238,917
Premises expenses		219,084	149,786
Product marketing and promotion expenses		12,622	16,986
Legal and professional fees		13,282	25,128
Depreciation		101,173	109,646
Other operating expenses:			
(Reversal of provision for)/provision for impairment losses arising			
from Participants' default on market contracts	7(a)	(330)	163,203
Others	7(b)	107,324	114,181
	3	1,492,949	1,620,953
PROFIT BEFORE TAXATION	3	5,542,091	5,928,137
TAXATION	8	(838,047)	(799,506)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		4,704,044	5,128,631
Basic earnings per share	10(a)	\$4.38	\$4.78
Diluted earning per share	10(b)	\$4.36	\$4.75

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009**

	2009	As restated
	\$'000	2008 \$'000
Profit attributable to shareholders	4,704,044	5,128,631
Other comprehensive income:		
Available-for-sale financial assets:		
Change in fair value during the year	–	111,494
Change in fair value up to maturity	(113,265)	(54,451)
Less: Reclassification adjustment:		
Gains included in profit or loss on disposal	(2,520)	(4,678)
Deferred tax	19,104	(8,565)
Other comprehensive income attributable to shareholders, net of tax	(96,681)	43,800
Total comprehensive income attributable to shareholders	4,607,363	5,172,431

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	At 31 Dec 2009 \$'000	As restated At 31 Dec 2008 \$'000	As restated At 1 Jan 2008 \$'000
NON-CURRENT ASSETS				
Fixed assets		302,721	370,078	376,809
Financial assets measured at fair value through profit or loss	11	1,559,405	–	–
Available-for-sale financial assets	11	–	–	481,666
Financial assets at amortised cost	11	–	47,172	19,177
Financial assets measured at amortised cost	11	767,933	–	–
Deferred tax assets		3,563	4,429	3,610
Other assets		3,207	3,207	3,212
		2,636,829	424,886	884,474
CURRENT ASSETS				
Accounts receivable, prepayments and deposits	11, 12	11,334,370	8,535,392	18,367,345
Financial assets at fair value through profit or loss	11	–	3,020,035	2,996,555
Financial assets measured at fair value through profit or loss	11	12,465,473	–	–
Available-for-sale financial assets	11	–	19,394,095	19,681,853
Financial assets at amortised cost	11	–	3,664,012	3,190,733
Financial assets measured at amortised cost	11	4,157,247	–	–
Cash and cash equivalents	11	14,738,083	27,783,692	42,768,745
		42,695,173	62,397,226	87,005,231
Non-current assets held for sale		–	–	64,092
		42,695,173	62,397,226	87,069,323
CURRENT LIABILITIES				
Participants' contributions to Clearing House Funds		722,726	197,520	1,252,355
Margin deposits from Clearing Participants on derivatives contracts		20,242,938	41,839,991	55,428,888
Cash collateral from HKSCC Clearing Participants		3,431,725	3,599,902	2,719,588
Accounts payable, accruals and other liabilities	13	11,827,011	8,894,102	18,741,921
Other financial liabilities		42,174	118,485	37,139
Deferred revenue		423,998	392,688	375,174
Taxation payable		260,911	141,363	687,726
Provisions		33,397	36,290	29,630
		36,984,880	55,220,341	79,272,421
NET CURRENT ASSETS		5,710,293	7,176,885	7,796,902
TOTAL ASSETS LESS CURRENT LIABILITIES		8,347,122	7,601,771	8,681,376

	Note	At 31 Dec 2009 \$'000	As restated At 31 Dec 2008 \$'000	As restated At 1 Jan 2008 \$'000
NON-CURRENT LIABILITIES				
Participants' contributions to Clearing House Funds		276,000	252,000	244,500
Deferred tax liabilities		17,954	30,674	36,815
Provisions		25,842	25,483	24,128
		319,796	308,157	305,443
NET ASSETS				
		8,027,326	7,293,614	8,375,933
CAPITAL AND RESERVES				
Share capital		1,076,190	1,074,886	1,070,285
Share premium		375,595	346,902	266,170
Shares held for Share Award Scheme		(51,701)	(65,254)	(47,803)
Employee share-based compensation reserve		43,079	47,032	49,669
Revaluation reserves		–	96,681	56,036
Designated reserves		563,401	552,383	694,853
Retained earnings	14	6,020,762	5,240,984	6,286,723
SHAREHOLDERS' FUNDS				
		8,027,326	7,293,614	8,375,933
TOTAL ASSETS				
		45,332,002	62,822,112	87,953,797
TOTAL LIABILITIES				
		37,304,676	55,528,498	79,577,864
SHAREHOLDERS' FUNDS PER SHARE				
		\$7.46	\$6.79	\$7.83

NOTES TO THE CONSOLIDATED ACCOUNTS

1. Basis of Preparation and Accounting Policies

These consolidated accounts have been prepared in accordance with HKFRSs issued by the HKICPA, which have been aligned with the requirements of IFRSs in all material respects as at 31 December 2009.

The Group adopted a number of new/revised/improved HKFRSs during 2009, details of which are as follows:

Adoption of new/revised HKFRSs effective in 2009

- Amendments to HKFRS 7: Improving Disclosures about Financial Instruments

Early adoption of new/revised HKFRSs

- HKFRS 9: Financial Instruments
- HKAS 24 (Revised): Related Party Disclosures

Early adoption of improvements to HKFRSs (2009)

- HKAS 17: Leases
- HKFRS 8: Operating Segments
- HKAS 7: Statement of Cash Flows

HKFRS 9 is the first part of a project to replace HKAS 39: Financial Instruments: Recognition and Measurement, and it replaces the classification and measurement requirements in HKAS 39 for financial assets. Previously, financial assets of the Group were classified as financial assets at fair value through profit or loss, available-for-sale financial assets or loans and receivables (which included bank deposits). The early adoption of HKFRS 9 has resulted in a change in accounting policy, and financial assets are classified into financial assets measured at fair value through profit or loss or financial assets measured at amortised cost. As HKFRS 9 was only issued in November 2009, the Group first applied the requirements of HKFRS 9 on 31 December 2009, which was not at the beginning of the reporting period. Under the transitional provisions, HKFRS 9 was applied to financial assets extant at the date of initial application (ie, 31 December 2009) and comparative figures were not restated. No adjustments to retained earnings or revaluation reserves were required as at 1 January 2009 because the available-for-sale financial assets as at 31 December 2009 solely comprised those assets purchased during 2009 and there was no reclassification from financial assets at fair value through profit or loss to financial assets measured at amortised cost or from loans and receivables to financial assets measured at fair value through profit or loss at that date.

The early adoption of the amendment to HKAS 17 has resulted in a change in accounting policy for the classification of leasehold land of the Group. Previously, leasehold land was classified as an operating lease and stated at cost less accumulated amortisation. In accordance with the amendment, leasehold land is classified as a finance lease and stated at cost less accumulated depreciation if substantially all risks and rewards of the leasehold land have been transferred to the Group. As the present value of the minimum lease payments (ie, the transaction price) of the land held by the Group amounted to substantially all of the fair value of the land as if it were freehold, the leasehold land of the Group has been classified as a finance lease. The amendment has been applied retrospectively to unexpired leases at the date of adoption of the amendment on the basis of information existing at the inception of the leases. The amendment does not apply to the leasehold land disposed of by the Group in prior years.

The adoption of the remaining new/revised/improved HKFRSs only affected the disclosures in the consolidated accounts but did not have any financial impact on the Group.

Change in accounting policy for the measurement of leasehold building

The Group has changed its accounting policy for measurement of leasehold building to cost less accumulated depreciation instead of depreciated replacement cost. This change means that the building component and the more significant land component of property leases are measured on the same basis. The change has been applied retrospectively to unexpired leases at the date of change of accounting policy. The effect of the change is shown in the tables below under the column HKAS 17 and building.

Effect of changes in accounting policies on consolidated income statement

	Effect of adopting				
	HKAS 17 and building		HKFRS 9	Total	
	2009	2008	2009	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000
Increase in net investment income	–	–	29,529	29,529	–
Decrease in premises expenses (land)	510	509	–	510	509
Increase in depreciation *	(846)	(833)	–	(846)	(833)
Decrease/(increase) in other operating expenses (building)	200	(12)	–	200	(12)
Decrease/(increase) in taxation	13	43	(4,514)	(4,501)	43
Total (decrease)/increase in profit	(123)	(293)	25,015	24,892	(293)
(Decrease)/increase in basic earnings per share	(0.01 cent)	(0.03 cent)	2.33 cents	2.32 cents	(0.03 cent)
(Decrease)/increase in diluted earnings per share	(0.01 cent)	(0.03 cent)	2.32 cents	2.31 cents	(0.03 cent)

* Included depreciation for land of \$510,000 (2008: \$509,000) and depreciation for building of \$336,000 (2008: \$324,000).

Effect of changes in accounting policies on consolidated statement of financial position

	Effect of adopting						
	HKAS 17 and building			HKFRS 9	Total		
	At	At	At	At	At	At	At
31 Dec 2009	31 Dec 2008	1 Jan 2008	31 Dec 2009	31 Dec 2009	31 Dec 2008	1 Jan 2008	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Increase/(decrease) in assets							
Fixed assets #	58,253	58,899	59,744	–	58,253	58,899	59,744
Lease premium for land (current and non-current)	(60,198)	(60,708)	(61,217)	–	(60,198)	(60,708)	(61,217)
Financial assets at fair value through profit or loss (current and non-current)	–	–	–	(6,128,894)	(6,128,894)	–	–
Financial assets measured at fair value through profit or loss (current and non-current)	–	–	–	14,024,878	14,024,878	–	–
Available-for-sale financial assets (current and non-current)	–	–	–	(9,188,368)	(9,188,368)	–	–
Financial assets at amortised cost (current and non-current)	–	–	–	(3,629,268)	(3,629,268)	–	–
Financial assets measured at amortised cost (current and non-current)	–	–	–	4,925,180	4,925,180	–	–
Deferred tax assets	–	–	–	75	75	–	–
Increase/(decrease) in liabilities/equity							
Taxation payable	–	–	–	1,353	1,353	–	–
Deferred tax liabilities	(114)	(101)	(58)	(1,054)	(1,168)	(101)	(58)
Revaluation reserves	–	–	–	(21,711)	(21,711)	–	–
Retained earnings	(1,831)	(1,708)	(1,415)	25,015	23,184	(1,708)	(1,415)

Included the increase due to the effect of HKAS 17 of \$60,198,000 as at 31 December 2009 (31 December 2008 and 1 January 2008: \$60,708,000 and \$61,217,000 respectively) and the decrease due to the change in accounting policy for leasehold building of \$1,945,000 as at 31 December 2009 (31 December 2008: \$1,809,000 and \$1,473,000 respectively).

Change in presentation of financial assets of Margin Funds, Clearing House Funds and Corporate Funds

Previously, financial assets of the Margin Funds, Clearing House Funds and Corporate Funds were presented separately on the face of the consolidated statement of financial position.

In 2009, as a simplification of the presentation of the consolidated statement of financial position, the financial assets of all Funds are combined and presented together according to their classification under HKFRS 9 or HKAS 39.

Comparative figures have been adjusted to conform with the changes in presentation.

Reclassification of financial guarantee contracts

In previous years, financial guarantee contracts were included as non-current liabilities as the amounts were not expected to be payable within 12 months. From 2009 onwards, the amounts are reclassified as current liabilities and included in “Other financial liabilities”, as it is the Group’s practice to pay the holders of the financial guarantee contracts when they demand payment.

Comparative figures have been adjusted to conform with the changes in presentation.

Change in presentation of cash collateral received from HKSCC Clearing Participants

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

Since the default of LBSA in September 2008, 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 obligation to refund the cash collateral received from HKSCC Clearing Participants is shown as “Cash collateral from HKSCC Clearing Participants” under current liabilities in the consolidated statement of financial position.

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

2. Turnover

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

3. Operating Segments

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

The Group has 4 reportable segments. The segments are managed separately as each business offers different products and services and requires different IT systems and marketing strategies. The following summary describes the operations in each of the Group’s reportable segments:

The **Cash Market** business mainly refers to the operations of the Stock Exchange, which covers all products traded on the Cash Market platforms, such as equities, debt securities, unit trusts, CBBCs, ETFs, warrants and rights. Currently, the Group operates 2 Cash Market platforms, the Main Board and the GEM. The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market.

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

The **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 and other selected financial information for the year by operating segment is as follows:

	2009					Group \$'000
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Inter- segment elimination (note (b)) \$'000	
Income from external customers	2,905,000	704,134	2,109,978	694,974	–	6,414,086
Net investment income	134,478	340,199	156,885	822	(11,430)	620,954
	3,039,478	1,044,333	2,266,863	695,796	(11,430)	7,035,040
Operating expenses						
Direct costs	602,129	157,363	332,978	50,117	(11,430)	1,131,157
Indirect costs	175,028	50,851	110,572	25,341	–	361,792
	777,157	208,214	443,550	75,458	(11,430)	1,492,949
Reportable segment profit before taxation	2,262,321	836,119	1,823,313	620,338	–	5,542,091
Interest income	27,581	240,484	34,685	169	(11,430)	291,489
Interest expenses (including interest rebates to Participants):						
- included under net investment income	(2)	(2,883)	(461)	–	–	(3,346)
- others	(13)	(4)	(11,438)	(2)	11,430	(27)
Depreciation	(47,930)	(9,935)	(40,195)	(3,113)	–	(101,173)
Other material non-cash items:						
Employee share-based compensation expenses	(11,889)	(2,248)	(5,008)	(1,438)	–	(20,583)
Reversal of provision for/(provision for) impairment losses	729	224	(114)	(45)	–	794
Additions to fixed assets (ie, non-current assets excluding financial assets and deferred tax assets)	6,512	23,422	3,607	1,154	–	34,695

As restated
2008

	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Inter- segment elimination (note (b)) \$'000	Group \$'000
Income from external customers	3,048,703	724,069	2,033,545	674,957	–	6,481,274
Net investment income	69,250	905,454	31,331	246	(7,106)	999,175
Gain on disposal of properties	33,442	11,580	19,116	4,503	–	68,641
	3,151,395	1,641,103	2,083,992	679,706	(7,106)	7,549,090
Operating expenses						
Direct costs	562,874	140,047	513,892	50,297	(7,106)	1,260,004
Indirect costs	165,959	58,006	113,783	23,201	–	360,949
	728,833	198,053	627,675	73,498	(7,106)	1,620,953
Reportable segment profit before taxation	2,422,562	1,443,050	1,456,317	606,208	–	5,928,137
Interest income	111,853	978,864	43,857	398	(7,106)	1,127,866
Interest expenses (including interest rebates to Participants):						
- included under net investment income	(921)	(69,201)	(6,290)	(3)	–	(76,415)
- others	(122)	(42)	(7,193)	(17)	7,106	(268)
Depreciation	(46,515)	(7,169)	(53,334)	(2,628)	–	(109,646)
Other material non-cash items:						
Employee share-based compensation expenses	(15,105)	(3,401)	(7,978)	(1,695)	–	(28,179)
Provision for impairment losses	(1,618)	(57)	(163,259)	(31)	–	(164,965)
Additions to fixed assets (ie, non-current assets excluding financial assets and deferred tax assets)	12,711	26,283	61,288	2,701	–	102,983

- (a) The accounting policies of the reportable segments are the same as the Group's accounting policies. The segment information provided above has been revised from that originally provided to the chief operating decision-makers to reflect the implementation of HKFRS 9 (2009), the amendment to HKAS 17 and the change in accounting policy for leasehold building (2009 and 2008). Decisions made by the chief operating decision-makers on the basis of the original segment information would not have changed had the revised information been available at the time. The chief operating decision-makers have reviewed the revised segment results information.

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.
- (c) Geographical information

The Group's income from external customers is derived solely from its operations in Hong Kong. Its non-current assets (excluding financial assets and deferred tax assets) by geographical location are detailed below:

	At 31 Dec 2009 \$'000	As restated At 31 Dec 2008 \$'000	As restated At 1 Jan 2008 \$'000
Hong Kong	305,359	372,442	379,992
China	569	843	29
	305,928	373,285	380,021

(d) Information about major customers

In 2009 and 2008, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's total revenue.

4. Other Revenue

	2009 \$'000	2008 \$'000
Network, terminal user, dataline and software sub-license fees	320,829	289,783
Participants' subscription and application fees	35,037	34,614
Brokerage on direct IPO allotments	16,467	5,313
Trading booth user fees	15,132	9,603
Accommodation income on securities deposited by Participants as alternatives to cash deposits of Margin Funds	4,908	21,844
Sales of Trading Rights	9,500	8,335
Miscellaneous revenue	15,529	21,363
	417,402	390,855

5. Net Investment Income

	2009 \$'000	2008 \$'000
Interest income		
Available-for-sale financial assets		
– listed securities	6,497	11,573
– unlisted securities	162,432	551,568
	168,929	563,141
Loans and receivables		
– bank deposits	80,879	564,725
Financial assets measured at amortised cost		
– bank deposits	29,953	–
– listed securities	658	–
– unlisted securities	11,070	–
	41,681	–
Gross interest income	291,489	1,127,866
Interest rebates to Participants on financial liabilities not at fair value through profit or loss	(3,346)	(76,415)
Net interest income	288,143	1,051,451
Net realised and unrealised gains/(losses) and interest income on financial assets at fair value through profit or loss		
<u>On designation</u>		
– unlisted securities	254	–
– bank deposits with embedded derivatives	55	171
– exchange differences	1,551	–
	1,860	171
<u>Held for trading</u>		
– listed securities	60,935	(63,822)
– unlisted securities	10,155	41,149
– exchange differences	89,298	68,212
	160,388	45,539
	162,248	45,710
Net unrealised gains and interest income on financial assets mandatorily measured at fair value through profit or loss		
– listed securities	128,543	–
– unlisted securities	130,084	–
– bank deposits with embedded derivatives	1,064	–
– exchange differences	47,530	–
	307,221	–
Net realised and unrealised losses on financial liabilities at fair value through profit or loss, held for trading		
– listed securities	(2,632)	(11,369)
– exchange differences	(137,201)	(92,233)
	(139,833)	(103,602)
Realised gains on disposal of unlisted available-for-sale financial assets	1,500	1,523
Dividend income from listed financial assets:		
– at fair value through profit or loss	1,399	3,769
– measured at fair value through profit or loss	1,012	–
Other exchange differences	(736)	324
Net investment income	620,954	999,175

	2009 \$'000	2008 \$'000
Net investment income/(loss) was derived from:		
Corporate Funds	303,571	82,709
Cash collateral	(139)	347
Margin Funds	306,598	895,151
Clearing House Funds	10,924	20,968
	620,954	999,175

6. Gain on Disposal of Properties

The Group sold its last investment property and one of its leasehold properties in 2008, generating a gain of \$68,641,000.

7. Other Operating Expenses

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

The amount for 2008 mainly included \$154,968,000 of provision for impairment loss of trade receivables arising from the default on market contracts by LBSA.

(b) Others

	2009 \$'000	2008 \$'000
(Reversal of provision for)/provision for impairment losses of other trade receivables	(1,218)	1,757
Provision for impairment loss of leasehold improvements	754	–
Insurance	4,068	4,394
Financial data subscription fees	5,154	4,499
Custodian and fund management fees	11,012	11,901
Bank charges	12,656	9,711
Repair and maintenance expenses	10,116	8,389
License fees	14,576	15,009
Communication expenses	5,096	5,486
Overseas travel expenses	4,212	6,474
Contribution to Financial Reporting Council	2,500	2,500
Charitable donations	542	10,633
Other miscellaneous expenses	37,856	33,428
	107,324	114,181

8. Taxation

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

	2009 \$'000	As restated 2008 \$'000
Provision for Hong Kong Profits Tax for the year (note (a))	836,487	815,183
Over provision in respect of prior years	(5,690)	(152)
	830,797	815,031
Deferred taxation	7,250	(15,525)
	838,047	799,506

- (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 year.

9. Dividends

	2009 \$'000	2008 \$'000
Interim dividend paid:		
\$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
Final dividend proposed (notes (a) and (b)):		
\$2.09 (2008: \$1.80) per share based on issued share capital as at the year end	2,249,238	1,934,795
Less: Dividend for shares held by Share Award Scheme as at the year end	(1,412)	(1,704)
	2,247,826	1,933,091
	4,225,936	4,606,466

- (a) Actual 2008 final dividend paid was \$1,934,708,000 (after eliminating \$1,802,000 paid for shares held by the Share Award Scheme, of which \$98,000 relates to shares acquired by the Share Award Scheme less shares vested to employees after 31 December 2008), of which \$1,715,000 was paid for shares issued for employee share options exercised after 31 December 2008.
- (b) The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

10. Earnings Per Share

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

(a) Basic earnings per share

	2009	As restated 2008
Profit attributable to shareholders (\$'000)	4,704,044	5,128,631
Weighted average number of shares in issue less shares held for Share Award Scheme	1,074,704,459	1,072,223,011
Basic earnings per share	\$4.38	\$4.78

(b) Diluted earnings per share

	2009	As restated 2008
Profit attributable to shareholders (\$'000)	4,704,044	5,128,631
Weighted average number of shares in issue less shares held for Share Award Scheme	1,074,704,459	1,072,223,011
Effect of employee share options	3,245,832	5,325,004
Effect of Awarded Shares	902,650	1,146,735
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,078,852,941	1,078,694,750
Diluted earnings per share	\$4.36	\$4.75

11. Financial Assets

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

	At 31 Dec 2009 \$'000	At 31 Dec 2008 \$'000	At 1 Jan 2008 \$'000
Clearing House Funds			
Financial assets measured at fair value through profit or loss	409,585	–	–
Available-for-sale financial assets	–	371,494	361,506
Financial assets at amortised cost	–	21,708	–
Financial assets measured at amortised cost	51,280	–	–
Cash and cash equivalents	1,280,726	843,109	1,841,508
	1,741,591	1,236,311	2,203,014
Margin Funds			
Financial assets measured at fair value through profit or loss	8,672,979	–	–
Available-for-sale financial assets	–	16,440,918	16,735,006
Financial assets at amortised cost	–	3,205,408	2,508,559
Financial assets measured at amortised cost	2,853,991	–	–
Accounts receivable, prepayments and deposits	9,300	8,835	3,068
Cash and cash equivalents	8,706,668	22,184,833	36,182,526
	20,242,938	41,839,994	55,429,159
	21,984,529	43,076,305	57,632,173

12. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's CNS money obligations receivable under the T+2 settlement cycle, which accounted for 92 per cent (31 December 2008 and 1 January 2008: 93 per cent and 94 per cent respectively) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within 2 days after the trade date. The majority of the remaining accounts receivable, prepayments and deposits were due within 3 months.

13. 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 89 per cent (31 December 2008 and 1 January 2008: 89 per cent (as restated) and 92 per cent (as restated) respectively) of the total accounts payable, accruals and other liabilities. CNS money obligations payable mature within 2 days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within 3 months.

14. Retained Earnings (Including Proposed Dividend)

	2009 \$'000	As restated 2008 \$'000
At 1 Jan, as previously reported	5,242,692	6,288,138
Effect of changes in accounting policies	(1,708)	(1,415)
At 1 Jan, as restated	5,240,984	6,286,723
Profit attributable to shareholders (note (a))	4,704,044	5,128,631
Transfer (to)/from Clearing House Funds reserves	(11,018)	142,470
Transfer from leasehold buildings revaluation reserve on disposal of a leasehold property	–	3,155
	(11,018)	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	3,914	2,566
Vesting of shares of Share Award Scheme	(4,344)	(3,027)
At 31 Dec	6,020,762	5,240,984
Representing:		
Retained earnings	3,772,936	3,307,893
Proposed dividend	2,247,826	1,933,091
At 31 Dec	6,020,762	5,240,984

- (a) The Group's profit attributable to shareholders 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 \$11,018,000 (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).

FINAL DIVIDEND

The Board recommends the payment of a final dividend of \$2.09 per share (2008: \$1.80 per share) to Shareholders whose names appear on HKEx's ROM on 22 April 2010, and the retention of the remaining profit for the year. The proposed final dividend together with the interim dividend payment amounts to a total of about \$4,229 million (including dividends of about \$3.3 million for shares held in trust under the Share Award Scheme) (2008: \$4,613 million, including dividends of about \$4.9 million for shares held in trust under the Share Award Scheme).

CLOSURE OF REGISTER OF MEMBERS

HKEx's ROM will be closed from Monday, 19 April 2010 to Thursday, 22 April 2010, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify for the proposed final dividend and be entitled to attend and vote at the 2010 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with HKEx's registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on Friday, 16 April 2010. Subject to Shareholders' approval of the proposed final dividend at the 2010 AGM, dividend warrants will be despatched on Monday, 3 May 2010 to shareholders whose names are on HKEx's ROM on 22 April 2010.

ANNUAL GENERAL MEETING

The 2010 AGM will be held on Thursday, 22 April 2010 at 4:30 pm at the Exchange Auditorium in the Exchange Exhibition Hall of the Stock Exchange on 1st Floor, One and Two Exchange Square, Central, Hong Kong. The Notice of the 2010 AGM will be published on the Investor Relations section on the HKEx website at www.hkex.com.hk and the HKExnews website at www.hkexnews.hk, and despatched to Shareholders on or about Thursday, 18 March 2010.

APPOINTMENT AND ELECTION OF DIRECTORS

The Board currently consists of 13 Directors including 6 Government Appointed Directors, 6 Elected Directors, and the Chief Executive who is an ex-officio Director.

The 3 Government Appointed Directors, namely Mr Ronald J Arculli, Mrs Laura M Cha and Dr Moses M C Cheng, will retire in accordance with their respective terms of service at the conclusion of the 2010 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.

The respective terms of office of 2 Elected Directors, namely Messrs John E Strickland and Oscar S H Wong, will expire at the conclusion of the 2010 AGM. Pursuant to Article 93(5) of HKEx's Articles, both of them are eligible for re-appointment.

Candidates standing for election at general meetings are recommended by either Shareholders or the Board. On 4 March 2010, the Board accepted the Nomination Committee's recommendation to nominate Messrs John E Strickland and Oscar S H Wong to stand for election by Shareholders at the 2010 AGM. Messrs Strickland and Wong abstained from voting on recommending them for election by Shareholders. Messrs Strickland and Wong are not connected with any other Directors, senior management, substantial shareholders (as defined in the Main Board Listing Rules) or controlling shareholders (as defined in the Main Board Listing Rules) of HKEx, and do not have

any service contract with any member of the Group that is not determinable by the Group within 1 year without payment of compensation (other than statutory compensation). Their particulars are set out in the Circular to Shareholders to be sent together with the 2009 Annual Report.

Shareholders may, if thought fit, nominate other candidates to stand for election as Director(s) at the 2010 AGM to fill the 2 vacancies available consequent on the retirement of Messrs John E Strickland and Oscar S H Wong.

The candidate(s), if elected, will be appointed as a Director with effect from the conclusion of the 2010 AGM for a term of not more than approximately 3 years expiring at the conclusion of the Company's annual general meeting to be held in 2013.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2009, including the accounting principles and practices adopted by the Group, in conjunction with HKEx's external auditor and internal auditors.

EMPLOYEES

Quality and dedicated staff are valuable assets contributing to the Group's success. HKEx's remuneration policy is built on the principle of providing an equitable, performance-oriented, motivating and market-competitive remuneration package to every employee. To enable our employees to reach their full potential, we are committed to staff training and development. In 2009, HKEx spent \$4.8 million on staff training and organised 136 in-house training classes with more than 4,800 participants in aggregate. In addition, 15 employees of different grades participated in the academic sponsorship programme and 765 participants attended external training programmes. HKEx's e-learning programme also provided a variety of courses covering managerial, language and technical skills to 114 employees.

As at 31 December 2009, the Group had 841 permanent employees (2008: 848) and 9 temporary employees (2008: 17), and maintained a low turnover rate of 3 per cent (2008: 7 per cent).

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 respectively. Save as disclosed in this paragraph, HKEx 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 year ended 31 December 2009.

The Board proposed to make certain amendments to HKEx's Articles with the aim of facilitating decision making process and corporate communication with Shareholders, and the related resolution will be put forth for Shareholders' approval at the 2010 AGM. The proposed amendments to HKEx's Articles mainly address some practicable issues in relation to (i) resolutions in writing by Directors and committees; (ii) the period in which notices for the nomination of Directors for election at a general meeting may be given by a Shareholder; and (iii) the despatch of the Company's corporate communications to Shareholders by posting them on its website upon the permission of using such facility by Hong Kong-incorporated listed companies under the relevant laws of Hong Kong. An explanatory statement in connection with the proposed changes will be set out in the Circular to Shareholders to be sent together with the 2009 Annual Report.

PURCHASE, SALE OR REDEMPTION OF HKEx'S LISTED SECURITIES

In 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 \$8.6 million.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the HKEx website at www.hkex.com.hk/relation/results/ResultsAnn.htm and the HKExnews website at www.hkexnews.hk. The 2009 Annual Report will be available on both websites and despatched to Shareholders on or about Thursday, 18 March 2010.

BOARD OF DIRECTORS

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

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

Hong Kong, 4 March 2010

Glossary

2010 AGM	Annual general meeting to be held on 22 April 2010
AMS/3	The Automatic Order Matching and Execution System/Third Generation
Awarded Shares	Shares awarded under the Share Award Scheme
Board	Board of HKEx
CBBC(s)	Callable Bull/Bear Contract(s)
CCASS	The Central Clearing and Settlement System
CCASS/3	The Latest Generation of CCASS
CG Code	Code on Corporate Governance Practices
CNS	Continuous Net Settlement
DCASS	The Derivatives Clearing and Settlement System
Director(s)	Director(s) of HKEx
DI	Disclosure of Interests
DW(s)	Derivative Warrant(s)
eIPO	Electronic IPO
Elected Director(s)	Director(s) elected by the Shareholders at general meetings
ELI	Equity Linked Instrument
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
FSTB	Financial Services and the Treasury Bureau
GEM	The Growth Enterprise Market
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKAS	Hong Kong Accounting Standard
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKEx's Articles	HKEx's Articles of Association
HKFRS(s)	Hong Kong Financial Reporting Standard(s)
HKICL	Hong Kong Interbank Clearing Limited
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSCC	Hong Kong Securities Clearing Company Limited
Hong Kong Government	Government of the Hong Kong Special Administrative Region of the People's Republic of China
H-shares Index or HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index
IFRSs	International Financial Reporting Standards
INED(s)	Independent Non-executive Director(s)
IP(s)	Investor Participant(s)
IPO(s)	Initial Public Offering(s)
ISI(s)	Investor SI(s)
IT	Information Technology
IV(s)	Information Vendor(s)
LBSA	Lehman Brothers Securities Asia Limited
Listing Committees	Listing Committee and GEM Listing Committee
Listing Rules	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDF	The Market Datafeed System
MOU	Memorandum of Understanding
OTC	Over-the-counter
OTEP(s)	Options Trading Exchange Participant(s)
PRS	The Price Reporting System
REIT(s)	Real Estate Investment Trust(s)
RMB	Renminbi
ROM	Register of Members
SEOH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
SI(s)	Settlement Instruction(s)
SSE	Shanghai Stock Exchange
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
USD	United States Dollar
\$/HKD	Hong Kong Dollar