HKEx
香港交易所

(Stock Code: 388)

Consolidated Financial Statements

For the year ended 31 December 2008

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

(Financial figures are expressed in Hong Kong Dollar)

	Note	**2008 $'000**	2007 $'000
Trading fees and trading tariff	5	**2,803,081**	3,086,250
Stock Exchange listing fees	6	**711,983**	688,538
Clearing and settlement fees		**1,405,202**	1,577,433
Depository, custody and nominee services fees		**496,708**	627,103
Income from sale of information		**673,445**	678,909
Other revenue	7(a)	**390,855**	489,109
REVENUE		**6,481,274**	7,147,342
Investment income		**1,075,590**	1,949,955
Interest rebates to Participants		**(76,415)**	(711,727)
Net investment income	8	**999,175**	1,238,228
Other income	7(b)	**68,641**	4,900
	4	**7,549,090**	8,390,470
OPERATING EXPENSES			
Staff costs and related expenses	9	**803,106**	827,116
Information technology and computer maintenance expenses	10	**238,917**	207,422
Premises expenses		**150,295**	132,244
Product marketing and promotion expenses		**16,986**	14,054
Legal and professional fees		**25,128**	27,185
Depreciation		**108,813**	79,144
Other operating expenses:			
Provision for impairment losses arising from Participants' default on market contracts	11(a)	**163,203**	-
Others	11(b)	**114,169**	124,400
	4	**1,620,617**	1,411,565
	4	**5,928,473**	6,978,905
GAIN ON DISPOSAL OF AN ASSOCIATE	4/12	**-**	206,317
SHARE OF PROFIT OF AN ASSOCIATE	4	**-**	5,587
PROFIT BEFORE TAXATION	4/13	**5,928,473**	7,190,809
TAXATION	16(a)	**(799,549)**	(1,021,531)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	40	**5,128,924**	6,169,278
Earnings per share			
Basic	18(a)	**$4.78**	$5.78
Diluted	18(b)	**$4.75**	$5.72

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2008

(Financial figures are expressed in Hong Kong Dollar)

	2008 **$'000**	2007 $'000
Profit attributable to shareholders	**5,128,924**	6,169,278
Other comprehensive income:		
Available-for-sale financial assets:		
Change in fair value during the year	**111,494**	63,421
Change in fair value on maturity	**(54,451)**	(9,951)
Less: Reclassification adjustment:		
Gains included in profit or loss on disposal	**(4,678)**	-
Deferred tax	**(8,565)**	(8,460)
	43,800	45,010
Cash flow hedges:		
Fair value gains of hedging instruments	-	132
Less: Reclassification adjustments:		
Gains reclassified to profit or loss as information technology and computer maintenance expenses	-	(70)
Gains reclassified to profit or loss as net investment income	-	(62)
	-	-
Leasehold buildings:		
Change in valuation	-	(44)
Deferred tax arising from change in valuation	-	7
Deferred tax arising from reclassification of a leasehold building to "Non-current assets held for sale"	-	552
	-	515
Less: Reclassification adjustment:		
Share of other comprehensive income of an associate reclassified to profit or loss on disposal	-	(58)
Other comprehensive income attributable to shareholders, net of tax	**43,800**	45,467
Total comprehensive income attributable to shareholders	**5,172,724**	6,214,745

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

(Financial figures are expressed in Hong Kong Dollar)

	Share capital, share premium and shares held for Share Award Scheme (note 34) $'000	Employee share-based compensation reserve (note 35) $'000	Other comprehensive income		Designated reserves (note 38) $'000	Retained earnings (note 40) $'000	Total equity $'000
			Revaluation reserves (note 36) $'000	Hedging reserve (note 37) $'000			
At 1 Jan 2007	1,200,093	52,119	10,569	-	627,816	3,366,989	5,257,586
Total comprehensive income attributable to shareholders	-	-	45,467	-	-	6,169,278	6,214,745
2006 final dividend at $1.19 per share	-	-	-	-	-	(1,270,266)	(1,270,266)
2007 interim dividend at $1.79 per share	-	-	-	-	-	(1,912,193)	(1,912,193)
Unclaimed dividend forfeited	-	-	-	-	-	2,454	2,454
Shares issued under employee share option schemes	66,052	-	-	-	-	-	66,052
Shares purchased for Share Award Scheme	(4,879)	-	-	-	-	-	(4,879)
Vesting of shares of Share Award Scheme	8,373	(7,286)	-	-	-	(1,087)	-
Employee share-based compensation benefits	-	24,362	-	-	-	-	24,362
Share of reserve of an associate:							
- during the year	-	47	-	-	-	-	47
- eliminated through disposal of associate	-	(560)	-	-	-	-	(560)
Transfer of reserves	19,013	(19,013)	-	-	67,037	(67,037)	-
At 31 Dec 2007	1,288,652	49,669	56,036	-	694,853	6,288,138	8,377,348
At 1 Jan 2008	**1,288,652**	**49,669**	**56,036**	**-**	**694,853**	**6,288,138**	**8,377,348**
Total comprehensive income attributable to shareholders	-	**-**	**43,800**	-	-	**5,128,924**	**5,172,724**
2007 final dividend at $3.40 per share	-	-	-	-	-	**(3,646,159)**	**(3,646,159)**
2008 interim dividend at $2.49 per share	-	-	-	-	-	**(2,673,375)**	**(2,673,375)**
Unclaimed dividend forfeited	-	-	-	-	-	**2,566**	**2,566**
Shares issued under employee share option schemes	**66,533**	**-**	**-**	**-**	**-**	**-**	**66,533**
Shares purchased for Share Award Scheme	**(32,494)**	**-**	**-**	**-**	**-**	**-**	**(32,494)**
Vesting of shares of Share Award Scheme	**15,043**	**(12,016)**	**-**	**-**	**-**	**(3,027)**	**-**
Employee share-based compensation benefits	**-**	**28,179**	**-**	**-**	**-**	**-**	**28,179**
Transfer of reserves	**18,800**	**(18,800)**	**(3,155)**	**-**	**(142,470)**	**145,625**	**-**
At 31 Dec 2008	**1,356,534**	**47,032**	**96,681**	**-**	**552,383**	**5,242,692**	**7,295,322**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2008

(Financial figures are expressed in Hong Kong Dollar)

	Note	**2008 $'000**	2007 $'000
NON-CURRENT ASSETS			
Fixed assets	19(a)	**311,179**	317,065
Lease premium for land	21	**60,199**	60,708
Financial assets of Margin Funds on derivatives contracts	22	**-**	456,396
Available-for-sale financial assets	23	**-**	25,270
Deferred tax assets	31(e)	**4,429**	3,610
Other financial assets		**47,172**	19,177
Other assets		**3,207**	3,212
		426,186	885,438
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	24	**8,526,557**	18,364,129
Lease premium for land	21	**509**	509
Tax recoverable		**-**	148
Financial assets of Clearing House Funds	25	**393,202**	361,506
Cash and cash equivalents of Clearing House Funds	25	**843,109**	1,841,508
		1,236,311	2,203,014
Financial assets of Margin Funds on derivatives contracts	22	**19,655,161**	18,790,237
Cash and cash equivalents of Margin Funds on derivatives contracts	22	**22,184,833**	36,182,526
		41,839,994	54,972,763
Financial assets at fair value through profit or loss	26	**3,020,035**	2,996,555
Available-for-sale financial assets	23	**2,581,683**	3,041,737
Time deposits with original maturities over three months		**436,896**	682,174
Cash and cash equivalents		**4,755,750**	4,744,711
		62,397,735	87,005,740
Non-current assets held for sale	27	**-**	64,092
		62,397,735	87,069,832
CURRENT LIABILITIES			
Participants' contributions to Clearing House Funds	25	**197,520**	1,252,355
Other financial liabilities of Clearing House Funds	25	**72,319**	10,810
Margin deposits from Clearing Participants on derivatives contracts	22	**41,839,991**	55,428,888
Other financial liabilities of Margin Funds on derivatives contracts	22	**3**	271
Accounts payable, accruals and other liabilities	28	**12,410,854**	21,375,909
Financial liabilities at fair value through profit or loss	26	**26,254**	6,149
Participants' admission fees received	29	**83,150**	85,600
Deferred revenue		**392,688**	375,174
Taxation payable		**141,363**	687,726
Provisions	30(a)	**36,290**	29,630
		55,200,432	79,252,512
NET CURRENT ASSETS		**7,197,303**	7,817,320
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,623,489**	8,702,758

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

	Note	**2008 $'000**	2007 $'000
NON-CURRENT LIABILITIES			
Participants' contributions to Clearing House Funds	25	**252,000**	244,500
Deferred tax liabilities	31(e)	**30,775**	36,873
Financial guarantee contract	32(a)	**19,909**	19,909
Provisions	30(a)	**25,483**	24,128
		328,167	325,410
NET ASSETS		**7,295,322**	8,377,348
CAPITAL AND RESERVES			
Share capital	34	**1,074,886**	1,070,285
Share premium	34	**346,902**	266,170
Shares held for Share Award Scheme	34	**(65,254)**	(47,803)
Employee share-based compensation reserve	35	**47,032**	49,669
Revaluation reserves	36	**96,681**	56,036
Designated reserves	38	**552,383**	694,853
Retained earnings	40	**5,242,692**	6,288,138
SHAREHOLDERS' FUNDS		**7,295,322**	8,377,348
TOTAL ASSETS		**62,823,921**	87,955,270
TOTAL LIABILITIES		**55,528,599**	79,577,922
SHAREHOLDERS' FUNDS PER SHARE		**$6.79**	$7.83

Approved by the Board of Directors on 4 March 2009

Ronald Joseph ARCULLI
Director

CHOW Man Yiu, Paul
Director

HONG KONG EXCHANGES AND CLEARING LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2008
(Financial figures are expressed in Hong Kong Dollar)

	Note	**2008 $'000**	2007 $'000
NON-CURRENT ASSETS			
Fixed assets	19(b)	**23,237**	19,206
Investments in subsidiaries	33(a)	**4,156,588**	4,156,588
Contributions to HKEx Employee Share Trust	33(d)	**56,946**	43,635
Deferred tax assets	31(e)	**4,393**	3,610
Other financial assets		**720**	481
Other assets		**3,089**	3,089
		4,244,973	4,226,609
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	24	**17,434**	17,136
Amounts due from subsidiaries	33(b)	**1,839,066**	1,171,921
Available-for-sale financial assets	23	**8,220**	-
Time deposits with original maturities over three months		**142,167**	46,880
Cash and cash equivalents		**31,680**	20,184
		2,038,567	1,256,121
CURRENT LIABILITIES			
Accounts payable, accruals and other liabilities	28	**175,211**	167,044
Amounts due to subsidiaries	33(b)	**32,269**	522,218
Taxation payable		**24,052**	12,982
Provisions	30(b)	**35,104**	29,630
		266,636	731,874
NET CURRENT ASSETS		**1,771,931**	524,247
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,016,904**	4,750,856
NON-CURRENT LIABILITIES			
Provisions	30(b)	**634**	575
Financial guarantee contract	32(b)	**11,390**	11,390
		12,024	11,965
NET ASSETS		**6,004,880**	4,738,891
CAPITAL AND RESERVES			
Share capital	34	**1,074,886**	1,070,285
Share premium	34	**346,902**	266,170
Employee share-based compensation reserve	35	**47,032**	49,669
Revaluation reserves	36	**111**	-
Merger reserve	39	**2,997,115**	2,997,115
Retained earnings	40	**1,538,834**	355,652
SHAREHOLDERS' FUNDS		**6,004,880**	4,738,891
TOTAL ASSETS		**6,283,540**	5,482,730
TOTAL LIABILITIES		**278,660**	743,839
SHAREHOLDERS' FUNDS PER SHARE		**$5.59**	$4.43

Approved by the Board of Directors on 4 March 2009

Ronald Joseph ARCULLI
Director

CHOW Man Yiu, Paul
Director

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008

(Financial figures are expressed in Hong Kong Dollar)

	Note	2008 $'000	2007 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	41	**5,049,315**	7,648,334
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		**(221,378)**	(68,727)
Net proceeds from sales of properties		**132,733**	-
Net proceeds from sales of fixed assets		**2,435**	262
Net proceeds from disposal of an associate		**-**	270,050
Dividends received from an associate		**-**	9,660
Decrease/(increase) in time deposits with original maturities more than three months		**245,278**	(457,677)
Net (increase)/decrease in available-for-sale financial assets of the Corporate Funds:			
Payments for purchases of available-for-sale financial assets		**(4,592,100)**	(6,232,436)
Net proceeds from sales or maturity of available-for-sale financial assets		**5,117,831**	3,800,300
Interest received from available-for-sale financial assets		**524,732**	653,307
Net cash inflow/(outflow) from investing activities		**1,209,531**	(2,025,261)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		**66,533**	66,052
Purchases of shares for Share Award Scheme		**(32,494)**	(4,879)
Dividends paid		**(6,281,846)**	(3,163,445)
Net cash outflow from financing activities		**(6,247,807)**	(3,102,272)
Net increase in cash and cash equivalents		**11,039**	2,520,801
Cash and cash equivalents at 1 Jan		**4,744,711**	2,223,910
Cash and cash equivalents at 31 Dec		**4,755,750**	4,744,711
Analysis of cash and cash equivalents			
Time deposits with original maturities within three months		**534,963**	1,774,729
Cash at bank and in hand		**4,220,787**	2,969,982
Cash and cash equivalents at 31 Dec		**4,755,750**	4,744,711

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

NOTES TO THE CONSOLIDATED ACCOUNTS

(Financial figures are expressed in Hong Kong Dollar)

1. General Information

Hong Kong Exchanges and Clearing Limited ("HKEx") and its subsidiaries (collectively, the "Group") own and operate the only stock exchange and futures exchange in Hong Kong and their related clearing houses.

HKEx is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is 12th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

These consolidated accounts were approved for issue by the Board of Directors ("Board") on 4 March 2009.

2. Principal Accounting Policies

(a) Statement of compliance

These consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Main Board Listing Rules"). HKFRSs have been aligned with the requirements of International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") in all material respects as at 31 December 2008.

(b) Basis of preparation

These consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of leasehold buildings, investment properties, available-for-sale financial assets and financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts are disclosed in note 3.

<u>Adoption of new / revised HKFRSs</u>

In 2008, the Group adopted the amendments to HKAS 39 and HKFRS 7: Reclassification of Financial Assets, which were the only new/revised HKFRSs effective in 2008 that were relevant to its operations.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

The amendments to HKAS 39 and HKFRS 7 permit reclassification of non-derivative securities (other than those designated as fair value through profit or loss upon initial recognition) out of the trading category in rare circumstances. The amendments also permit reclassification of non-derivative securities (other than those designated as fair value through profit or loss upon initial recognition) which would have met the definition of loans and receivables out of the trading category (ie, out of the fair value through profit or loss category) if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity. The reclassified assets would be carried at their fair value on the date of reclassification, which will become their new costs or amortised costs, as applicable. The amendments also permit reclassification of financial assets from the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity. The amendments to HKAS 39 and HKFRS 7 are effective from 1 July 2008 and they can only be applied prospectively from that date. The adoption of the amendments to HKAS 39 and HKFRS 7 did not have any financial impact to the Group as no reclassification of financial assets was made by the Group in 2008.

Early adoption of new/revised HKFRSs

For the year 2008, the Group early adopted all new/revised HKFRSs issued up to 31 December 2008 which were pertinent to its operations where early adoption was permitted. The applicable HKFRSs are set out below:

HKFRS 2 (Amendment)	Vesting Conditions and Cancellation
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
Amendments to HKFRS 1 and HKAS 27	Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners

HKFRS 2 (Amendment) deals with vesting conditions and cancellations of share-based payment arrangements. It clarifies that vesting conditions are service conditions (which require the counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. Other features of a share-based payment are not vesting conditions. These non-vesting features shall be taken into account when estimating the fair value of the equity instruments granted and would not affect the number of awards expected to vest. All cancellations, whether by the entity or by other parties, are accounted for as an acceleration of the vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The application of the amendment requires retrospective application. The early adoption of HKFRS 2 (Amendment) did not have any financial impact to the Group in 2008 or prior years as the Group did not have share-based payment arrangements which contain non-vesting features and no share-based payment arrangements have been cancelled.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

HKFRS 3 (Revised) continues to apply acquisition method to business combinations, with a number of major changes: All payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as liabilities subsequently remeasured through the income statement (rather than by adjusting goodwill). All acquisition-related costs will no longer be capitalised as part of the costs of the acquisition but will be expensed immediately.

HKAS 27 (Revised) specifies the accounting treatment when control is lost - any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

HKFRS 3 (Revised) requires prospective application and HKAS 27 (Revised) should be applied at the same time. The changes to HKAS 27 (Revised) require retrospective applications with certain exceptions (accounting for loss of control of a subsidiary should be applied prospectively). The early adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) did not have any financial impact to the Group as there were no business acquisitions or disposals by the Group in 2008.

The amendments to HKFRS 1 and HKAS 27 require all dividends be presented as income in the separate financial statements of the investor (prior to the amendments, the investor recognises income from the investment only to the extent that the investor receives distributions from retained earnings of the investee arising after the date of acquisition, and distributions received in excess of such profits are regarded as recovery of investment and are recognised as a reduction of the cost of the investment). The amendments to HKFRS 1 and HKAS 27 require prospective application. The adoption of the amendments to HKFRS 1 and HKAS 27 did not have any financial impact to HKEx as HKEx did not receive distributions from subsidiaries that are in excess of their retained earnings arising after the date of acquisition in 2008.

HK(IFRIC)-Int 17 (the "interpretation") clarifies that a dividend payable in the form of non-cash assets should be recognised when the dividend is appropriately authorised and the dividend payable should be measured at the fair value of the net assets to be distributed. The difference between the dividend paid and the carrying amount of the net assets distributed should be recognised in profit or loss. The interpretation requires prospective application. The early adoption of HK(IFRIC)-Int 17 did not have any financial impact to the Group as the Group did not distribute non-cash assets to shareholders in 2008.

<u>Improvements to HKFRSs</u>

In October 2008, the HKICPA published several improvements to HKFRSs which were based on the annual improvements project of IASB. In the fourth quarter of 2008, the Group early adopted all such amendments which were pertinent to its operations where early adoption was permitted. The applicable HKFRSs are set out below:

<u>HKAS 1: Presentation of Financial Statements</u>

Assets and liabilities classified as held for trading in accordance with HKAS 39: Financial Instruments - Recognition and Measurement are not automatically classified as current in the consolidated statement of financial position. The Group amended its accounting policy accordingly and classified the financial assets and liabilities in accordance with management's intention of the period of realisation. The application of the amendment requires retrospective application. The adoption of the amendment did not result in any reclassification of financial instruments between current and non-current in the consolidated statement of financial position.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

HKAS 28: Investment in Associates

An investment in associate is a single asset for the purpose of conducting impairment test. Therefore, any impairment loss is not separately allocated to any asset (including goodwill) within the investment. Reversals of impairment are permitted and are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The amendment can be applied prospectively. This did not have any financial impact to the Group as the Group disposed of its last associate in 2007.

HKAS 38: Intangible Assets

Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. Retrospective application is required. The adoption of this amendment did not have any financial impact to the Group as the Group's accounting policy already complies with this amendment.

HKAS 39: Financial Instruments - Recognition and Measurement

This amendment clarifies that it is possible for a derivative to move into or out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in a cash flow or net investment hedge. The amendment should be applied as of the date and in the manner the Group applied the 2005 amendment (fair value option) to HKAS 39 (ie, 1 January 2005). The adoption of this amendment did not have financial impact to the Group as no such derivatives were held by the Group in 2008 or prior years.

All relevant changes in accounting policies and disclosures have been made in accordance with the provisions of the respective standards.

Effects of HKFRSs that were issued after 31 December 2008 and up to the date of approval of the consolidated accounts

Subsequent to 31 December 2008 and up to the date of approval of these consolidated accounts, the HKICPA has issued one HKFRS – HK(IFRIC)-Int 18: Transfer of Assets from Customers, which is not applicable to the Group's operations.

Changes in presentation of Margin Funds and Clearing House Funds

In previous years, financial assets and financial liabilities of the Margin Funds (except for margin deposits from Clearing Participants) were presented in the consolidated statement of financial position as a single item, "Margin Funds on derivatives contracts", under current assets. Similarly, financial assets and financial liabilities of the Clearing House Funds (except for Clearing House Fund contributions from Clearing Participants) were presented in the consolidated statement of financial position as a single line item, "Clearing House Funds", under non-current assets whereas all the financial liabilities of Clearing House Fund contributions from Clearing Participants were disclosed as "Participants' contributions to Clearing House Funds" under non-current liabilities. The nature of the assets and liabilities and the maturity profiles of the net assets of the Margin Funds and Clearing House Funds were disclosed in the notes to the accounts.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

In 2008, as an enhancement to the presentation of the consolidated statement of financial position, instead of only disclosing the maturity profiles of the net assets of the Margin Funds and Clearing House Funds in the notes, the constituent cash and cash equivalents, other financial assets and financial liabilities of the Margin Funds and the Clearing House Funds are presented based on their maturity under the "current" or "non-current" sections on the face of the consolidated statement of financial position (notes 2(n) and 2(o)). Participants' contributions to Clearing House Funds which may be refunded to Participants within twelve months are reclassified as current liabilities (note 2(o)).

Comparative figures have been adjusted to conform with the changes in presentation of the Margin Funds and Clearing House Funds.

The nature of the assets, liabilities and funding of the Margin Funds and Clearing House Funds continue to be disclosed in the notes to the consolidated accounts (notes 22 and 25 respectively).

<u>Reclassification of Participants' admission fees received</u>

Although not strictly obliged to do so, Hong Kong Securities Clearing Company Limited ("HKSCC") aims to refund the admission fee paid by a Participant without interest after a period of seven years from the date of its admission as a Participant or upon the termination of its participation in Central Clearing and Settlement System ("CCASS"), whichever is the later. Therefore, in previous years, Participants' admission fees received were included in non-current liabilities unless they were expected to be repayable to the Participants within twelve months. From 2008 onwards, Participants' admission fees received are classified under current liabilities as it is the Group's practice to refund admission fees to Participants within one year from the date of termination of their participation in CCASS and to Participants within one year of the date of sale of their Stock Exchange Trading Rights.

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

<u>Presentation of Net Investment Income</u>

In previous years, the breakdown of net investment income was disclosed in a note to the accounts. From 2008 onwards, as an enhancement to the presentation of the consolidated income statement, net investment income together with its breakdown into "investment income" and "interest rebates to Participants" are shown on the face of the consolidated income statement.

(c) Consolidation

The Group has adopted merger accounting in the preparation of the consolidated accounts at the time of the merger of the Group in 2000. The consolidated accounts include the accounts of HKEx and all of its subsidiaries made up to 31 December.

(i) Subsidiaries and controlled special purpose entities

Subsidiaries and controlled special purpose entities are entities over which HKEx, directly or indirectly, has the power to govern the financial and operating policies generally accompanying a holding of more than one half of the voting rights or issued share capital.

2. Principal Accounting Policies (continued)

(c) Consolidation (continued)

(i) Subsidiaries and controlled special purpose entities (continued)

The accounts of subsidiaries and controlled special purpose entities are included in the consolidated accounts from the date on which control commences until the date that control ceases. All material intra-group transactions and balances have been eliminated on consolidation.

In HKEx's statement of financial position, investments in subsidiaries and contributions to The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust"), a controlled special purpose entity, are stated at cost less provision for any impairment, if necessary. The results of subsidiaries are accounted for by HKEx on the basis of dividends received and receivable.

(ii) Associates

Associates are all entities, not being subsidiaries nor interests in joint ventures, in which the Group has significant influence generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights.

Investments in associates are accounted for in the consolidated accounts under the equity method, except when the investment is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 - Non-current Assets Held for Sale and Discontinued Operations (note 2(t)). Under the equity method, the Group's share of its associates' post acquisition profits or losses is recognised in the consolidated income statement, and its share of the associates' post-acquisition other comprehensive income is recognised in other comprehensive income. The consolidated statement of financial position includes the Group's share of the net assets of associates and goodwill (net of accumulated impairment losses).

Gains and losses arising from disposal of investment in associates are recognised in the consolidated income statement.

(d) Turnover

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

(e) Revenue and other income recognition

Revenue and other income are recognised in the consolidated income statement on the following basis:

(i) Trading fees and trading tariff on securities and options traded on the Stock Exchange and trading fees on derivatives contracts traded on the Futures Exchange are recognised on a trade date basis.

2. Principal Accounting Policies (continued)

(e) Revenue and other income recognition (continued)

(ii) Initial listing fees for initial public offering ("IPO") are recognised upon the listing of an applicant, cancellation of the application or six months after submission of the application, whichever is earlier. Initial listing fees for warrants, callable bull/bear contracts and other securities are recognised upon the listing of the securities. Income from annual listing fees is recognised on a straight-line basis over the period covered by the respective fees received in advance (note 2(y)).

(iii) Settlement fees on derivatives contracts traded on the Futures Exchange are recognised on the official final settlement day.

(iv) Fees for clearing and settlement of trades between Participants in eligible securities transacted on the Stock Exchange are recognised in full on T+1, ie, on the day following the trade day, upon acceptance of the trades. Fees for other settlement transactions are recognised upon completion of the settlement.

(v) Custody fees for securities held in the CCASS depository are calculated and accrued on a monthly basis. Income on registration and transfer fees on nominee services are calculated and accrued on the book close dates of the relevant stocks during the financial year.

(vi) Income from sale of information and other fees are recognised when the related services are rendered.

(vii) Interest income on investments represents gross interest income from bank deposits and securities and is recognised on a time apportionment basis using the effective interest method.

When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rates of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(viii) Dividend income is recognised when the right to receive payment is established.

(ix) Rental income is recognised on an accrual basis.

(f) Interest expenses

Interest expenses (including interest rebates to Participants) are recognised on a time apportionment basis, taking into account the principal outstanding and the applicable interest rates using the effective interest method. All interest expenses are charged to profit or loss in the year in which they are incurred.

(g) Employee benefit costs

(i) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

2. Principal Accounting Policies (continued)

(g) Employee benefit costs (continued)

(ii) Equity compensation benefits

For share options granted under the Post-Listing Share Option Scheme ("Post-Listing Scheme") and HKEx's shares ("Awarded Shares") granted under the Employees' Share Award Scheme ("Share Award Scheme"), the fair value of the employee services received in exchange for the grant of the options and the Awarded Shares is recognised as an expense and credited to an employee share-based compensation reserve under equity over the period in which the vesting conditions (ie, service conditions and/or performance conditions) are fulfilled. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, and Awarded Shares awarded and purchased with contributions paid to the HKEx Employee Share Trust. Non-vesting conditions and market conditions shall be taken into account when estimating the fair value of the equity instruments granted.

At the end of each reporting period, the Group revises its estimates of the number of options and Awarded Shares that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the employee share-based compensation reserve.

Share options granted under the Pre-Listing Share Option Scheme ("Pre-Listing Scheme") are not expensed as the options were granted before 7 November 2002 and not subject to requirements of HKFRS 2: Share-based Payment.

When the options are exercised, the proceeds received are credited to share capital (nominal value) and share premium, and the associated amount in the employee share-based compensation reserve, if any, is transferred to share premium.

When the Awarded Shares purchased with contributions paid to the HKEx Employee Share Trust are vested, the related cost of the vested shares is released from the employee shared-based compensation reserve to eliminate the related amount of "Shares held for Share Award Scheme" (note 2 (ac)).

Contributions made by HKEx to the HKEx Employee Share Trust for shares not yet vested are recorded as "Contributions to HKEx Employee Share Trust" in HKEx's statement of financial position. For HKEx, when Awarded Shares purchased with contributions paid to HKEx Employee Share Trust are vested, the related cost of vested shares is released from the employee share-based compensation reserve to eliminate the related amount of "Contributions to HKEx Employee Share Trust".

(iii) Retirement benefit costs

Contributions to the defined contribution provident fund regulated under the Occupational Retirement Schemes Ordinance ("ORSO") and operated by the Group and the AIA-JF Premium MPF Scheme are expensed as incurred. Forfeited contributions of the provident fund in respect of employees who leave before the contributions are fully vested are not used to offset existing contributions but are credited to a reserve account of that provident fund. Reserves of the provident fund representing forfeited employer's contributions are available for distribution to the provident fund members at the discretion of the trustees. Assets of the provident fund and the AIA-JF Premium MPF Scheme are held separately from those of the Group and are independently administered.

2. Principal Accounting Policies (continued)

(h) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases net of any incentives received from the leasing company are charged to profit or loss on a straight-line basis over the lease term.

(i) Fixed assets

The building component of owner-occupied leasehold properties is stated at valuation less accumulated depreciation, except when the property is reclassified as held for sale, in which case no further revaluation and depreciation are required and it is accounted for in accordance with HKFRS 5 (note 2(t)). Fair value is determined by the Directors based on independent valuations which are performed at least annually. The valuations are on the basis of depreciated replacement cost and are performed with sufficient regularity that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period. Depreciated replacement cost is used since open market value cannot be reliably allocated to the building component. The Directors review the carrying value of the leasehold buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are recognised in other comprehensive income and credited to the leasehold buildings revaluation reserve. Decreases in valuation are recognised in other comprehensive income and debited to the leasehold buildings revaluation reserve to the extent of any credit balance existing in the leasehold buildings revaluation reserve in respect of the same property and are thereafter charged to profit or loss. Any subsequent increases are credited to profit or loss up to the amount previously charged and thereafter to leasehold buildings revaluation reserve.

Other tangible fixed assets are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Tangible fixed assets are depreciated at rates sufficient to write off their costs net of expected residual values over their estimated useful lives on a straight-line basis. The residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The useful lives of major categories of fixed assets are as follows:

Leasehold buildings	25 years
Leasehold improvements	Over the remaining life of the leases but not exceeding 5 years
Computer trading and clearing systems	
- hardware and software	5 years
Other computer hardware and software	3 years
Furniture and equipment	Up to 5 years
Motor vehicles	3 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 2(m)).

2. Principal Accounting Policies (continued)

(i) Fixed assets (continued)

Qualifying software system development expenditures are capitalised and recognised as a fixed asset as the software forms an integral part of the hardware on which it operates. The expenditures comprise all qualifying direct and allocated expenses attributable to the development of distinct major computer systems.

Qualifying development expenditures incurred after the completion of a system are added to the carrying amount of the related asset when it is probable that future economic benefits that are attributable to the asset will flow to the Group. All other subsequent expenditures are recognised as non-qualifying expenditures.

All non-qualifying expenditures and expenses incurred on other non-qualifying development activities are charged as expenses to profit or loss in the period in which such expenses are incurred.

Amortisation of the cost of capitalised software system development expenditures is provided from the dates when the systems are available for use.

Upon the disposal of leasehold buildings, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the leasehold buildings revaluation reserve to retained earnings.

The gain or loss on disposal of fixed assets is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(j) Investment properties

Investment properties are properties held for long-term rental yields and not occupied by the Group. Investment properties comprise land held under operating leases and buildings held under finance leases. Investment properties are carried at fair value, representing open-market value determined by independent qualified valuers in accordance with the "HKIS Valuation Standards on Properties" issued by the Hong Kong Institute of Surveyors ("HKIS Valuation Standards"), "The RICS Appraisal and Valuation Standards" published by the Royal Institution of Chartered Surveyors ("RICS") and the "International Valuation Standards" published by the International Valuation Standards Committee where the HKIS Valuation Standards are silent on subjects requiring guidance. Changes in fair value are recognised in profit or loss.

(k) Lease premiums for land

Leasehold land premiums are up-front payments to acquire long-term interests in lessee-occupied properties. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to profit or loss, except when the leasehold land is reclassified as held for sale, in which case no further amortisation is required and the premiums are accounted for in accordance with HKFRS 5 (note 2(t)).

(l) Goodwill

Goodwill represents the excess of the cost of an acquisition (including contingent consideration which should be measured at fair value at the acquisition date) over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

2. Principal Accounting Policies (continued)

(m) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (ie, the higher of an asset's fair value less costs to sell and value in use). Such impairment losses are recognised in profit or loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is recognised in other comprehensive income and treated as a decline in revaluation.

In respect of assets other than goodwill, impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the circumstances and events leading to the impairment cease to exist. Impairment loss in respect of goodwill is not reversed. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is credited to profit or loss except when the asset is carried at valuation, in which case the reversal of impairment loss is credited to profit or loss up to the amount previously charged to profit or loss and thereafter recognised in other comprehensive income and treated as a revaluation movement.

The Group publishes its interim financial reports on a quarterly basis. At the end of each interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year. Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(n) Margin Funds on derivatives contracts

Margin Funds are established by cash received or receivable from The SEHK Options Clearing House Limited ("SEOCH") and HKFE Clearing Corporation Limited ("HKCC") Clearing Participants for covering their open positions in derivatives contracts. The funds are refundable to the Clearing Participants of SEOCH and HKCC when they close their positions in derivatives contracts. These funds are held in segregated accounts of the respective clearing houses for this specific purpose and cannot be used by the Group to finance any other activities. The funds are invested in financial assets to earn investment income and the Clearing Participants are entitled to an interest rebate at a rate determined by SEOCH and HKCC on the margin deposits they place with SEOCH and HKCC respectively (note 2(f)).

Financial assets of Margin Funds are classified as current assets unless they mature after more than twelve months, in which case, they are included in non-current assets. The obligation to refund the deposits is disclosed as Margin deposits from Clearing Participants on derivatives contracts under current liabilities. Other financial liabilities of the Margin Funds are classified as current liabilities as they are due within twelve months. Non-cash collateral (ie, securities and bank guarantees) received from Clearing Participants for satisfying margin requirements and the corresponding liabilities are not recorded as assets and liabilities of the Margin Funds in accordance with HKAS 39. Non-cash collateral is disclosed in note 45 to the consolidated accounts.

2. Principal Accounting Policies (continued)

(n) Margin Funds on derivatives contracts (continued)

Income arising from bank deposits and investments comprising these Margin Funds and expenses incurred for these funds are recorded in profit or loss. Changes in fair value of available-for-sale financial assets comprising these Margin Funds are recognised in other comprehensive income and recorded in the investment revaluation reserve. Changes in fair value of investments designated as financial assets at fair value through profit or loss, if any, are included in profit or loss.

(o) Clearing House Funds

The Clearing House Funds were established to support the respective clearing houses (ie, HKSCC, HKCC and SEOCH) to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to the clearing houses. The Clearing House Fund of HKSCC (ie, HKSCC Guarantee Fund) also provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Clearing Participants arising from depositing defective securities into CCASS. The Clearing House Funds are derived from contributions from CCASS Clearing Participants, HKCC Clearing Participants and SEOCH Clearing Participants and the respective clearing houses, and the accumulated net investment income net of expenses of the Clearing House Funds appropriated from retained earnings. The appropriation of the funds is governed by the relevant clearing house rules for the stated specific purposes only and the funds cannot be used to finance any other activities of the Group. These funds are therefore held in segregated accounts of the respective clearing houses. The funds are invested in financial assets to earn investment income and the Clearing Participants are entitled to an interest rebate at a rate determined by the clearing houses (note 2(f)).

Financial assets of Clearing House Funds are included in the consolidated statement of financial position as current assets unless they mature after more than twelve months, in which case, they are included in non-current assets. Clearing Participants' contributions to Clearing House Funds are treated as non-current liabilities in the consolidated statement of financial position with the exception of those amounts which are refundable to Participants within twelve months and are included as current liabilities. Other financial liabilities of the Clearing House Funds are classified as current liabilities as they are due within twelve months. Non-cash collateral of the Clearing House Funds (ie, contributions receivable from Clearing Participants fully secured by bank guarantees) and the corresponding liabilities are not reflected as assets and liabilities in the consolidated statement of financial position in accordance with HKAS 39. Non-cash collateral is disclosed in note 45 to the consolidated accounts. Contributions from the respective clearing houses and the accumulated net investment income net of expenses of the Clearing House Funds appropriated from retained earnings are included in the consolidated statement of financial position as designated reserves.

Income arising from bank deposits and investments comprising the Clearing House Funds and expenses incurred for these funds are recorded in profit or loss. Net investment income net of expenses of the Clearing House Funds is appropriated from retained earnings to the respective designated reserves of the Clearing House Funds. Changes in valuation of the available-for-sale financial assets comprising the Clearing House Funds are recognised in other comprehensive income and recorded in the investment revaluation reserve.

2. Principal Accounting Policies (continued)

(p) Cash marks and cash collateral received from Participants

Cash marks and cash collateral received from HKSCC Participants for their open positions are recorded as assets in the consolidated statement of financial position. As these funds are refundable to the Participants when they settle their positions, the marks and collateral received are reflected as liabilities to the Participants in the consolidated statement of financial position.

Income arising from bank deposits comprising these funds is recorded in profit or loss. HKSCC Participants are entitled to an interest rebate at a rate determined by HKSCC on the cash marks and cash collateral they place with HKSCC (note 2(f)).

(q) Derivative financial instruments

Derivatives, which may include forward foreign exchange contracts, futures and options contracts, are initially recognised at fair value on the date on which the derivative contracts are entered into and subsequently remeasured at their fair values. Fair values are based on quoted market prices in active markets, recent market transactions or valuation techniques such as discounted cash flow models and options pricing models, as appropriate. Changes in fair value of the derivatives are recognised in profit or loss except where the derivatives are designated as a qualifying cash flow hedge in which case recognition of any resultant fair value gain or loss depends on the nature of the item being hedged (note 2(r)). All derivatives except those designated as qualifying cash flow hedges are classified as financial assets at fair value through profit or loss when their fair values are positive and as financial liabilities at fair value through profit or loss when their fair values are negative.

(r) Hedge accounting

The Group documents at the inception of the transactions the relationship between the hedging instruments and the hedged items, as well as the risk management objectives and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at the inception of the hedges and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of the hedged items caused by the risk being hedged.

The fair value of a hedging derivative instrument is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

(i) Fair value hedges

Changes in the fair value of hedging instruments that are designated and qualify as fair value hedges are recognised in profit or loss together with the changes in the fair value of the hedged assets, liabilities or firm commitments that are subject to the hedged risk.

(ii) Cash flow hedges

For hedging instruments that are designated and qualify as cash flow hedges, the changes in the fair value relating to the effective portion of the hedges are recognised in other comprehensive income and transferred to hedging reserve. The gains or losses relating to the ineffective portion of the hedges are recognised immediately in profit or loss.

2. Principal Accounting Policies (continued)

(r) Hedge accounting (continued)

(ii) Cash flow hedges (continued)

Amounts accumulated in hedging reserve are reclassified from hedging reserve to profit or loss as a reclassification adjustment in the periods when the hedged items affect profit or loss. However, when the forecast transactions that are hedged result in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and deferred in hedging reserve are transferred from hedging reserve and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income and retained in hedging reserve at that time remains in hedging reserve and is recognised in accordance with the above policy when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that has been recognised in other comprehensive income and retained in hedging reserve is immediately reclassified from hedging reserve to profit or loss as a reclassification adjustment.

(s) Investments

(i) Classification

Investments of the Group are funded by Corporate Funds (mainly share capital and retained earnings of the Group) and Clearing House Funds and Margin Funds received from Participants.

Investments of the Group are classified under the following categories:

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading (ie, those acquired for the purpose of selling in short-term or derivatives which are not financial guarantee contracts or designated as hedging instruments), shares receivable by HKSCC under stock borrowing for the purpose of settlement under the Continuous Net Settlement ("CNS") basis and financial assets designated as fair value through profit or loss at inception if the designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or financial liabilities or recognising the gains and losses on them on different bases; or
- applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or
- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

2. Principal Accounting Policies (continued)

(s) Investments (continued)

(i) Classification (continued)

Financial assets at fair value through profit or loss held by the Corporate Funds are classified as current assets unless management intends to dispose of the investments or the investments are expected to mature after twelve months as at the end of the reporting period and, in which case, they are included in non-current assets.

Available-for-sale financial assets

This category comprises financial assets which are non-derivatives and are designated as available-for-sale financial assets or not classified under other investment categories.

Available-for-sale financial assets held by the Corporate Funds are included in non-current assets unless management intends to dispose of the investments or the investments are expected to mature within twelve months of the end of the reporting period.

Loans and receivables

Loans and receivables, which comprise bank deposits, trade and accounts receivable, deposits and other assets, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the loans or receivables. Bank deposits are disclosed as time deposits and cash equivalents.

Loans and receivables of the Corporate Funds are included in current assets, except for items which are expected to mature after twelve months as at the end of the reporting period and, in which case, they are included in non-current assets.

(ii) Recognition and initial measurement

Loans and receivables arise when the Group provides money, goods or services directly to a debtor.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the assets. Investments classified as financial assets at fair value through profit or loss are initially recognised at fair value with transaction costs recognised as expenses in profit or loss. Investments not classified as financial assets at fair value through profit or loss are initially recognised at fair value plus transaction costs.

(iii) Derecognition

Investments are derecognised when the rights to receive cash flows from the investments have expired or the Group has transferred substantially all the risks and rewards of ownership of the investments.

(iv) Gains or losses on subsequent measurement and interest income and dividend income

Financial assets at fair value through profit or loss

- Investments under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in profit or loss in the period in which they arise. Upon disposal, the difference between the net sale proceeds and the carrying value is included in profit or loss.

2. Principal Accounting Policies (continued)

(s) Investments (continued)

(iv) Gains or losses on subsequent measurement and interest income and dividend income (continued)

- Interest income is recognised using the effective interest method and included as net realised and unrealised gains/(losses) and interest income from these investments.
- Dividend income is recognised when the right to receive dividend is established and disclosed separately as dividend income.

<u>Available-for-sale financial assets</u>

- Available-for-sale financial assets are carried at fair value. Unrealised gains and losses (including transaction costs on acquisition) arising from changes in the fair value are recognised in other comprehensive income and transferred to investment revaluation reserve, except for impairment losses and exchange differences of monetary securities resulting from changes in amortised costs are recognised in profit or loss. For the purpose of recognising foreign exchange gains and losses, monetary available-for-sale financial assets are treated as if they were carried at amortised cost in the foreign currency and, accordingly, exchange differences resulting from changes in amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in other comprehensive income and transferred to investment revaluation reserve. When the securities are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments recognised in other comprehensive income and retained in the investment revaluation reserve are reclassified from investment revaluation reserve to profit or loss as a reclassification adjustment.
- Interest income is recognised using the effective interest method and disclosed as interest income.
- Dividend income is recognised when the right to receive dividend is established and disclosed as dividend income.

<u>Loans and receivables</u>

- Loans and receivables are carried at amortised cost using the effective interest method less provision for impairment.
- Interest income is recognised using the effective interest method and disclosed as interest income.

(v) Fair value measurement principles

Fair values of quoted investments are based on bid prices. For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2. Principal Accounting Policies (continued)

(s) Investments (continued)

(vi) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more loss events that have occurred after the initial recognition of the assets and have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the debtor or obligor;
- fees receivable that have been outstanding for over 180 days;
- the Group granting to the debtor or obligor, for economic or legal reasons relating to the debtor's or obligor's financial difficulty, a concession that the Group would not otherwise consider;
- it is becoming probable that the debtor or obligor will enter into bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
    - adverse changes in the payment status of debtors or obligors in the Group;
    - economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics relevant to the estimation of future cash flows. These financial assets are collectively assessed based on historical loss experience on each type of assets and management judgement of the current economic and credit environment.

2. Principal Accounting Policies (continued)

(s) Investments (continued)

(vi) Impairment (continued)

Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amounts and the present values of estimated future cash flows discounted at the financial assets' original effective interest rates. The carrying amounts of the assets are reduced through the use of a doubtful debt allowance account and the amount of the loss is recognised in profit or loss.

When there is no realistic prospect of recovery of a loan or receivable, it is written off against the related provision for impairment loss. Subsequent recovery of the amount previously written off is reversed against the provision for impairment loss in profit or loss.

As soon as a loan or receivable becomes impaired, the Group may continue to allow the debtor or obligor concerned to participate in our markets but no further accounts receivable is recognised on the consolidated statement of financial position as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when cash is received.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the doubtful debt allowance account. The amount of reversal is recognised in profit or loss.

Available-for-sale financial assets

If there is objective evidence that an impairment loss on available-for-sale financial assets has been incurred, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in profit or loss) is reclassified from investment revaluation reserve to profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss up to the amount previously charged to profit or loss and any further increase in fair value thereafter is recognised in other comprehensive income and credited to investment revaluation reserve.

In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the securities below their cost is considered in determining whether the securities are impaired. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. Any subsequent increase in fair value on such assets is recognised in other comprehensive income and credited to investment revaluation reserve directly.

2. Principal Accounting Policies (continued)

(s) Investments (continued)

(vi) Impairment (continued)

The Group publishes its interim financial reports on a quarterly basis. At the end of each interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year. Impairment losses recognised in an interim period in respect of available-for-sale equity securities are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(t) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than continuing use. This condition will only be satisfied when the sale is highly probable and the assets are available for immediate sale in their present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (except for investment properties) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Investment properties classified as held for sale are stated at fair value.

(u) Financial liabilities

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading (ie, principally held for the short-term and derivatives which are not financial guarantee contracts or designated as hedging instruments), shares borrowed by HKSCC for the purpose of settlement under the CNS basis and financial liabilities designated as fair value through profit or loss at inception if the designation satisfies the same criteria as set out in note 2(s)(i) under the caption of "Financial assets at fair value through profit or loss".

Liabilities under this category are initially recognised at fair value on the date on which a contract is entered into and subsequently remeasured at their fair values. Changes in fair value of the liabilities are recognised in profit or loss.

(ii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified entity or person fails to make payment when due in accordance with the original or modified terms of an undertaking.

Financial guarantee contracts are accounted for as financial instruments under HKAS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 – Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

2. Principal Accounting Policies (continued)

(u) Financial liabilities (continued)

(iii) Other financial liabilities

Financial liabilities, other than financial liabilities at fair value through profit or loss and financial guarantee contracts, are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

(v) Repurchase transactions

When securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the consolidated statement of financial position and the consideration received is recorded as a liability.

(w) Recognition of receivables and payables from/to HKSCC Clearing Participants on Stock Exchange trades settled on the CNS basis

Upon acceptance of Stock Exchange trades for settlement in CCASS under the CNS basis, HKSCC interposes itself between the HKSCC Clearing Participants as the settlement counterparty to the trades through novation. Final acceptance of Stock Exchange trades is confirmed on T+1 by details contained in the final clearing statement transmitted to every HKSCC Clearing Participant.

The CNS money obligations due by/to HKSCC Clearing Participants on the Stock Exchange trades are recognised as receivables and payables when they are confirmed and accepted on T+1.

For all other trades and transactions, HKSCC merely provides a facility for settlement within CCASS and does not interpose itself between the HKSCC Clearing Participants as the settlement counterparty to the trades. The settlement of these trades does not constitute money obligations and is excluded from the consolidated accounts of the Group.

(x) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the income tax losses can be utilised. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine deferred tax assets and liabilities. Movements in deferred tax provision are recognised in profit or loss with the exception of deferred tax related to transactions or other events recognised outside profit or loss (either in other comprehensive income (such as fair value re-measurement of leasehold buildings, available-for-sale financial assets and cash flow hedges) or directly in equity (such as an adjustment to the opening balance of retained earnings resulting either from a change in accounting policy or correction of an error)), which are recognised in other comprehensive income or directly in equity.

(y) Deferred revenue

Deferred revenue comprises annual listing fees received in advance, payments received in advance for services in relation to the sales of stock market information and telecommunication line rentals for trading facilities located at brokers' offices.

2. Principal Accounting Policies (continued)

(z) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(aa) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated accounts are presented in Hong Kong Dollars ("HKD"), which is HKEx's and the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets (accounting treatment for available-for-sale financial assets is included in note 2(s)(iv)) and liabilities denominated in foreign currencies are recognised in profit or loss, except when the foreign exchange gains/losses are related to a qualifying cash flow hedge in which case the amount will be recognised in other comprehensive income and deferred in the hedging reserve.

Translation differences on non-monetary financial assets and liabilities that are classified as financial assets and financial liabilities at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets that are classified as available-for-sale financial assets are recognised in other comprehensive income and included in the investment revaluation reserve in equity.

2. Principal Accounting Policies (continued)

(ab) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and other short-term highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value (mainly time deposits), with original maturities of three months or less.

(ac) Shares held for Share Award Scheme

Where the HKEx Employee Share Trust purchases HKEx shares from the market, the consideration paid, including any directly attributable incremental costs, is presented as "Shares held for Share Award Scheme" and deducted from total equity.

When the HKEx Employee Share Trust transfers the HKEx shares to the awardees upon vesting, the related costs of the Awarded Shares vested are credited to "Shares held for Share Award Scheme", with a corresponding decrease in employee share-based compensation reserve for shares purchased with contributions paid to the HKEx Employee Share Trust, and decrease in retained earnings for shares purchased through reinvesting dividends received on the vested Awarded Shares.

(ad) Operating Segments

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-makers. Segment assets consist primarily of fixed assets, assets of the Clearing House Funds, Margin Funds, financial assets and other assets. Segment liabilities comprise primarily liabilities to Participants, financial and other liabilities. Taxation recoverable and payable, deferred tax assets and liabilities and dividends declared by HKEx but not yet claimed by its shareholders are not allocated to segment assets and segment liabilities.

(ae) Dividends

Dividends disclosed in note 17 to the consolidated accounts represent interim dividend paid and final and special dividends proposed (based on the issued share capital less the number of shares held for the Share Award Scheme as at the end of the reporting period) for the year.

Dividends declared are recognised as liabilities in the Group's accounts in the year the dividends are approved by the shareholders.

Dividends declared by HKEx which have not been claimed by its shareholders for a period of over six years from the dividend payment date are forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association.

(af) Related parties

Parties are considered to be related to the Group if the Group has the ability to control, directly or indirectly, the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are controlled or under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

3. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may differ from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Impairment of trade receivables

The Group assesses at the end of each reporting period whether there is objective evidence that the trade receivables of the Group are impaired. In determining whether they are impaired, the Group tests the trade receivables for impairment in accordance with the accounting policy stated in note 2(s)(vi). Management judgement and estimates are required to determine whether a trade receivable is impaired and the appropriate action to recover the trade receivable. The Group closely monitors the debtors' repayment history, and takes regular follow-up actions to recover amounts overdue. If a trade receivable is determined to be impaired, the amount of loss is recognised in profit or loss. The Group will continue to recover the trade receivable from all avenues available to the Group. Other than the exceptional impairment losses caused by the default on market contracts by Lehman Brothers Securities Asia Limited ("LBSA") in 2008, the trade receivables are of good credit quality.

If the actual amount of non-recovery differs from the total provision for impairment losses (notes 11(a) and 11(b)) by 10 per cent, the Group's profit will change by $16,496,000 (2007:$7,000).

(b) Income taxes

The Group is subject to income taxes in Hong Kong. Judgement is required in determining the provision for income taxes and deferred taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for potential tax exposures based on its estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences would impact the income tax and deferred tax provisions in the year in which such determination is made.

If the actual taxation charge differs by 10 per cent from management's estimates, the Group's profit will be affected by $79,970,000 (2007:$102,377,000).

(c) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the estimated level of future taxable profits of the subsidiaries.

As at 31 December 2008, the Group had tax losses carried forward amounting to $224,612,000 (2007:$239,773,000). These losses relate to subsidiaries that have a history of losses. They will not expire and may be able to offset against taxable income in the future. If the Group was able to recognise all unrecognised deferred tax assets, the profit would increase by $37,061,000 (2007:$41,960,000).

3. Critical Accounting Estimates and Judgements (continued)

(d) Impairment of investments

The Group has a significant amount of investments that are stated at fair value. The valuations are provided by the custodian of the investments, a reputable independent third party custodian bank. The Group also obtains quotations for the investments from other independent sources to verify the accuracy of the fair values of the investments provided by the custodian. If independent quotations are not available, the Group will compute the fair values using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis. As the results are comparable, management is of the view that the investments are stated at their fair values.

Under the current credit crisis, the Group continues to monitor the credit quality of the investments. As at the end of the reporting period, all of the bonds held were of investment grade, and there were no financial assets whose terms were renegotiated or overdue.

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

The **Cash Market** business mainly refers to the operations of the Stock Exchange, which covers all products traded on the Cash Market platforms, such as equities, debt securities, unit trusts, callable bull/bear contracts ("CBBCs"), exchange traded funds, warrants and rights. Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market ("GEM"). The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market. Stock Exchange listing fees and costs of the Listing Function are further explained in note 6.

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, 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, SEOCH 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.

4. Operating Segments (continued)

An analysis of the Group's reportable segment profit before taxation, assets, liabilities, and other selected financial information for the year by operating segment is as follows:

	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	562,405	139,951	513,476	50,257	(7,106)	1,258,983
Indirect costs	166,275	58,115	114,000	23,244	-	361,634
	728,680	198,066	627,476	73,501	(7,106)	1,620,617
Reportable segment profit before taxation	2,422,715	1,443,037	1,456,516	606,205	-	5,928,473
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 and amortisation	(46,300)	(7,183)	(53,206)	(2,633)	-	(109,322)
Other material non-cash items:						
Employee share-based compensation expenses	(15,105)	(3,401)	(7,978)	(1,695)	-	(28,179)
Provision for impairment losses	(1,613)	(55)	(163,255)	(30)	-	(164,953)
Reportable segment assets	6,204,197	42,724,783	13,777,418	113,094	-	62,819,492
Reportable segment liabilities	831,436	41,910,856	12,464,866	56,275	-	55,263,433
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

4. Operating Segments (continued)

	2007				
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Group $'000
Income from external customers	3,569,780	582,606	2,314,184	680,772	7,147,342
Net investment income	152,340	858,412	226,712	764	1,238,228
Fair value gain of an investment property	4,900	-	-	-	4,900
	3,727,020	1,441,018	2,540,896	681,536	8,390,470
Operating expenses					
Direct costs	507,739	143,123	357,646	50,625	1,059,133
Indirect costs	164,080	52,904	112,937	22,511	352,432
	671,819	196,027	470,583	73,136	1,411,565
	3,055,201	1,244,991	2,070,313	608,400	6,978,905
Gain on disposal of an associate	-	-	206,317	-	206,317
Share of profit of an associate	-	-	5,587	-	5,587
Reportable segment profit before taxation	3,055,201	1,244,991	2,282,217	608,400	7,190,809
Interest income	69,363	1,490,554	164,450	348	1,724,715
Interest expenses (including interest rebates to Participants):					
- included under net investment income	(4,760)	(677,345)	(29,598)	(24)	(711,727)
- others	(224)	(72)	(164)	(31)	(491)
Depreciation and amortisation	(25,961)	(8,376)	(43,231)	(2,114)	(79,682)
Other material non-cash items:					
Employee share-based compensation expenses	(12,838)	(2,924)	(7,172)	(1,428)	(24,362)
Reversal of provision for/(provision for) impairment losses	52	(19)	(31)	(5)	(3)
Reportable segment assets (excluding non-current assets held for sale)	4,664,621	56,877,839	26,230,025	114,935	87,887,420
Non-current assets held for sale	29,880	9,588	20,567	4,057	64,092
Reportable segment assets	4,694,501	56,887,427	26,250,592	118,992	87,951,512
Reportable segment liabilities	1,249,741	55,470,820	22,023,261	51,595	78,795,417
Additions to fixed assets (ie, non-current assets excluding financial assets and deferred tax assets)	98,874	2,587	88,650	3,579	193,690

(a) The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Central income (mainly net investment income of the Corporate Funds) and central costs (mainly costs of support functions that centrally provide services to all of the operating segments) are allocated to the operating segments as they are included in the measure of the segments' profit that is used by the chief operating decision-makers for the purposes of resource allocation and assessment of segment performance. Performance is measured based on segment profit before taxation. Taxation charge/(credit) is not allocated to reportable segments.

(b) The elimination adjustment represents the inter-segment interest charge from the Corporate Centre to the Clearing Business segment for funding the closing-out of market contracts of the defaulting Participant, LBSA. There were no inter-segment sales and charges in 2007.

4. Operating Segments (continued)

(c) Reconciliation of reportable segment assets and segment liabilities

The assets and liabilities of the Group are allocated based on the operations of the segments. Central assets and liabilities are generally allocated to the segments. However, deferred tax assets, tax recoverable, taxation payable, deferred tax liabilities and unclaimed dividends declared by HKEx are not allocated to the segments.

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

	2008 $'000	2007 $'000
Reportable segment assets	**62,819,492**	87,951,512
Unallocated assets:		
Tax recoverable	**-**	148
Deferred tax assets	**4,429**	3,610
Total assets per consolidated statement of financial position	**62,823,921**	87,955,270

	2008 $'000	2007 $'000
Reportable segment liabilities	**55,263,433**	78,795,417
Unallocated liabilities:		
Taxation payable	**141,363**	687,726
Deferred tax liabilities	**30,775**	36,873
Unclaimed dividends declared by HKEx	**93,028**	57,906
Total liabilities per consolidated statement of financial position	**55,528,599**	79,577,922

(d) 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:

	2008 $'000	2007 $'000
Hong Kong	**373,742**	380,956
China	**843**	29
	374,585	380,985

(e) Information about major customers

In 2008 and 2007, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's total revenue.

5. Trading Fees and Trading Tariff

	2008 **$'000**	2007 $'000
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	**2,028,480**	2,452,037
Derivatives contracts traded on the Derivatives Market	**774,601**	634,213
	2,803,081	3,086,250

6. Stock Exchange Listing Fees

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

	2008				2007			
	Equity		**CBBCs, Derivative warrants & others**	**Total**	Equity		CBBCs, Derivative warrants & others	Total
	Main Board	**GEM**			Main Board	GEM		
	$'000	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000	$'000
Stock Exchange Listing Fees								
Annual listing fees	**318,322**	**25,138**	**2,803**	**346,263**	280,879	25,297	1,987	308,163
Initial and subsequent issue listing fees	**86,566**	**3,580**	**270,798**	**360,944**	66,425	5,710	302,104	374,239
Prospectus vetting fees	**2,300**	**240**	**30**	**2,570**	3,745	345	140	4,230
Other listing fees	**1,724**	**482**	**-**	**2,206**	1,514	392	-	1,906
Total	**408,912**	**29,440**	**273,631**	**711,983**	352,563	31,744	304,231	688,538
Costs of Listing Function								
Direct costs								
Staff costs and related expenses	**167,122**	**35,075**	**12,449**	**214,646**	169,979	33,393	13,045	216,417
Information technology and computer maintenance expenses	**4,481**	**882**	**301**	**5,664**	2,052	496	1,086	3,634
Premises expenses	**18,658**	**3,789**	**864**	**23,311**	17,888	3,393	855	22,136
Legal and professional fees	**11,792**	**1,252**	**-**	**13,044**	4,558	211	-	4,769
Depreciation	**4,298**	**1,198**	**1,503**	**6,999**	2,956	595	143	3,694
Other operating expenses	**7,252**	**2,015**	**508**	**9,775**	5,724	1,884	371	7,979
Total direct costs	**213,603**	**44,211**	**15,625**	**273,439**	203,157	39,972	15,500	258,629
Total indirect costs	**34,657**	**6,100**	**8,538**	**49,295**	33,807	6,060	9,669	49,536
Total costs	**248,260**	**50,311**	**24,163**	**322,734**	236,964	46,032	25,169	308,165
Contribution to Cash Market Segment Profit before Taxation	**160,652**	**(20,871)**	**249,468**	**389,249**	115,599	(14,288)	279,062	380,373

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

The direct costs listed above are regulatory in nature, which comprise costs of the Listing Function on vetting IPOs and enforcing the Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and disseminating information relating to listed companies. Indirect costs comprise costs of support services and other central overheads attributable to the Listing Function.

7. Other Revenue/Other Income

(a) Other Revenue

	2008 $'000	2007 $'000
Network, terminal user, dataline and software sub-license fees	**289,783**	311,187
Participants' subscription and application fees	**34,614**	34,043
Brokerage on direct IPO allotments	**5,313**	97,730
Trading booth user fees	**9,603**	9,624
Accommodation income on securities deposited by Participants as alternatives to cash deposits of Margin Funds	**21,844**	15,555
Sales of Trading Right	**8,335**	3,000
Miscellaneous revenue	**21,363**	17,970
	390,855	489,109

(b) Other Income

	2008 $'000	2007 $'000
Gain on disposal of properties (note 27(a))	**68,641**	-
Fair value gain of an investment property (note i)	**-**	4,900
	68,641	4,900

(i) Amount for 2007 comprises fair value gain of an investment property arising from revaluation of $1,100,000 (note 20(b)) prior to the reclassification of the property to non-current assets held for sale and fair value gain arising from revaluation of $3,800,000 (note 27(c)) subsequent to the reclassification.

8. Net Investment Income

	2008 $'000	2007 $'000
Interest income		
- bank deposits	**564,725**	1,030,736
- listed available-for-sale financial assets	**11,573**	23,092
- unlisted available-for-sale financial assets	**551,568**	670,887
	1,127,866	1,724,715
Interest rebates to Participants	**(76,415)**	(711,727)
Net interest income	**1,051,451**	1,012,988
Net realised and unrealised gains/(losses) and interest income on financial assets and financial liabilities at fair value through profit or loss		
On designation		
- bank deposits with embedded derivatives	**171**	-
Held for trading		
- listed securities	**(75,191)**	138,744
- unlisted securities	**41,149**	57,670
- exchange differences	**(24,021)**	12,314
	(58,063)	208,728
	(57,892)	208,728
Realised gains on disposal of unlisted available-for-sale financial assets	**1,523**	-
Dividend income from listed financial assets at fair value through profit or loss	**3,769**	6,091
Other exchange differences on loans and receivables	**324**	10,421
Net investment income	**999,175**	1,238,228
Net investment income was derived from:		
Corporate Funds	**83,056**	373,304
Margin Funds	**895,151**	797,714
Clearing House Funds	**20,968**	67,210
	999,175	1,238,228

9. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	2008 $'000	2007 $'000
Salaries and other short-term employee benefits	**713,827**	748,165
Employee share-based compensation benefits (note 35)		
- employee share options	**6,506**	9,779
- Awarded Shares	**21,673**	14,583
	28,179	24,362
Termination benefits	**429**	259
Retirement benefit costs (note a):		
- ORSO Plan	**60,142**	53,858
- MPF Scheme	**529**	472
	803,106	827,116

(a) Retirement Benefit Costs

The Group has sponsored a defined contribution provident fund scheme, namely the Hong Kong Exchanges and Clearing Provident Fund Scheme ("ORSO Plan"), which is registered under ORSO and has obtained Mandatory Provident Fund ("MPF") exemption. The ORSO Plan is for all full-time permanent employees. The Group contributes 12.5 per cent of the employee's basic salary to the ORSO Plan if an employee contributes 5 per cent. If the employee chooses not to contribute, the Group will contribute 10 per cent of the employee's salary to the ORSO Plan.

In compliance with the MPF Ordinance, HKEx has participated in a master trust MPF scheme, the AIA-JF Premium MPF Scheme ("MPF Scheme"), to provide retirement benefits to full-time permanent employees who elect to join the MPF Scheme and all temporary or part-time employees who are not eligible for joining the ORSO Plan. Contributions to the MPF Scheme are in accordance with the statutory limits prescribed by the MPF Ordinance (ie, 5 per cent of the employee's relevant income subject to a maximum of $1,000 per month).

The retirement benefit costs charged to the consolidated income statement represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees. The contribution payable to the MPF Scheme as at 31 December 2008 was $109,000 (2007: $104,000) and no contribution to the ORSO Plan was outstanding as at 31 December 2007 and 2008.

For the ORSO Plan, contributions during the year are not offset by contributions forfeited in respect of employees who left the ORSO Plan before the contributions were fully vested. Instead, forfeited contributions are credited to a reserve account of the ORSO Plan for the benefit of its members.

	2008 $'000	2007 $'000
Contributions forfeited during the year and retained in the ORSO Plan	**2,202**	5,830

10. Information Technology and Computer Maintenance Expenses

	2008 $'000	2007 $'000
Costs of services and goods:		
- consumed by the Group	**142,052**	135,045
- directly consumed by Participants	**96,865**	72,377
	238,917	207,422

11. Other Operating Expenses

(a) Provision for impairment losses arising from Participants' default on market contracts

The amount $163,203,000 (2007: $Nil) (note 24(b)) mainly includes $154,968,000 of provision for impairment loss of trade receivables arising from the default on market contracts by LBSA.

On 16 September 2008, the Securities and Futures Commission ("SFC") issued a restriction notice on LBSA, which prohibited LBSA from settling its outstanding positions in CCASS. Following the issue of the SFC restriction notice, LBSA was declared a defaulter and its outstanding positions were closed out by HKSCC in accordance with the General Rules of CCASS. HKSCC incurred a loss of $154,968,000 (including costs and expenses net of recoveries up to 31 December 2008) as a result of such closing-out. LBSA submitted a winding-up petition and provisional liquidators were appointed on 17 September 2008. HKSCC will seek recovery of the closing-out loss via the liquidation process and after giving due regard to its entitlement to recover the loss, or part thereof, from the HKSCC Guarantee Fund and other avenues available to HKSCC for the recovery of such loss.

(b) Others

	2008 $'000	2007 $'000
Provision for/(reversal of provision for) impairment losses of other trade receivables (note 24(b))	**1,757**	(71)
(Reversal of provision for)/provision for impairment losses of leasehold buildings – revaluation (gain)/deficit (note 19(a)(iv))	**(12)**	74
Insurance	**4,394**	4,482
Financial data subscription fees	**4,499**	4,095
Custodian and fund management fees	**11,901**	10,042
Bank charges	**9,711**	22,919
Repair and maintenance expenses	**8,389**	8,615
License fees	**15,009**	13,445
Communication expenses	**5,486**	5,266
Overseas travel expenses	**6,474**	4,812
Contribution to Financial Reporting Council	**2,500**	7,153
Charitable donations	**10,633**	328
Other miscellaneous expenses	**33,428**	43,240
	114,169	124,400

12. Gain on Disposal of an Associate

In April 2007, the Group sold all of its 7,317 fully paid Class A ordinary shares (equivalent to 30 per cent of the issued share capital) of Computershare Hong Kong Investor Services Limited ("CHIS") for a consideration of $270,320,000. The accounting profit on disposal of the investment, after deducting stamp duty of $270,000, amounted to $206,317,000 and was recognised in the consolidated income statement during 2007.

13. Profit before Taxation

	2008 **$'000**	2007 $'000
Profit before taxation is stated after (charging)/crediting:		
Amortisation of lease premiums for land	**(509)**	(538)
Auditor's remuneration		
- audit fees		
- charge for the year	**(2,877)**	(2,585)
- reversal of provision in respect of prior years	**-**	75
- non-audit fees:		
- charge for the year	**(458)**	(410)
- reversal of provision in respect of prior years	**-**	5
Interest on bank loans and overdrafts repayable within five years	**(268)**	(491)
Operating lease rentals		
- land and buildings	**(104,384)**	(91,288)
- computer systems and equipment	**(6,009)**	(5,605)
Rental income from investment property	**82**	612
Direct operating expenses of the investment property that generates rental income	**(22)**	(167)
Depreciation	**(108,813)**	(79,144)
Reversal of provision for/(provision for) impairment losses of leasehold buildings under other operating expenses	**12**	(74)
(Provision for)/reversal of provision for impairment losses of trade receivables under other operating expenses	**(164,960)**	71
Provision for impairment losses of club debenture under other operating expenses	**(5)**	-
Gain on disposal of an investment property	**5,932**	-
Gain on disposal of a leasehold property	**62,709**	-
Gain on disposal of fixed assets	**2,367**	262
Gain on disposal of an associate	**-**	206,317
Exchange gains/(losses) on:		
- financial assets (excluding financial assets at fair value through profit or loss)	**324**	10,421
- Others	**1**	(99)

14. Directors' Emoluments

All Directors, including one Executive Director, received emoluments during the years ended 31 December 2008 and 31 December 2007. The aggregate emoluments paid and payable to the Directors during the two years were as follows:

	2008 $'000	2007 $'000
Executive Director:		
Salaries and other short-term employee benefits	**7,858**	7,402
Performance bonus	**3,900**	5,814
Retirement benefit costs	**975**	918
	12,733	14,134
Employee share-based compensation benefits (note a)	**1,090**	1,048
	13,823	15,182
Non-executive Directors:		
Fees	**4,587**	4,208
	18,410	19,390

(a) Employee share-based compensation benefits represent fair value of share options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme amortised to profit or loss during the year disregarding whether the options and the Awarded Shares have been vested/exercised or not.

(b) The emoluments, including employee share-based compensation benefits for options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme, of the Directors were within the following bands:

	2008 Number of Directors	2007 Number of Directors
$1 – $500,000	**12**	12
$500,001 – $1,000,000	**1**	-
$13,500,001 – $14,000,000	**1**	-
$15,000,001 – $15,500,000	**-**	1
	14	13

14. Directors' Emoluments (continued)

(c) The emoluments of all Directors, including the Chief Executive who is an ex-officio member, for the years ended 31 December 2008 and 2007 are set out below:

	2008							
Name of Director	**Fees $'000**	**Salary $'000**	**Other benefits (note i) $'000**	**Performance bonus $'000**	**Retirement benefit costs (note ii) $'000**	**Sub-total $'000**	**Employee share-based compensation benefits $'000**	**Total $'000**
Ronald J Arculli	**550**	**-**	**-**	**-**	**-**	**550**	**-**	**550**
Paul M Y Chow	**-**	**7,800**	**58**	**3,900**	**975**	**12,733**	**1,090**	**13,823**
Laura M Cha	**400**	**-**	**-**	**-**	**-**	**400**	**-**	**400**
Moses M C Cheng	**400**	**-**	**-**	**-**	**-**	**400**	**-**	**400**
Marvin K T Cheung	**350**	**-**	**-**	**-**	**-**	**350**	**-**	**350**
Henry H L Fan	**300**	**-**	**-**	**-**	**-**	**300**	**-**	**300**
Fong Hup	**400**	**-**	**-**	**-**	**-**	**400**	**-**	**400**
Bill C P Kwok	**350**	**-**	**-**	**-**	**-**	**350**	**-**	**350**
Vincent K H Lee	**450**	**-**	**-**	**-**	**-**	**450**	**-**	**450**
Christine K W Loh	**350**	**-**	**-**	**-**	**-**	**350**	**-**	**350**
John E Strickland	**350**	**-**	**-**	**-**	**-**	**350**	**-**	**350**
David M Webb (note iii)	**123**	**-**	**-**	**-**	**-**	**123**	**-**	**123**
John M M Williamson (note iv)	**214**	**-**	**-**	**-**	**-**	**214**	**-**	**214**
Oscar S H Wong	**350**	**-**	**-**	**-**	**-**	**350**	**-**	**350**
Total	**4,587**	**7,800**	**58**	**3,900**	**975**	**17,320**	**1,090**	**18,410**

	2007							
Name of Director	Fees $'000	Salary $'000	Other benefits (note i) $'000	Performance bonus $'000	Retirement benefit costs (note ii) $'000	Sub-total $'000	Employee share-based compensation benefits $'000	Total $'000
Ronald J Arculli	472	-	-	-	-	472	-	472
Paul M Y Chow	-	7,344	58	5,814	918	14,134	1,048	15,182
Laura M Cha	360	-	-	-	-	360	-	360
Moses M C Cheng	360	-	-	-	-	360	-	360
Marvin K T Cheung	323	-	-	-	-	323	-	323
Henry H L Fan	285	-	-	-	-	285	-	285
Fong Hup	360	-	-	-	-	360	-	360
Bill C P Kwok	323	-	-	-	-	323	-	323
Vincent K H Lee	397	-	-	-	-	397	-	397
Christine K W Loh	323	-	-	-	-	323	-	323
John E Strickland	323	-	-	-	-	323	-	323
David M Webb (note iii)	360	-	-	-	-	360	-	360
Oscar S H Wong	322	-	-	-	-	322	-	322
Total	4,208	7,344	58	5,814	918	18,342	1,048	19,390

Notes:

(i) Other benefits included insurance premium and club membership.

(ii) Employees who retire before normal retirement age are eligible for 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of seven years of service.

(iii) Resigned on 15 May 2008

(iv) Appointment effective 18 June 2008

15. Five Top-paid Employees

One (2007: one) of the five top-paid employees was a Director whose emoluments are disclosed in note 14. Details of the emoluments of the other four (2007: four) top-paid employees were as follows:

	2008 **$'000**	2007 $'000
Salaries and other short-term employee benefits	**17,865**	16,999
Performance bonus	**8,123**	12,237
Retirement benefit costs	**2,192**	2,082
	28,180	31,318
Employee share-based compensation benefits (note a)	**4,377**	3,274
	32,557	34,592

(a) Employee share-based compensation benefits represent fair value of share options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme amortised to profit or loss during the year disregarding whether the options and the Awarded Shares have been vested/exercised or not.

(b) The emoluments of these four (2007: four) employees, including employee share-based compensation benefits for options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme, were within the following bands:

	2008 **Number of employees**	2007 Number of employees
$6,000,001 – $6,500,000	**1**	-
$6,500,001 – $7,000,000	**-**	1
$7,000,001 – $7,500,000	**1**	-
$7,500,001 – $8,000,000	**-**	1
$8,500,001 – $9,000,000	**1**	1
$10,000,001 – $10,500,000	**1**	-
$10,500,001 – $11,000,000	**-**	1
	4	4

The employees, whose emoluments are disclosed above, included senior executives who were also Directors of the subsidiaries during the years. No Directors of the subsidiaries waived any emoluments.

16. Taxation

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

	2008 $'000	2007 $'000
Provision for Hong Kong Profits Tax for the year (note i)	**815,183**	1,009,076
Over provision in respect of prior years	**(152)**	(2,234)
	815,031	1,006,842
Deferred taxation (note 31(a))	**(15,482)**	14,689
	799,549	1,021,531

(i) Hong Kong Profits Tax has been provided for at 16.5 per cent (2007: 17.5 per cent) on the estimated assessable profit for the year.

(b) The taxation on the Group's profit before taxation (excluding share of profit of an associate and gain on disposal of an associate) differs from the theoretical amount that would arise using the taxation rate of 16.5 per cent (2007: 17.5 per cent) as follows:

	2008 $'000	2007 $'000
Profit before taxation (excluding share of profit of an associate and gain on disposal of an associate)	**5,928,473**	6,978,905
Calculated at a taxation rate of 16.5 per cent (2007: 17.5 per cent)	**978,198**	1,221,308
Income not subject to taxation	**(182,106)**	(202,363)
Expenses not deductible for taxation purposes	**8,569**	12,378
Change in deferred tax arising from reclassification of properties to "Non-current assets held for sale"	**-**	(2,061)
Change in opening net deferred tax liabilities resulting from a decrease in tax rate	**(1,299)**	-
Change in deferred tax arising from unrecognised tax losses and other deferred tax adjustments	**(3,661)**	(5,497)
Over provision of Hong Kong Profits Tax in respect of prior years	**(152)**	(2,234)
Taxation charge	**799,549**	1,021,531

17. Dividends

	2008 **$'000**	2007 $'000
Interim dividend paid:		
$2.49 (2007: $1.79) per share	**2,676,436**	1,914,499
Less: Dividend for shares held by HKEx Employee Share Trust	**(3,061)**	(2,306)
	2,673,375	1,912,193
Final dividend proposed (notes a and b):		
$1.80 (2007: $3.40) per share based		
on issued share capital as at the year end	**1,934,795**	3,638,970
Less: Dividend for shares held by HKEx		
Employee Share Trust as at the year end	**(1,704)**	(3,592)
	1,933,091	3,635,378
	4,606,466	5,547,571

(a) Actual 2007 final dividend paid was $3,646,159,000 (after eliminating $4,120,000 paid for shares held by HKEx Employee Share Trust, of which $528,000 relates to shares acquired by the HKEx Employee Share Trust after 31 December 2007), of which $11,309,000 was paid for shares issued for employee share options exercised after 31 December 2007.

(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.

18. Earnings Per Share

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

(a) Basic earnings per share

	2008	2007
Profit attributable to shareholders ($'000)	**5,128,924**	6,169,278
Weighted average number of shares in issue less shares held for Share Award Scheme	**1,072,223,011**	1,067,236,673
Basic earnings per share	**$4.78**	$5.78

(b) Diluted earnings per share

	2008	2007
Profit attributable to shareholders ($'000)	**5,128,924**	6,169,278
Weighted average number of shares in issue less shares held for Share Award Scheme	**1,072,223,011**	1,067,236,673
Effect of employee share options	**5,325,004**	10,126,864
Effect of Awarded Shares	**1,146,735**	1,227,308
Weighted average number of shares for the purpose of calculating diluted earnings per share	**1,078,694,750**	1,078,590,845
Diluted earnings per share	**$4.75**	$5.72

19. Fixed Assets

(a) Group

	Leasehold buildings $'000	Computer trading and clearing systems $'000	Other computer hardware and software $'000	Leasehold improvements, furniture, equipment and motor vehicles $'000	Total $'000
Net book value at 1 Jan 2007 (note i)	16,000	126,903	22,866	44,392	210,161
Additions	-	167,169	18,186	8,335	193,690
Transfer to non-current assets held for sale (note iii)	(7,524)	-	-	-	(7,524)
Revaluation (note iv)	(118)	-	-	-	(118)
Depreciation	(558)	(55,424)	(11,087)	(12,075)	(79,144)
Net book value at 31 Dec 2007	7,800	238,648	29,965	40,652	317,065
At 31 Dec 2007					
At cost	-	1,389,856	366,805	274,095	2,030,756
At valuation	7,800	-	-	-	7,800
Accumulated depreciation	-	(1,151,208)	(336,840)	(233,443)	(1,721,491)
Net book value	7,800	238,648	29,965	40,652	317,065
Net book value at 1 Jan 2008	**7,800**	**238,648**	**29,965**	**40,652**	**317,065**
Additions	**-**	**48,371**	**8,810**	**45,802**	**102,983**
Disposals (note ii)	**-**	**(52)**	**-**	**(16)**	**(68)**
Revaluation (note iv)	**12**	**-**	**-**	**-**	**12**
Depreciation	**(312)**	**(75,368)**	**(13,763)**	**(19,370)**	**(108,813)**
Net book value at 31 Dec 2008	**7,500**	**211,599**	**25,012**	**67,068**	**311,179**
At 31 Dec 2008					
At cost	**-**	**1,388,172**	**363,636**	**310,295**	**2,062,103**
At valuation	**7,500**	**-**	**-**	**-**	**7,500**
Accumulated depreciation	**-**	**(1,176,573)**	**(338,624)**	**(243,227)**	**(1,758,424)**
Net book value	**7,500**	**211,599**	**25,012**	**67,068**	**311,179**

(i) The analysis of net book value as at 1 January 2007 is as follows:

At cost	-	1,275,800	352,662	268,171	1,896,633
At valuation	16,000	-	-	-	16,000
Accumulated depreciation	-	(1,148,897)	(329,796)	(223,779)	(1,702,472)
Net book value	16,000	126,903	22,866	44,392	210,161

(ii) The total cost of fixed assets disposed of or written off and their total net book value during 2008 were $71,636,000 and $68,000 respectively (2007: $59,567,000 and $Nil respectively).

19. Fixed Assets (continued)

(a) Group (continued)

(iii) On 19 September 2007, the Board approved the disposal of one of the leasehold buildings used by the Group and the carrying value of the leasehold building of $7,524,000 was reclassified as a non-current asset held for sale during the year ended 31 December 2007 (note 27(b)).

(iv) The remaining leasehold building was revalued as at 31 December 2008 on the basis of the depreciated replacement costs calculated by Jones Lang LaSalle, an independent firm of qualified property valuers. During the year ended 31 December 2008, the total revaluation gain of the leasehold building amounted to $12,000, and was credited to other operating expenses in the consolidated income statement (note 11(b)) to offset the amount previously charged to profit or loss. For the year ended 31 December 2007, the total revaluation deficit of the two leasehold buildings amounted to $118,000, of which $44,000 was charged to other comprehensive income and leasehold buildings revaluation reserve (note 36) to set off against previous valuation surpluses and $74,000 was charged to other operating expenses in the consolidated income statement (note 11(b)).

(v) The cost of the remaining leasehold building was $15,900,000 (2007: $15,900,000). The carrying value of the leasehold building as at 31 December 2008 would have been $5,691,000 (2007: $6,327,000) had it been carried at cost less accumulated depreciation.

(b) HKEx

	Other computer hardware and software $'000	**Leasehold improvements, furniture, equipment and motor vehicles** $'000	**Total** $'000
Net book value at 1 Jan 2007 (note i)	12,515	4,967	17,482
Additions	4,091	5,754	9,845
Depreciation	(5,850)	(2,271)	(8,121)
Net book value at 31 Dec 2007	10,756	8,450	19,206
At 31 Dec 2007			
At cost	64,111	26,679	90,790
Accumulated depreciation	(53,355)	(18,229)	(71,584)
Net book value	10,756	8,450	19,206
Net book value at 1 Jan 2008	**10,756**	**8,450**	**19,206**
Additions	**2,194**	**11,723**	**13,917**
Disposals (note ii)	**-**	**(12)**	**(12)**
Depreciation	**(5,419)**	**(4,455)**	**(9,874)**
Net book value at 31 Dec 2008	**7,531**	**15,706**	**23,237**
At 31 Dec 2008			
At cost	**65,943**	**34,969**	**100,912**
Accumulated depreciation	**(58,412)**	**(19,263)**	**(77,675)**
Net book value	**7,531**	**15,706**	**23,237**

(i) The analysis of net book value as at 1 January 2007 is as follows:

At cost	60,080	22,806	82,886
Accumulated depreciation	(47,565)	(17,839)	(65,404)
Net book value	12,515	4,967	17,482

(ii) The total cost of fixed assets disposed of or written off and their total net book value during 2008 were $3,795,000 and $12,000 respectively (2007: $1,941,000 and $Nil respectively).

20. Investment Property

	Group	
	2008 **$'000**	2007 $'000
At 1 Jan	-	19,300
Fair value gain	-	1,100
Transfer to non-current assets held for sale (note a)	-	(20,400)
At 31 Dec	-	-

(a) On 19 September 2007, the Board approved the disposal of the investment property and the amount was reclassified as a non-current asset held for sale during the year ended 31 December 2007 (note 27(c)).

(b) Prior to its reclassification as a non-current asset held for sale, the investment property was revalued as at 30 June 2007 on the basis of its open market value by Jones Lang LaSalle, an independent firm of qualified property valuers. The fair value gain during the period up to the date of reclassification amounted to $1,100,000 and was credited to the consolidated income statement under other income during the year ended 31 December 2007 (note 7(b)(i)).

21. Lease Premium for Land

	Group	
	2008 **$'000**	2007 $'000
Net book value at 1 Jan	**61,217**	94,123
Amortisation	**(509)**	(538)
Transfer to non-current assets held for sale (note a)	-	(32,368)
Net book value at 31 Dec	**60,708**	61,217
Current portion of lease premium for land	**(509)**	(509)
Non-current portion	**60,199**	60,708

(a) On 19 September 2007, the Board approved the disposal of one of the leasehold properties used by the Group and the lease premium for the land of the property was reclassified as a non-current asset held for sale during the year ended 31 December 2007 (note 27(d)).

(b) The remaining leasehold land is held under long-term lease and situated in Hong Kong. The cost of the leasehold land was $69,659,000 (2007: $69,659,000).

22. Margin Funds on Derivatives Contracts

	Group 2008 $'000	Group 2007 $'000
The Margin Funds comprised (note a):		
SEOCH Clearing Participants' Margin Funds	**3,735,254**	9,741,149
HKCC Clearing Participants' Margin Funds	**38,104,737**	45,687,739
	41,839,991	55,428,888
The net assets of the Margin Funds comprised:		
Available-for-sale financial assets:		
Debt securities, at market value:		
- listed outside Hong Kong	**324,301**	243,047
- unlisted	**16,116,617**	16,491,959
Time deposits with original maturities over three months	**3,205,408**	2,508,559
Margin receivable from Clearing Participants	**8,835**	3,068
Financial assets of Margin Funds (note b)	**19,655,161**	19,246,633
Cash and cash equivalents	**22,184,833**	36,182,526
	41,839,994	55,429,159
Less: Other financial liabilities of Margin Funds	**(3)**	(271)
	41,839,991	55,428,888
The Group's liabilities in respect of the Margin Funds were as follows:		
Margin deposits from SEOCH and HKCC Participants on derivatives contracts	**41,839,991**	55,428,888

(a) Amounts excluded non-cash collateral received and utilised as alternative to cash margin (note 45).

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

	Group 2008 $'000	Group 2007 $'000
Amounts maturing after more than twelve months	**-**	456,396
Amounts maturing within twelve months	**19,655,161**	18,790,237
	19,655,161	19,246,633

23. Available-for-sale Financial Assets

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Debt securities, at market value				
- listed outside Hong Kong	**160,601**	-	**-**	-
- unlisted	**2,421,082**	3,067,007	**8,220**	-
	2,581,683	3,067,007	**8,220**	-
Analysis of available-for-sale financial assets:				
Non-current portion maturing after twelve months	**-**	25,270	**-**	-
Current portion maturing within twelve months	**2,581,683**	3,041,737	**8,220**	-
	2,581,683	3,067,007	**8,220**	-

24. Accounts Receivable, Prepayments and Deposits

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Receivable from Exchange and Clearing Participants:				
- CNS money obligations	**7,904,042**	17,301,606	**-**	-
- transaction levy, stamp duty and fees receivable	**341,317**	704,481	**-**	-
- others	**169,215**	92,243	**-**	-
Other fees receivable	**243,511**	239,947	**-**	-
Prepayments	**16,934**	17,364	**16,706**	17,023
Other receivables and deposits	**18,987**	13,096	**728**	113
Less : Provision for impairment losses of trade receivables (note b)	**(167,449)**	(4,608)	**-**	-
	8,526,557	18,364,129	**17,434**	17,136

(a) The carrying amounts of accounts receivable and deposits approximated their fair values.

(b) The movements in provision for impairment losses of trade receivables were as follows:

	Group	
	2008 $'000	2007 $'000
At 1 Jan	**4,608**	4,679
Provision for impairment losses arising from Participants' default on market contracts (note 11(a))	**163,203**	-
Provision for/(reversal of provision for) impairment losses of other trade receivables (note 11(b))	**1,757**	(71)
Trade receivables written off during the year as uncollectible	**(2,119)**	-
At 31 Dec	**167,449**	4,608

24. Accounts Receivable, Prepayments and Deposits (continued)

(c) CNS money obligations receivable accounted for 93 per cent (2007: 94 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 30 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits would mature within three months.

25. Clearing House Funds

	Group	
	2008 **$'000**	2007 $'000
The Clearing House Funds comprised the following Funds (notes a and b):		
HKSCC Guarantee Fund	**215,573**	362,015
SEOCH Reserve Fund	**208,291**	1,263,056
HKCC Reserve Fund	**578,853**	567,133
	1,002,717	2,192,204
The Clearing House Funds were composed of:		
Available-for-sale financial assets:		
Unlisted debt securities, at market value	**371,494**	361,506
Time deposits with original maturities over three months	**21,708**	-
Financial assets of Clearing House Funds (note c)	**393,202**	361,506
Cash and cash equivalents	**843,109**	1,841,508
	1,236,311	2,203,014
Less: Other financial liabilities of Clearing House Funds	**(72,319)**	(10,810)
	1,163,992	2,192,204
Provision for loss arising from closing-out losses of defaulting Participants (note d)	**(161,275)**	-
	1,002,717	2,192,204
The Clearing House Funds were funded by:		
Clearing Participants' cash contributions due within twelve months	**197,520**	1,252,355
Clearing Participants' cash contributions due after twelve months	**252,000**	244,500
Designated reserves (note 38 and note e):		
At 1 Jan	**694,853**	627,816
Transfer (to)/from retained earnings (note f)	**(142,470)**	67,037
At 31 Dec	**552,383**	694,853
Revaluation reserve (Note 36(b))	**814**	496
	1,002,717	2,192,204

25. Clearing House Funds (continued)

(a) Amounts excluded bank guarantees received and utilised as alternatives to cash contributions (note 45).

(b) The Clearing House Funds were established to support the respective clearing houses (ie, HKSCC, HKCC and SEOCH) to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Clearing Participants arising from depositing defective securities into CCASS.

(c) All financial assets would mature within twelve months.

(d) In December 2008, the Board resolved to recover the closing-out losses caused by defaulting Participants (less any contributions forfeited and recoveries from the liquidation process of the defaulting Participants concerned) from the Clearing House Funds. As at 31 December 2008, the losses to be recovered totalled $161,275,000 (2007: $Nil) and, subject to further recoveries, if any, will be paid to the clearing houses after the completion of the defaulting Participants' liquidation. The provision has been eliminated against the amounts due from the defaulting Participants on consolidation.

(e) The Board has resolved that the closing-out losses caused by defaulting Participants incurred by the Clearing House Funds would not be allocated to any Clearing Participants except for the amounts contributed to the Clearing House Funds by the defaulting Clearing Participants. Consequently, the designated reserves of the Clearing House Funds are reduced by $163,203,000, which is attributable to firstly the forfeited contributions of the defaulting Clearing Participant and the accumulated net investment income net of expenses of the relevant Clearing House Funds recognised in profit or loss of the Group up to 31 December 2008 and then the clearing houses' contributions.

(f) The amount comprises net investment income net of expenses of $20,733,000 (2007: $67,037,000) less provision for closing-out losses of $163,203,000 (2007: $Nil).

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

	Group	
	2008 **$'000**	2007 $'000
Analysis of financial assets at fair value through profit or loss:		
Held for trading		
Equity securities, at market value		
- listed in Hong Kong	**12,701**	49,559
- listed outside Hong Kong	**94,680**	177,591
	107,381	227,150
Held for trading		
Debt securities, at market value		
- listed in Hong Kong	**79,074**	47,569
- listed outside Hong Kong	**1,386,067**	1,363,356
- unlisted	**1,371,057**	1,258,030
	2,836,198	2,668,955
Held for trading		
Mutual funds, at market value		
- listed outside Hong Kong	**57,707**	96,778
Held for trading		
Derivative financial instruments, at market value		
- equity index futures contracts, listed outside Hong Kong (note a)	**-**	159
- forward foreign exchange contracts (note b)	**18,749**	3,513
	18,749	3,672
	3,020,035	2,996,555
Analysis of financial liabilities at fair value through profit or loss:		
Held for trading		
Derivative financial instruments, at market value		
- equity index futures contracts, listed outside Hong Kong (note a)	**627**	-
- forward foreign exchange contracts (note b)	**25,627**	6,149
	26,254	6,149

(a) The total notional value of the futures contracts outstanding was $26,963,000 (2007: $6,964,000).

(b) The maximum gross nominal value of outstanding forward foreign exchange contracts was $3,219,344,000 (2007: $2,926,473,000) (note 49(b)).

27. Non-current Assets Held for Sale

	Group	
	2008 **$'000**	2007 $'000
Leasehold building (note b)	-	7,524
Investment property (note c)	-	24,200
Lease premium for land of leasehold property (note d)	-	32,368
	-	64,092
Reserves associated with assets held for sale recognised in other comprehensive income (leasehold buildings revaluation reserve (note 36))	-	3,155

(a) On 19 September 2007, the Board approved the disposal of one of the leasehold properties and the investment property held by the Group as the Board resolved to restructure the Group's property portfolio. No impairment losses were recognised on the reclassification of the properties as held for sale.

In January 2008, the Group entered into agreements with two third parties to sell the leasehold property and the investment property for a consideration of $103,380,000 and $30,400,000 respectively. The sale transactions were completed on 18 February 2008. The accounting profit on the disposal of properties, after deducting related selling expenses of $1,047,000, amounted to $68,641,000 ($62,709,000 for the leasehold property and $5,932,000 for the investment property) and was recognised in the consolidated income statement under other income in 2008 (note 7(b)).

(b) Leasehold building

	Group	
	2008 **$'000**	2007 $'000
At 1 Jan	**7,524**	-
Transfer from leasehold building (note 19(a) (iii))	-	7,524
Disposal	**(7,524)**	-
At 31 Dec	-	7,524

The cost of the leasehold building was $11,000,000 as at 31 December 2007. The carrying amount of the leasehold building as at 31 December 2007 would have been $3,598,000 had it been carried at cost less accumulated depreciation.

(c) Investment property

	Group	
	2008 **$'000**	2007 $'000
At 1 Jan	**24,200**	-
Transfer from investment property (note 20(a))	-	20,400
Fair value gain	-	3,800
Disposal	**(24,200)**	-
At 31 Dec	-	24,200

The investment property was held under long-term lease and situated in Hong Kong. The cost of the investment property was $8,229,000 as at 31 December 2007. The investment property was revalued as at 31 December 2007 on the basis of its open market value by Jones Lang LaSalle, an independent firm of qualified property valuers. The fair value gain for the valuation amounted to $3,800,000 and was credited to the consolidated income statement under other income during the year ended 31 December 2007 (note 7(b)(i)).

27. Non-current Assets Held for Sale (continued)

(d) Leasehold premium for land of leasehold property

	Group	
	2008 $'000	2007 $'000
At 1 Jan	**32,368**	-
Transfer from lease premium for land (note 21(a))	-	32,368
Disposal	**(32,368)**	-
At 31 Dec	-	32,368

The leasehold land was held under long-term lease and situated in Hong Kong. The cost of the leasehold land as at 31 December 2007 was $33,111,000.

(e) At 31 December 2007, the liabilities associated with the non-current assets held for sale, being operating expenses payable, were $44,000 and were not included in the sale.

28. Accounts Payable, Accruals and Other Liabilities

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Payable to Exchange and Clearing Participants:				
- CNS money obligations	**7,904,083**	17,300,191	-	-
- cash collateral and marks	**3,599,902**	2,719,588	-	-
- others	**184,401**	169,976	-	-
Transaction levy payable to the SFC	**84,256**	166,988	-	-
Unclaimed dividends (note b)	**264,730**	229,088	**93,028**	57,906
Stamp duty payable	**155,977**	414,202	-	-
Deposits received	**36,898**	28,911	-	-
Other payables and accruals	**180,607**	346,965	**82,183**	109,138
	12,410,854	21,375,909	**175,211**	167,044

(a) The carrying amounts of accounts payable and other liabilities approximated their fair values.

(b) Unclaimed dividends for the Group represent dividends declared by listed companies which were held by HKSCC Nominees Limited but not yet claimed by shareholders of the companies concerned, and dividends declared by HKEx but not yet claimed by its shareholders. During the year, dividends declared by HKEx which were unclaimed over a period of six years from the date of payment amounting to $2,566,000 (2007: $2,454,000) were forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association (note 40).

(c) CNS money obligations payable accounted for 64 per cent (2007: 81 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations payable mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

29. Participants' Admission Fees Received

Although not strictly obliged to do so, HKSCC aims to refund the admission fee paid by a Participant without interest after a period of seven years from the date of its admission as a Participant or upon the termination of its participation in CCASS, whichever is the later. HKSCC may, at its discretion, grant early refunds of admission fees to terminated Participants within one year from the date of termination of their participation in CCASS and to Participants within one year of the date of sale of their Stock Exchange Trading Rights.

30. Provisions

(a) Group

	Reinstatement costs $'000	Employee benefit costs $'000	Total $'000
At 1 Jan 2008	**24,128**	**29,630**	**53,758**
Provision for the year	**2,581**	**44,634**	**47,215**
Unused amount reversed during the year	**(38)**	**-**	**(38)**
Amount used during the year	**-**	**(37,829)**	**(37,829)**
Amount paid during the year	**(2)**	**(1,331)**	**(1,333)**
At 31 Dec 2008	**26,669**	**35,104**	**61,773**

	2008 $'000	2007 $'000
Analysis of provisions:		
Current	**36,290**	29,630
Non-current	**25,483**	24,128
	61,773	53,758

(b) HKEx

	Reinstatement costs $'000	Employee benefit costs $'000	Total $'000
At 1 Jan 2008	**575**	**29,630**	**30,205**
Provision for the year	**99**	**44,634**	**44,733**
Unused amount reversed during the year	**(38)**	**-**	**(38)**
Amount used during the year	**-**	**(37,829)**	**(37,829)**
Amount paid during the year	**(2)**	**(1,331)**	**(1,333)**
At 31 Dec 2008	**634**	**35,104**	**35,738**

	2008 $'000	2007 $'000
Analysis of provisions:		
Current	**35,104**	29,630
Non-current	**634**	575
	35,738	30,205

(i) The provision for reinstatement costs represents the estimated costs used to restore the leased office premises to their original state upon the expiry of the leases. The leases are expected to expire within three years.

(ii) The provision for employee benefit costs represents unused annual leave that has been accumulated at the end of the reporting period. It is expected to be fully utilised in the coming twelve months.

31. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5 per cent (2007: 17.5 per cent).

(a) The movements on the deferred tax liabilities/(assets) account were as follows:

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
At 1 Jan	**33,263**	10,673	**(3,610)**	(3,330)
(Credited)/charged to income statement (note 16(a))	**(15,482)**	14,689	**(805)**	(280)
Charged to other comprehensive income (note b)	**8,565**	7,901	**22**	-
At 31 Dec (note e)	**26,346**	33,263	**(4,393)**	(3,610)

(b) The deferred taxation relating to each component of other comprehensive income charged/(credited) to other comprehensive income during the year was as follows:

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Change in valuation of leasehold buildings (note 36)	**-**	(7)	**-**	-
Reclassification of a leasehold building to "Non-current assets held for sale" (note 36)	**-**	(552)	**-**	-
Available-for-sale financial assets (note 36)	**8,565**	8,460	**22**	-
	8,565	7,901	**22**	-

(c) Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of $224,612,000 as at 31 December 2008 (2007: $239,773,000) that may be carried forward for offsetting against future taxable income indefinitely.

31. Deferred Taxation (continued)

(d) The movements on the deferred tax liabilities/(assets) account were as follows:

	Group											
	Accelerated tax depreciation		Revaluation of properties		Tax losses		Revaluation of available-for-sale financial assets		Employee benefits		Total	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
At 1 Jan	**39,843**	17,115	**257**	2,810	**(12,191)**	(6,656)	**10,539**	2,079	**(5,185)**	(4,675)	**33,263**	10,673
(Credited)/charged to income statement	**(7,434)**	22,728	**7**	(1,994)	**(7,448)**	(5,535)	**-**	-	**(607)**	(510)	**(15,482)**	14,689
(Credited)/charged to other comprehensive income	**-**	-	**-**	(559)	**-**	-	**8,565**	8,460	**-**	-	**8,565**	7,901
At 31 Dec	**32,409**	39,843	**264**	257	**(19,639)**	(12,191)	**19,104**	10,539	**(5,792)**	(5,185)	**26,346**	33,263

	HKEx							
	Accelerated tax depreciation		Revaluation of available-for-sale financial assets		Employee benefits		Total	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
At 1 Jan	**1,575**	1,345	**-**	-	**(5,185)**	(4,675)	**(3,610)**	(3,330)
(Credited)/charged to income statement	**(198)**	230	**-**	-	**(607)**	(510)	**(805)**	(280)
Charged to other comprehensive income	**-**	-	**22**	-	**-**	-	**22**	-
At 31 Dec	**1,377**	1,575	**22**	-	**(5,792)**	(5,185)	**(4,393)**	(3,610)

(e) Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to tax levied by the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Net deferred tax assets recognised on the statement of financial position	**(4,429)**	(3,610)	**(4,393)**	(3,610)
Net deferred tax liabilities recognised on the statement of financial position	**30,775**	36,873	**-**	-
	26,346	33,263	**(4,393)**	(3,610)

32. Financial Guarantee Contracts

(a) Group

The Stock Exchange has provided a financial guarantee to the Collector of Stamp Revenue, details of which are disclosed in note 43(a)(ii). The carrying amount of the financial guarantee recognised in the consolidated statement of financial position was $19,909,000 (2007: $19,909,000).

(b) HKEx

HKEx gave an undertaking in favour of HKSCC amounting to $50 million, details of which are disclosed in note 43(b)(i). The carrying amount of the financial guarantee recognised in HKEx's statement of financial position was $11,390,000 (2007: $11,390,000). The financial guarantee was eliminated on consolidation.

33. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity

(a) Investments in subsidiaries

	HKEx	
	2008 **$'000**	2007 $'000
Investments in unlisted shares, at cost	**4,145,198**	4,145,198
Financial guarantee granted to a subsidiary (note 32(b))	**11,390**	11,390
	4,156,588	4,156,588

(b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries are repayable on demand. The amounts due from/(to) subsidiaries are interest-free with the exception of funding provided directly or indirectly to the subsidiaries in connection with the closing-out of market contracts for defaulting participants, in which case interest is charged for the loss of income for early uplifting fixed deposits. During 2008, the amount charged for such funding was $578,000 (2007: $Nil).

(c) Particulars of subsidiaries

HKEx had direct or indirect interests in the following subsidiaries as at 31 December 2008, all of which are wholly-owned private companies incorporated and operating in Hong Kong. Details of these companies were as follows:

Company	**Issued and fully paid up share capital**	**Principal activities**	**Interest held**
Direct subsidiaries:			
The Stock Exchange of Hong Kong Limited	"A" shares $929	Operates the single, unified stock exchange in Hong Kong for the purposes of the Securities and Futures Ordinance	100%
Hong Kong Futures Exchange Limited	Ordinary $19,600,000 Standard $850,000	Operates a futures and options exchange	100%
Hong Kong Securities Clearing Company Limited	Ordinary $2	Operates a clearing house for securities traded on the unified stock exchange in Hong Kong and the central securities depository and provides custody and nominee services for eligible securities listed in Hong Kong	100%
HKEC Nominees Limited	Ordinary $2	Nominee services	100%
Hong Kong Financial Markets Development Limited	$2	Promotes the securities, futures and financial industry	100%

33. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity (continued)

(c) Particulars of subsidiaries (continued)

Company	Issued and fully paid up share capital	Principal activities	Interest held
Direct subsidiaries (continued):			
HKEx (China) Limited	$2	Promotes HKEx products and services	100%
HKEx (Singapore) Limited	$2	Dormant (dissolved on deregistration on 16 January 2009)	100%
Indirect subsidiaries:			
The SEHK Options Clearing House Limited	Ordinary $1,000,000	Operates a clearing house for options contracts traded on the Stock Exchange	100%
HKEx Information Services Limited	$100	Sale of stock market information	100%
Prime View Company Limited	$20	Property holding	100%
The Stock Exchange Club Limited	$8	Property holding	100%
The Stock Exchange Nominee Limited	$2	Nominee services	100%
HKFE Clearing Corporation Limited	Ordinary $1,000,000	Operates a clearing house for derivatives contracts traded on the Futures Exchange	100%
HKFE Clearing Linkage Limited	$2	Dormant (dissolved on deregistration on 16 January 2009)	100%
HKSCC Nominees Limited	$20	Acting as common nominee in respect of securities held in the CCASS depository	100%
Many Profit Limited	$2	Dormant (in the process of deregistration)	100%
Freestar Corporation Limited	$2	Dormant (in the process of deregistration)	100%
Star Prime Limited	$2	Dormant (dissolved on deregistration on 23 January 2009)	100%
HK Conversion Agency Services Limited	$2	Conversion agency services	100%

33. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity (continued)

(d) Controlled special purpose entity

There was one special purpose entity controlled by HKEx which operates in Hong Kong, particulars of which are as follows:

Special purpose entity	Principal activities
The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust")	Administering and holding HKEx shares for the Share Award Scheme for the benefit of eligible HKEx employees (note 35(c))

As HKEx has the power to govern the financial and operating policies of the HKEx Employee Share Trust and can derive benefits from the contributions of the employees who have been awarded the Awarded Shares through their continued employment with the Group, the Group is required to consolidate the HKEx Employee Share Trust.

As at 31 December 2008, HKEx had contributed $56,946,000 (2007: $43,635,000) to the HKEx Employee Share Trust for shares not yet vested and the amount was recorded as "Contributions to HKEx Employee Share Trust" in HKEx's statement of financial position.

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

	Group and HKEx	
	2008	2007
	$'000	$'000
Authorised:		
2,000,000,000 shares of $1 each	**2,000,000**	2,000,000

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

Issued and fully paid:

	Group				
	Number of shares of $1 each	**Share capital** $'000	**Share premium** $'000	**Shares held for Share Award Scheme** $'000	**Total** $'000
At 1 Jan 2007	1,064,190,346	1,065,448	185,942	(51,297)	1,200,093
Shares issued under employee share option schemes (note a)	4,837,000	4,837	61,215	-	66,052
Transfer from employee share-based compensation reserve (note 35)	-	-	19,013	-	19,013
Shares purchased for Share Award Scheme (note b)	(42,500)	-	-	(4,879)	(4,879)
Vesting of shares of Share Award Scheme (note c)	243,868	-	-	8,373	8,373
At 31 Dec 2007	1,069,228,714	1,070,285	266,170	(47,803)	1,288,652
At 1 Jan 2008	**1,069,228,714**	**1,070,285**	**266,170**	**(47,803)**	**1,288,652**
Shares issued under employee share option schemes (note a)	**4,601,000**	**4,601**	**61,932**	**-**	**66,533**
Transfer from employee share-based compensation reserve (note 35)	**-**	**-**	**18,800**	**-**	**18,800**
Shares purchased for Share Award Scheme (note b)	**(214,600)**	**-**	**-**	**(32,494)**	**(32,494)**
Vesting of shares of Share Award Scheme (note c)	**324,418**	**-**	**-**	**15,043**	**15,043**
At 31 Dec 2008	**1,073,939,532**	**1,074,886**	**346,902**	**(65,254)**	**1,356,534**

	HKEx			
	Number of shares of $1 each	**Share capital** $'000	**Share premium** $'000	**Total** $'000
At 1 Jan 2007	1,065,448,346	1,065,448	185,942	1,251,390
Shares issued under employee share option schemes (note a)	4,837,000	4,837	61,215	66,052
Transfer from employee share-based compensation reserve (note 35)	-	-	19,013	19,013
At 31 Dec 2007	1,070,285,346	1,070,285	266,170	1,336,455
At 1 Jan 2008	**1,070,285,346**	**1,070,285**	**266,170**	**1,336,455**
Shares issued under employee share option schemes (note a)	**4,601,000**	**4,601**	**61,932**	**66,533**
Transfer from employee share-based compensation reserve (note 35)	**-**	**-**	**18,800**	**18,800**
At 31 Dec 2008	**1,074,886,346**	**1,074,886**	**346,902**	**1,421,788**

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

(a) During the year, employee share options granted under the Pre-Listing Scheme and the Post-Listing Scheme were exercised to subscribe for 4,601,000 shares (2007: 4,837,000 shares) in HKEx at an average consideration of $14.46 per share (2007: $13.66 per share), of which $1.00 per share was credited to share capital and the balance was credited to the share premium account.

(b) During the year, the HKEx Employee Share Trust acquired 214,600 HKEx shares (2007: 42,500 shares) through purchases on the open market for the Share Award Scheme (note 35(c)). The total amount paid to acquire the shares during the year was $32,494,000 (2007: $4,879,000) and had been deducted from shareholders' equity.

(c) During the year, the HKEx Employee Share Trust transferred 324,418 HKEx shares (2007: 243,868 shares) to the awardees upon vesting of certain Awarded Shares and the related shares arising from dividends reinvested. The total cost of the related vested shares was $15,043,000 (2007: $8,373,000).

35. Employee Share–based Compensation Reserve

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
At 1 Jan	**49,669**	52,119	**49,669**	51,606
Employee share-based compensation benefits (note a and note 9)	**28,179**	24,362	**28,179**	24,362
Transfer to share premium upon exercise of employee share options (note 34)	**(18,800)**	(19,013)	**(18,800)**	(19,013)
Vesting of shares of Share Award Scheme	**(12,016)**	(7,286)	**(12,016)**	(7,286)
Share of reserve of an associate				
- during the year	-	47	-	-
- eliminated through disposal of associate	-	(560)	-	-
At 31 Dec	**47,032**	49,669	**47,032**	49,669

(a) The Group operates 2 share option schemes and a share award scheme as part of the benefits to its employees.

(b) Share options

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

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

35. Employee Share–based Compensation Reserve (continued)

(b) Share options (continued)

(i) (continued)

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

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

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

	2008		2007	
	Average exercise price per share $	**Number of shares issuable under options granted**	Average exercise price per share $	Number of shares issuable under options granted
Pre-Listing Scheme				
Outstanding at 1 Jan	**6.88**	**379,000**	6.88	788,000
Exercised	**6.88**	**(249,000)**	6.88	(409,000)
Outstanding at 31 Dec	**6.88**	**130,000**	6.88	379,000
Post-Listing Scheme				
Outstanding at 1 Jan	**16.67**	**9,089,500**	15.68	14,593,500
Exercised	**14.89**	**(4,352,000)**	14.28	(4,428,000)
Forfeited	**18.53**	**(182,000)**	13.01	(1,076,000)
Outstanding at 31 Dec	**18.30**	**4,555,500**	16.67	9,089,500
Total	**17.98**	**4,685,500**	16.28	9,468,500

At 31 December 2008, out of the 4,685,500 outstanding options (2007: 9,468,500), 887,000 options (2007: 1,656,500) were vested and exercisable at a weighted average exercise price of $16.22 (2007: $12.92) per share.

During the year, employee share options granted under the Pre-Listing Scheme and the Post-Listing Scheme were exercised to subscribe for 4,601,000 shares (2007: 4,837,000 shares) in HKEx at a weighted average exercise price of $14.46 per share (2007: $13.66 per share). The weighted average closing share price on the dates on which the options were exercised was $139.06 (2007: $110.02) per share.

35. Employee Share–based Compensation Reserve (continued)

(b) Share options (continued)

(iii) Share options outstanding as at 31 December had the following remaining contractual lives and exercise prices:

	2008		2007	
	Remaining contractual life	**Number of shares issuable under options granted**	Remaining contractual life	Number of shares issuable under options granted
Exercise price				
$6.88	**1.41 years**	**130,000**	2.41 years	379,000
$8.28	**N/A**	**-**	5.33 years	1,240,000
$12.45	**N/A**	**-**	5.62 years	273,500
$17.30	**5.04 years**	**273,500**	6.04 years	547,000
$16.96	**5.24 years**	**1,514,500**	6.24 years	2,827,500
$15.91	**5.37 years**	**100,000**	6.37 years	125,000
$19.25	**6.07 years**	**2,667,500**	7.07 years	4,076,500
	5.60 years	**4,685,500**	6.30 years	9,468,500

(c) Awarded Shares

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

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

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

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

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

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

35. Employee Share–based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

Details of the Awarded Shares awarded since the adoption of the Share Award Scheme are set out below:

Date of approval by Board	Date of Award	Awarded Sum $'000	Number of shares purchased	Number of Awarded Shares awarded	Average fair value per share $	Vesting period
19 Dec 2005	19 Dec 2005	N/A	960,000	960,000	31.20	19 Dec 2007 – 19 Dec 2010
13 Dec 2006	15 Jan 2007	19,673	272,500	272,465*	72.28	13 Dec 2008 – 13 Dec 2011
14 Feb 2007	7 Jun 2007	600	7,000	7,000	81.33	16 Apr 2009 – 16 Apr 2012
15 May 2007	17 Jul 2007	600	5,500	5,500	102.29	18 Jun 2009 – 18 Jun 2012
12 Dec 2007	4 Feb 2008	26,300	151,000	150,965	163.72	12 Dec 2009 – 12 Dec 2012
18 Feb 2008	7 Apr 2008	612	4,200	4,200Ω	144.18	18 Feb 2010 – 18 Feb 2013
10 Dec 2008	3 Feb 2009	4,900	59,900	59,900	81.96	1 Jan 2011 – 1 Jan 2014

* 11,528 shares were awarded to the Chief Executive of HKEx
Ω Awarded to the Chief Executive of HKEx

Details of the Awarded Shares vested since the adoption of the Share Award Scheme are as follows:

Date of award	Vesting date	Number of Awarded Shares vested	Average fair value per share $	Cost of related Awarded Shares (including acquisition transaction costs) $'000
19 Dec 2005	19 Dec 2007	232,375	31.20	7,286
19 Dec 2005	30 Apr 2008	8,925	31.20	280
19 Dec 2005	19 Dec 2008	221,550	31.20	6,946
13 Dec 2006	15 Dec 2008	66,281*	72.28	4,790

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

During the year ended 31 December 2008, 59,400 HKEx shares (2007: 30,000 shares) were acquired by the Trustee through reinvesting dividends received at a total cost (including related transaction costs) of $7,167,000 (2007: $3,747,000), of which 56,377 shares (2007: 29,132 shares) were subsequently allocated to awardees.

During the year ended 31 December 2008, 27,662 HKEx shares (2007: 11,493 shares) at a cost of $3,027,000 (2007: $1,087,000) acquired from reinvesting dividends received were vested and transferred to the employees (including 212 shares for the Chief Executive of HKEx) at nil consideration.

35. Employee Share–based Compensation Reserve (continued)

(c) Awarded Shares (continued)

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

	2008 Number of shares awarded/allocated	2007 Number of shares awarded/allocated
Outstanding at 1 Jan	**1,024,262**	955,906
Awarded *	**155,165** #	284,965
Forfeited	**(32,798)**	(1,800)
Vested	**(296,756)**	(232,375)
Dividends reinvested:		
- allocated to awardees	**56,377**	29,132
- allocated to awardees but subsequently forfeited	**(1,775)**	(73)
- vested	**(27,662)**	(11,493)
Outstanding at 31 Dec	**876,813**	1,024,262

* average fair value per share of $163.19 (2007: $73.08)

\# Included 150,965 Awarded Shares purchased for the Awarded Sum of $26,300,000 approved by the Board on 12 December 2007, which were allocated to the awardees upon the completion of share purchase by the Trustee on 4 February 2008

(iii) The remaining vesting periods of the Awarded Shares awarded and shares acquired through reinvesting dividends received outstanding as at 31 December were as follows:

	2008 Remaining vesting period	**2008** Number of shares awarded/ allocated outstanding	2007 Remaining vesting period	2007 Number of shares awarded/ allocated outstanding
Fair value				
$31.20	**0.97 year to 1.97 years**	**443,100**	0.97 year to 2.97 years	697,125
$72.28	**0.95 year to 2.95 years**	**198,943**	0.95 year to 3.95 years	272,465
$81.33	**0.29 year to 3.29 years**	**7,000**	1.29 year to 4.29 years	7,000
$102.29	**0.47 year to 3.47 years**	**5,500**	1.47 year to 4.47 years	5,500
$163.72	**0.95 year to 3.95 years**	**148,958**	N/A	-
$144.18	**1.13 year to 4.13 years**	**4,200**	N/A	-
Dividends reinvested	**0.29 year to 4.13 years**	**69,112**	0.95 year to 4.47 years	42,172
		876,813		1,024,262

(iv) As at 31 December 2008, 70,001 forfeited or unallocated shares (2007: 32,370 shares) were held by the HKEx Employee Share Trust and would be allocated to awardees in future.

36. Revaluation Reserves

	Group		
	Leasehold buildings revaluation reserve $'000	**Investment revaluation reserve (note b)** $'000	**Total** $'000
At 1 Jan 2007	2,640	7,929	10,569
Change in valuation of leasehold buildings (note 19(a)(iv))	(44)	-	(44)
Change in fair value of available-for-sale financial assets during the year	-	63,421	63,421
Change in fair value of available-for-sale financial assets on maturity	-	(9,951)	(9,951)
Deferred tax arising from change in valuation of leasehold buildings (note 31(b))	7	-	7
Deferred tax arising from reclassification of a leasehold building to "Non-current assets held for sale" (note 31(b))	552	-	552
Deferred tax for available-for-sale financial assets (note 31(b))	-	(8,460)	(8,460)
Elimination of share of reserve of an associate through disposal	-	(58)	(58)
At 31 Dec 2007	3,155	52,881	56,036
At 1 Jan 2008	**3,155**	**52,881**	**56,036**
Change in fair value of available-for-sale financial assets during the year	**-**	**111,494**	**111,494**
Change in fair value of available-for-sale financial assets on maturity	**-**	**(54,451)**	**(54,451)**
Realised gains of available-for-sale financial assets reclassified to profit or loss on disposal	**-**	**(4,678)**	**(4,678)**
Deferred tax for available-for-sale financial assets (note 31(b))	**-**	**(8,565)**	**(8,565)**
Transfer to retained earnings on disposal of a leasehold property (note 40)	**(3,155)**	**-**	**(3,155)**
At 31 Dec 2008	**-**	**96,681**	**96,681**

	HKEx
	Investment revaluation reserve $'000
At 1 Jan 2007 and 1 Jan 2008	-
Change in fair value of available-for-sale financial assets during the year	**133**
Deferred tax for available-for-sale financial assets (note 31(b))	**(22)**
At 31 Dec 2008	**111**

(a) The revaluation reserves are segregated for their respective specific purposes and are stated net of applicable deferred taxes.

(b) The Group's investment revaluation reserve included gross investment revaluation surplus of $814,000 (2007: $496,000) which was attributable to investments of the Clearing House Funds.

37. Hedging Reserve

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
At 1 Jan	**-**	-	**-**	-
Cash flow hedges:				
- fair value gains of hedging instruments	**-**	132	**-**	132
- Gains reclassified to profit or loss as information technology and computer maintenance expenses	**-**	(70)	**-**	(70)
- Gains reclassified to profit or loss as net investment income	**-**	(62)	**-**	(62)
At 31 Dec	**-**	-	**-**	-
Fair value of hedging instruments at 31 Dec	**-**	-	**-**	-

In 2007, HKEx designated a bank deposit of SEK10,587,000 as cash flow hedges for hedging the foreign exchange risk of its forecast information technology and computer maintenance expenses of SEK10,587,000 from January to May 2007. As at 31 December 2007, the bank deposit had matured.

In addition to the above, a bank deposit of SEK1,413,000 was designated in January 2007 as a hedging instrument for hedging forecast information technology and computer maintenance expenses of SEK1,413,000 from 30 May 2007 to 31 December 2007. In May 2007, the cash flow hedge was terminated as the forecast transactions for 30 May 2007 to 31 December 2007 were no longer expected to materialise. As a result, the exchange gain of the hedging instrument deferred in the hedging reserve of $62,000 was reclassified from hedging reserve to profit or loss as net investment income during the year ended 31 December 2007. The ineffectiveness of cash flow hedges credited to profit or loss for the Group and HKEx during 2007 amounted to $Nil.

38. Designated Reserves

Clearing House Funds reserves

	Group			
	HKSCC Guarantee Fund reserve $'000	**SEOCH Reserve Fund reserve** $'000	**HKCC Reserve Fund reserve** $'000	**Total** $'000
At 1 Jan 2007	256,514	71,193	300,109	627,816
Surplus of net investment income net of expenses of Clearing House Funds transferred from retained earnings	13,121	31,635	22,281	67,037
At 31 Dec 2007	269,635	102,828	322,390	694,853
At 1 Jan 2008	**269,635**	**102,828**	**322,390**	**694,853**
Surplus of net investment income net of expenses of Clearing House Funds transferred from retained earnings	**6,314**	**3,818**	**10,601**	**20,733**
Deficit of closing-out losses caused by defaulting Clearing Participants transferred to retained earnings	**(156,640)**	**-**	**(6,563)**	**(163,203)**
Transfer (to)/from retained earnings	**(150,326)**	**3,818**	**4,038**	**(142,470)**
At 31 Dec 2008	**119,309**	**106,646**	**326,428**	**552,383**

39. Merger Reserve

The Group has taken advantage of the merger relief available under section 48C of the Hong Kong Companies Ordinance and treated the premium created by the issuance of shares on 6 March 2000, the date HKEx became the holding company of the Stock Exchange and the Futures Exchange and their subsidiaries, as a merger reserve. In the consolidated statement of financial position, the full amount of the merger reserve has been used to offset against the reserve arising on consolidation as explained in note 40(c).

40. Retained Earnings (Including Proposed Dividends)

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
At 1 Jan	**6,288,138**	3,366,989	**355,652**	377,601
Profit attributable to shareholders (notes a and b)	**5,128,924**	6,169,278	**7,507,331**	3,161,859
Deficit/(surplus) of net investment income net of expenses less closing-out losses of Clearing House Funds transferred from/(to) Clearing House Funds reserves (note 38)	**142,470**	(67,037)	-	-
Transfer from leasehold buildings revaluation reserve on disposal of a leasehold property (note 36)	**3,155**	-	-	-
	145,625	(67,037)	-	-
Dividends:				
2007/2006 final dividend	**(3,634,850)**	(1,266,387)	**(3,638,970)**	(1,267,884)
Dividend on shares issued for employee share options exercised after 31 Dec 2007/31 Dec 2006	**(11,309)**	(3,879)	**(11,309)**	(3,879)
	(3,646,159)	(1,270,266)	**(3,650,279)**	(1,271,763)
2008/2007 interim dividend	**(2,670,320)**	(1,911,131)	**(2,673,381)**	(1,913,437)
Dividend on shares issued for employee share options exercised after 30 Jun 2008/30 Jun 2007	**(3,055)**	(1,062)	**(3,055)**	(1,062)
	(2,673,375)	(1,912,193)	**(2,676,436)**	(1,914,499)
Unclaimed dividend forfeited	**2,566**	2,454	**2,566**	2,454
Vesting of shares of Share Award Scheme	**(3,027)**	(1,087)	-	-
At 31 Dec	**5,242,692**	6,288,138	**1,538,834**	355,652
Representing:				
Retained earnings	**3,309,601**	2,652,760	**(395,961)**	(3,283,318)
Proposed dividends	**1,933,091**	3,635,378	**1,934,795**	3,638,970
At 31 Dec	**5,242,692**	6,288,138	**1,538,834**	355,652

(a) Profit attributable to shareholders included a profit of $7,507,331,000, of which $7,481,800,000 was dividends from subsidiaries (2007: $3,161,859,000, of which $3,156,100,000 was dividends from subsidiaries), which has been dealt with in the accounts of HKEx, the holding company of the Group.

(b) The Group's profit attributable to shareholders included a net deficit attributable to the net investment income net of expenses less closing-out losses of the Clearing House Funds of $142,470,000 (2007: surplus of $67,037,000).

(c) The negative reserve arising on consolidation of $4,116,436,000, representing the difference between the cost of acquiring the subsidiaries at the time of the merger and their respective issued share capital, was offset against merger reserve of $2,997,115,000 (note 39) and retained earnings of $1,119,321,000.

41. Notes to the Consolidated Statement of Cash Flows

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

	2008 $'000	2007 $'000
Profit before taxation	**5,928,473**	7,190,809
Adjustments for:		
Net interest income	**(1,051,451)**	(1,012,988)
Net realised and unrealised losses/(gains) and interest income on financial assets and financial liabilities at fair value through profit or loss	**57,892**	(208,728)
Realised gains on available-for-sale financial assets of Corporate Funds	**(23)**	-
Dividend income from financial assets at fair value through profit or loss	**(3,769)**	(6,091)
Interest expenses on bank overdrafts	**268**	491
Amortisation of lease premiums for land	**509**	538
Fair value gain of an investment property	**-**	(4,900)
Depreciation	**108,813**	79,144
Employee share-based compensation benefits	**28,179**	24,362
(Reversal of provision for)/provision for impairment losses of leasehold buildings	**(12)**	74
Provision for/(reversal of provision for) impairment losses of trade receivables	**164,960**	(71)
Provision for impairment losses of club debenture	**5**	-
Changes in provisions	**5,474**	2,918
Share of profit of an associate	**-**	(5,587)
Gain on disposal of an associate	**-**	(206,317)
Gain on disposal of properties	**(68,641)**	-
Gain on disposal of fixed assets	**(2,367)**	(262)
Net decrease/(increase) in Margin Fund financial assets	**13,639,237**	(33,527,321)
Net (decrease)/increase in Margin Fund financial liabilities	**(13,589,165)**	33,568,438
Net decrease in Clearing House Fund financial assets	**967,021**	71,703
Net decrease in Clearing House Fund financial liabilities	**(985,826)**	(138,740)
Net increase in financial assets and financial liabilities at fair value through profit or loss	**(201,428)**	(47,084)
Decrease/(increase) in accounts receivable, prepayments and deposits	**9,655,462**	(8,161,024)
(Decrease)/increase in other current liabilities	**(8,856,136)**	10,162,429
Net admission fees (refunded to)/received from Participants	**(2,450)**	4,150
Net cash inflow from operations	**5,795,025**	7,785,943
Interest received from bank deposits	**561,809**	1,030,736
Dividends received from financial assets at fair value through profit or loss	**3,833**	6,276
Interest received from financial assets at fair value through profit or loss	**127,021**	147,772
Interest paid	**(77,127)**	(715,761)
Hong Kong Profits Tax paid	**(1,361,246)**	(606,632)
Net cash inflow from operating activities	**5,049,315**	7,648,334

42. Commitments

(a) Commitments in respect of capital expenditures:

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Contracted but not provided for	**16,908**	33,555	**2,390**	105
Authorised but not contracted for	**66,982**	131,349	**18,935**	29,361
	83,890	164,904	**21,325**	29,466

The commitments in respect of capital expenditures of the Group were mainly for the upgrade and enhancement of trading and clearing systems, development and purchases of various other computer systems and in 2008, office and data centre consolidation.

(b) Commitments for total future minimum lease payments under non-cancellable operating leases

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Land and buildings				
- within one year	**73,302**	88,736	**2,738**	1,403
- in the second to fifth years	**98,967**	8,151	**1,447**	1,391
	172,269	96,887	**4,185**	2,794
Computer systems, software and equipment				
- within one year	**9,362**	17,097	**7,057**	14,664
- in the second to fifth years	**369**	1,786	**369**	1,786
	9,731	18,883	**7,426**	16,450
	182,000	115,770	**11,611**	19,244

As at 31 December 2008, in respect of computer systems, software and equipment, the majority of the leases would mature within one year (2007: one year) and the Group did not have any purchase options.

(c) Commitments for computer maintenance contracts

The Group is heavily reliant on the capability and reliability of its computer systems for its business operations, including those required for its electronic trading platforms and post-trading clearing and settlement services. In order to maintain the high standard of performance of the systems, the Group has entered into various maintenance contracts with its vendors. The total commitments under maintenance contracts in respect of computer systems and equipment were as follows:

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Computer systems and equipment				
- within one year	**56,427**	47,839	**53,740**	47,013
- in the second to fifth years	**77,742**	107,611	**77,742**	107,611
	134,169	155,450	**131,482**	154,624

42. Commitments (continued)

(d) Commitment in respect of financial contributions to Financial Reporting Council

In 2006, the Board approved the funding arrangements for the Financial Reporting Council ("FRC"), an independent statutory body established on 1 December 2006 under the Financial Reporting Council Ordinance to receive and investigate complaints concerning irregularities of auditors and reporting accountants of listed companies and non-compliances in the financial reports of listed companies.

Under the arrangement, HKEx has agreed to make an initial contribution of $5 million to a reserve fund in 2007 and recurrent contributions of $2.5 million per annum in the first three financial years to provide funding for the FRC's operations. The final recurrent contribution was paid in January 2009. After the first three financial years, the contributions to the FRC will be subject to a review of its operating experience and other factors.

43. Contingent Liabilities

As at 31 December 2008, the Group and HKEx's material contingent liabilities were as follows:

(a) Group

(i) 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 United Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding $72 million. Up to 31 December 2008, no calls had been made by the SFC in this connection.

(ii) 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 (note 32(a)).

During the year ended 31 December 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 448 trading Participants as at 31 December 2008 (2007: 439) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to $89,600,000 (2007: $87,800,000).

(b) HKEx

(i) HKEx gave an undertaking on 6 March 2000 in favour of HKSCC to contribute an amount not exceeding $50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the debts and liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs, charges and expenses of winding up (note 32(b)).

44. Future Operating Lease Arrangements

As at 31 December, the future aggregate minimum lease receipts under non-cancellable operating leases of the Group were as follows:

	Group	
	2008 $'000	2007 $'000
Land and buildings		
- within one year	**1,086**	354
- in the second to fifth years	**1,980**	6
	3,066	360
Trading booths and related facilities		
- within one year	**15,088**	9,610
- in the second to fifth years	**28,171**	387
	43,259	9,997
Total	**46,325**	10,357

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

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

As at 31 December, the amount of non-cash collateral received from Participants and the amount utilised for covering part of their Clearing House Fund contributions and Margin Fund obligations for derivatives contracts were as follows:

	Group			
	2008		2007	
	Amount received $'000	**Amount utilised $'000**	Amount received $'000	Amount utilised $'000
Clearing House Funds				
Bank guarantees	**1,226,940**	**26,940**	1,759,650	519,137
Margin Funds				
Equity securities, listed in Hong Kong, at market value	**2,865,194**	**864,830** *	1,847,054	- *
US Treasury Bills, at market value	**3,560,442**	**2,161,732**	8,672,944	5,935,238
Bank guarantees	**770,000**	**179,739**	854,000	607,930
	7,195,636	**3,206,301**	11,373,998	6,543,168
	8,422,576	**3,233,241**	13,133,648	7,062,305

* Certain equity securities received were used to cover call options issued by SEOCH Participants whose underlying stocks were the same as the collateral received. Under the Operational Clearing Procedures for Options Trading Exchange Participants of SEOCH, such call options issued are not marginable positions (ie, no margin requirements). Hence, the amount is not treated as having been utilised for covering Margin Fund obligations. As at 31 December 2008, $512,584,000 (2007: $1,307,776,000) of equity securities received were used for such purpose (including those amounts decovered but not yet released of $588,000 (2007: $23,066,000)).

45. Non-cash Collateral for Clearing House Fund Contributions and Margin Fund Obligations for Derivatives Contracts (continued)

In September 2008, the Group took possession of certain US Treasury Bills of Lehman Brothers Futures Asia Limited ("LBFA") following its default. In accordance with HKEx's default handling procedures and applicable rules, the Treasury Bills were sold for US$119,842,000. Approximately HK$60,700,000 of the proceeds was used to settle the amount due from LBFA and the remaining balance was refunded to the provisional liquidator of LBFA.

In September 2008, the Group also called on the bank guarantee provided by LBSA of $5,000,000. $2,900,000 of the cash received was used to settle LBSA's contribution due to the HKSCC Guarantee Fund and the remaining $2,100,000 was used to settle part of the closing-out losses due from LBSA.

46. Connected Transactions and Material Related Party Transactions

(a) Connected transactions and material related party transactions

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

Certain transactions undertaken during the year were regarded as related party transactions in accordance with HKAS 24 but the amounts were immaterial. Certain transactions fell under the definition of continuing connected transactions under the Main Board Listing Rules are disclosed in the Corporate Governance Report.

46. Connected Transactions and Material Related Party Transactions (continued)

(b) Material related party transactions

In addition to the above, the Group or HKEx entered into certain material related party transactions which were not regarded as connected transactions as defined under the Main Board Listing Rules. Details of such transactions are set out below.

(i) Transactions with an associate, subsidiaries and a controlled special purpose entity

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Income received and receivable from/ (expenses paid and payable to) an associate, CHIS				
- Dividend income	**-**	9,660	**-**	-
- Share registration service fees	**-**	(396)	**-**	(396)
Transactions with subsidiaries and a controlled special purpose entity :				
- Dividend income	**-**	-	**7,481,800**	3,156,100
- Interest income	**-**	-	**578**	-
- Management fee and equipment rental fee charged	**-**	-	**369,236**	333,592
- Expenses recharged	**-**	-	**885,225**	876,137
- Dividend paid	**-**	-	**(7,181)**	(3,803)

On 3 April 2007, the Group disposed of all of its interest in CHIS. The dividend income and share registration service fees for the year ended 31 December 2007 disclosed above represented transactions up to that date.

(ii) Key management personnel compensation

	Group		HKEx	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Salaries and other short-term employee benefits	**79,270**	80,467	**63,005**	65,045
Employee share-based compensation benefits	**10,277**	8,001	**8,018**	6,599
Retirement benefit costs	**6,573**	5,687	**5,214**	4,598
	96,120	94,155	**76,237**	76,242

(iii) Amounts due from/(to) related parties

	HKEx	
	2008 $'000	2007 $'000
Amounts due from subsidiaries	**1,839,066**	1,171,921
Amounts due to subsidiaries	**(32,269)**	(522,218)

(iv) Post-retirement benefit plans

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

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

47. Banking Facilities with Assets Pledged

The Group did not have any assets pledged as at 31 December 2008 and 31 December 2007.

48. Capital Management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth; and
- To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group adopts a dividend policy of providing shareholders with regular dividends with a normal target payout ratio of 90 per cent of the profit of the year, while retaining 10 per cent of the profit as capital of the Group for future use. As at 31 December 2008, the Group had set aside $3,100 million of shareholders' funds (2007: $3,100 million) for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

As in prior years, the Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("adjusted capital"). Adjusted capital comprises all components of shareholders' equity other than designated reserves and investment revaluation reserve of the Clearing House Funds net of applicable deferred taxes. The adjusted capital of the Group at 31 December 2008 was $6,742,259,000 (2007: $7,682,086,000). The decrease in adjusted capital during the year was mainly attributable to the decrease in retained earnings as dividends paid during the year (based on the higher profit in the second half of 2007 and first half of 2008) were higher than the 2008 profit attributable to shareholders.

49. Financial Risk Management

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

(a) Market risk management

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

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

The Group's investment policy is to prudently invest all funds managed by the Group in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

49. Financial Risk Management (continued)

(a) Market risk management (continued)

Investment and fund management is governed by investment policy and risk management guidelines approved by the Board. Investment restrictions and guidelines form an integral part of risk control. Fund-specific restrictions and guidelines are set according to the investment objectives of each fund. Investments are diversified to minimise risks and no investments are made for speculative purposes. In addition, specific limits are set for each fund to control risks (eg, permissible asset type, asset allocation, liquidity, credit, counterparty concentration, maturity, foreign exchange and interest rate risks) of the investments.

An Investment Advisory Committee, comprised of Non-executive Directors of HKEx and an external member from the financial community, advises the Board on portfolio management and monitors the risk and performance of HKEx's investments. A Treasury team in the Finance and Administration Division is dedicated to the day-to-day management and investment of the funds. External fund managers have also been appointed to manage part of the Corporate Funds since July 2001. The external fund managers are stable and financially strong financial institutions and each has a worldwide aggregate fund size of a minimum of US$10 billion under management.

(i) Foreign exchange risk management

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

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

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

Hedges undertaken by the Group and HKEx were as follows:

<u>Cash flow hedges</u>

Details of the cash flow hedges of the HKEx and the Group are set out in note 37.

<u>Fair value hedges</u>

In 2005, HKEx designated a bank deposit of SEK11,000,000 as a fair value hedge to hedge against the foreign exchange risk of financial liabilities of the Group of SEK11,000,000 of which SEK1,800,000 related to financial liabilities of one of the subsidiaries. As at 31 December 2007, the amount of the deposits remained unpaid was SEK195,000, and it had been used to settle HKEx's liabilities in 2008.

49. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

In 2006, one of the subsidiaries designated SEK6,690,000 as a fair value hedge to hedge against the foreign exchange risk of HKEx's financial liabilities of SEK6,690,000. On 3 May 2006, the amount was transferred to HKEx and placed as a bank deposit without changing the terms of the fair value hedge. As at 31 December 2007, the amount of the deposits remained unpaid was SEK15,000, and it had been used to settle HKEx's liabilities in 2008.

In 2007, HKEx designated bank deposits of SEK1,340,000 as fair vale hedges to hedge against the foreign exchange risk of its financial liabilities of SEK1,340,000. As at 31 December 2007, the deposit had matured.

As at 31 December 2008, the fair value of the bank deposits designated as fair value hedges held by the Group and HKEx was $Nil (2007: $253,000) and $Nil (2007: $253,000) respectively.

The fair value gains on the bank deposits designated as hedging instruments for the Group during 2008 were $18,000 (2007: losses of $12,000) whereas the fair value losses on the financial liabilities being hedged for the Group were $18,000 (2007: gains of $12,000).

The fair value gains on the bank deposits designated as hedging instruments for HKEx during 2008 were $18,000 (2007: $11,000) whereas the fair value losses on the financial liabilities being hedged for HKEx were $18,000 (2007: $11,000).

49. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

Details of the financial assets and financial liabilities denominated in foreign currencies and the net open position of the foreign currency risks (ie, gross position less forward foreign exchange contracts and related hedges) as at 31 December in HKD equivalents were as follows:

		Group					
		2008			2007		
	Foreign currency	**Gross open position $'000**	**Forward foreign exchange contracts and hedges $'000**	**Net open position $'000**	Gross open position $'000	Forward foreign exchange contracts and hedges $'000	Net open position $'000
Financial assets/(financial liabilities)							
Other financial assets	RMB	**609**	**-**	**609**	342	-	342
	USD	**-**	**-**	**-**	44	-	44
Accounts receivable and deposits	EUR	**162**	**-**	**162**	-	-	-
	GBP	**(76)**	**-**	**(76)**	-	-	-
	SGD	**72**	**-**	**72**	-	-	-
	USD	**8,232**	**-**	**8,232**	1,687	-	1,687
Cash and cash equivalents of Margin Funds	JPY	**4,959,317**	**(4,959,317)**	**-**	7,863,052	(7,863,052)	-
on derivatives contracts*	USD	**4,483,600**	**(23,223)**	**4,460,377**	2,526,813	(39)	2,526,774
Financial assets at fair value through	AUD	**101,788**	**(27,475)**	**74,313**	52,075	(3,413)	48,662
profit or loss @	CAD	**-**	**-**	**-**	6,003	-	6,003
	CHF	**5,119**	**-**	**5,119**	-	-	-
	EUR	**353,091**	**(301,292)**	**51,799**	263,173	(194,821)	68,352
	GBP	**143,063**	**(140,276)**	**2,787**	109,795	(91,384)	18,411
	JPY	**25,315**	**-**	**25,315**	46,418	(23,170)	23,248
	NZD	**11,963**	**-**	**11,963**	-	-	-
	SGD	**6,988**	**-**	**6,988**	11,362	-	11,362
	USD	**2,304,350**	**(413,555)**	**1,890,795**	2,424,810	(537,532)	1,887,278
Time deposits with original maturities over three months	USD	**-**	**-**	**-**	39,070	-	39,070
Cash and cash equivalents	AUD	**5,538**	**-**	**5,538**	240	-	240
	CAD	**3**	**-**	**3**	3	-	3
	CHF	**136**	**-**	**136**	8,932	-	8,932
	EUR	**688**	**-**	**688**	5,825	-	5,825
	GBP	**1,081**	**-**	**1,081**	1,366	-	1,366
	JPY	**17,810**	**-**	**17,810**	8,921	-	8,921
	NZD	**1**	**-**	**1**	1	-	1
	RMB	**976**	**-**	**976**	526	-	526
	SEK #	**-**	**-**	**-**	623	(253)	370
	SGD	**7,411**	**-**	**7,411**	7,458	-	7,458
	USD	**51,451**	**-**	**51,451**	102,643	-	102,643
Margin deposits from Clearing Participants	JPY	**(4,959,317)**	**4,959,317**	**-**	(7,863,052)	7,863,052	-
on derivatives contracts*	USD	**(23,223)**	**23,223**	**-**	(39)	39	-
Accounts payable, accruals and other	GBP	**(49)**	**-**	**(49)**	(8)	-	(8)
liabilities	MYR	**(2)**	**-**	**(2)**	(2)	-	(2)
	RMB	**(1,211)**	**-**	**(1,211)**	(1,602)	-	(1,602)
	SEK #	**-**	**-**	**-**	(257)	253	(4)
	USD	**(29,718)**	**-**	**(29,718)**	(32,294)	-	(32,294)
Financial liabilities at fair value through	EUR	**(106)**	**-**	**(106)**	-	-	-
profit or loss	JPY	**(222)**	**-**	**(222)**	-	-	-
	USD	**(299)**	**-**	**(299)**	-	-	-
Non-financial assets/(non-financial liabilities)							
Net non-financial liabilities	USD	**(8,147)**	**-**	**(8,147)**	(8,138)	-	(8,138)
Total net open position for the Group	AUD			**79,851**			48,902
	CAD			**3**			6,006
	CHF			**5,255**			8,932
	EUR			**52,543**			74,177
	GBP			**3,743**			19,769
	JPY			**42,903**			32,169
	MYR			**2**			2
	NZD			**11,964**			1
	RMB			**374**			734
	SEK			**-**			366
	SGD			**14,471**			18,820
	USD			**6,372,691**			4,517,064
				6,583,800			4,726,942

49. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

		HKEx					
		2008			2007		
	Foreign currency	**Gross open position $'000**	**Forward foreign exchange contracts and hedges $'000**	**Net open position $'000**	Gross open position $'000	Forward foreign exchange contracts and hedges $'000	Net open position $'000
Financial assets/(financial liabilities)							
Other financial assets	RMB	**609**	**-**	**609**	342	-	342
	USD	**-**	**-**	**-**	44	-	44
Accounts receivables and deposits	EUR	**162**	**-**	**162**	-	-	-
	USD	**44**	**-**	**44**	-	-	-
Cash and cash equivalents	RMB	**969**	**-**	**969**	520	-	520
	SEK #	**-**	**-**	**-**	623	(253)	370
Accounts payable, accruals and other liabilities	GBP	**(1)**	**-**	**(1)**	-	-	-
	RMB	**(1,211)**	**-**	**(1,211)**	(1,602)	-	(1,602)
	SEK #	**-**	**-**	**-**	(257)	253	(4)
	USD	**(16,877)**	**-**	**(16,877)**	(14,140)	-	(14,140)
Total net open position for HKEx	EUR			**162**			-
	GBP			**1**			-
	RMB			**367**			740
	SEK			**-**			366
	USD			**16,833**			14,096
				17,363			15,202

* Foreign currency margin deposits received by the Group are hedged by investments in the same currencies.

@ Forward foreign exchange contracts have been used to hedge the currency exposure of the Group's investments by external fund managers.

\# Foreign currency cash and bank deposits have been used to hedge the currency exposure of the Group's liabilities.

(ii) Equity and commodity price risk management

The Group is exposed to equity price risk as equities and index futures and options contracts may be held as part of the Corporate Fund's investments. Equity price risk is capped by an asset allocation limit. The Group adopts stringent investment strategy to limit investment in equity securities. As a result, equity price risk of the Group is not significant. The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's investment policy.

(iii) Interest rate risks management

There are two types of interest rate risk:

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

The Group is exposed to both fair value and cash flow interest rate risks as the Group has significant assets and liabilities which are interest-bearing.

49. Financial Risk Management (continued)

(a) Market risk management (continued)

(iv) Risk management techniques

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

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

The VaR for each risk factor and the total VaR of the investments of the Group and HKEx during the year were as follows:

	Group					
	2008			2007		
	Average $'000	**Highest $'000**	**Lowest $'000**	Average $'000	Highest $'000	Lowest $'000
Foreign exchange risk	**7,463**	**16,487**	**4,448**	5,606	10,944	3,566
Equity price risk	**12,972**	**16,821**	**9,394**	12,665	15,748	7,922
Interest rate risk	**35,074**	**48,699**	**27,290**	19,091	36,958	13,703
Total VaR	**33,295**	**45,653**	**25,135**	23,382	34,797	16,966

	HKEx					
	2008			2007		
	Average $'000	**Highest $'000**	**Lowest $'000**	Average $'000	Highest $'000	Lowest $'000
Foreign exchange risk	**4**	**19**	**-**	469	1,032	17
Interest rate risk	**114**	**212**	**26**	32	74	9
Total VaR	**114**	**212**	**26**	471	1,029	63

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

49. Financial Risk Management (continued)

(b) Liquidity risk management

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

The non-derivative financial liabilities and net-settled derivative financial liabilities of the Group and HKEx as at 31 December are analysed into relevant maturity buckets based on their contractual maturity dates in the table below:

	Group				
	2008				
	Up to 1 month $'000	>1 month to 3 months $'000	>3 months to 1 year $'000	>1 year to 5 years $'000	Total $'000
Current liabilities					
Participants' contributions to Clearing House Funds	**52,570**	**101,500**	**43,450**	**-**	**197,520**
Other financial liabilities of Clearing House Funds	**64,778**	**150**	**7,391**	**-**	**72,319**
Margin deposits from Clearing Participants on derivatives contracts	**41,839,991**	**-**	**-**	**-**	**41,839,991**
Other financial liabilities of Margin Funds on derivatives contracts	**3**	**-**	**-**	**-**	**3**
Accounts payable, accruals and other liabilities	**12,379,407**	**4,299**	**26,608**	**540**	**12,410,854**
Financial liabilities at fair value through profit or loss	**627**	**-**	**-**	**-**	**627**
Participants' admission fees received	**2,050**	**200**	**80,900**	**-**	**83,150**
	54,339,426	**106,149**	**158,349**	**540**	**54,604,464**
Non-current liabilities					
Participants' contributions to Clearing House Funds	**-**	**-**	**-**	**252,000**	**252,000**
Total	**54,339,426**	**106,149**	**158,349**	**252,540**	**54,856,464**

49. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	Group			
	2007			
	Up to 1 month $'000	>1 month to 3 months $'000	>3 months to 1 year $'000	Total $'000
Current liabilities				
Participants' contributions to Clearing House Funds	1,116,555	93,500	42,300	1,252,355
Other financial liabilities of Clearing House Funds	9,700	-	1,110	10,810
Margin deposits from Clearing Participants on derivatives contracts	55,428,888	-	-	55,428,888
Other financial liabilities of Margin Funds on derivatives contracts	271	-	-	271
Accounts payable, accruals and other liabilities	21,350,599	3,254	22,056	21,375,909
Participants' admission fees received	2,350	100	83,150	85,600
	77,908,363	96,854	148,616	78,153,833
Non-current liabilities				
Participants' contributions to Clearing House Funds	-	-	244,500	244,500
Total	77,908,363	96,854	393,116	78,398,333

	HKEx			
	2008			
	Up to 1 month $'000	**>1 month to 3 months $'000**	**>3 months to 1 year $'000**	**Total $'000**
Current liabilities				
Accounts payable, accruals and other liabilities	**168,765**	**2,988**	**3,458**	**175,211**
Amounts due to subsidiaries	**32,269**	**-**	**-**	**32,269**
Total	**201,034**	**2,988**	**3,458**	**207,480**

49. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	HKEx			
	2007			
	Up to 1 month $'000	>1 month to 3 months $'000	>3 months to 1 year $'000	Total $'000
Current liabilities				
Accounts payable, accruals and other liabilities	165,213	1,813	18	167,044
Amounts due to subsidiaries	522,218	-	-	522,218
Total	687,431	1,813	18	689,262

As at 31 December 2008, the maximum gross nominal value of outstanding forward foreign exchange contracts held by the Group was $3,219,344,000 (2007: $2,926,473,000). The table below analyses the Group's outstanding forward foreign exchange contracts as at 31 December (which include all contracts regardless of whether they had gains or losses at the year end) that would be settled on a gross basis into relevant maturity buckets based on their remaining contractual maturity dates. The amounts disclosed in the table are contractual undiscounted cash flows, which are different from the carrying amount (ie, market value) in the consolidated statement of financial position.

	2008			2007		
	Up to 1 month $'000	**>1 month to 3 months $'000**	**Total $'000**	Up to 1 month $'000	>1 month to 3 months $'000	Total $'000
Forward foreign exchange contracts						
- outflows	**2,343,600**	**875,744**	**3,219,344**	2,078,860	847,613	2,926,473
- inflows	**2,336,746**	**875,720**	**3,212,466**	2,076,152	847,685	2,923,837

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. In addition, banking facilities have been put in place for contingency purposes. As at 31 December 2008, the Group's total available banking facilities amounted to $3,850 million (2007: $3,058 million), of which $3,000 million (2007: $3,000 million) were repurchase facilities to augment the liquidity of the Margin Funds and $800 million (2007: $Nil) was a facility to draw down against certain bank deposits.

49. Financial Risk Management (continued)

(c) Credit risk management

(i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's investments and trade receivables. Impairment provisions are made for losses that have been incurred at the end of the reporting period. The Group limits its exposure to credit risk by rigorously selecting the counterparties (ie, deposit-takers, bond issuers and debtors) and by diversification. As at 31 December 2008, the investment in debt securities for Margin Funds, Clearing House Funds and Corporate Funds held were of investment grade and had a weighted average credit rating of Aa2 (2007: Aa1), and there were no financial assets whose terms were renegotiated (2007: $Nil). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time. All investments are subject to a maximum concentration limit approved by the Board and there was no significant concentration risk to a single counterparty. The Group mitigates its exposure to risks relating to accounts receivable from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

(ii) Clearing and settlement-related risk management

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

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

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. As of 31 December 2008, bank guarantees of $4,534,000,000 (2007: $5,509,200,000 were accepted for such purpose.

In addition to the above, the Group had set aside $3,100 million of shareholders' funds (2007: $3,100 million) for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

49. Financial Risk Management (continued)

(c) Credit risk management (continued)

(iii) Exposure to credit risk

As at 31 December, the financial assets and financial liabilities of the Group and HKEx that were exposed to credit risk and their maximum exposure were as follows:

	Group			
	2008		2007	
	Carrying amount in statement of financial position $'000	**Maximum exposure to credit risk $'000**	Carrying amount in statement of financial position $'000	Maximum exposure to credit risk $'000
Financial assets				
Financial assets of Margin Funds on derivatives contracts:				
Available-for-sale financial assets	**16,440,918**	**16,440,918**	16,735,006	16,735,006
Time deposits with original maturities over three months	**3,205,408**	**3,205,408**	2,508,559	2,508,559
Margin receivable from Clearing Participants	**8,835**	**8,835**	3,068	3,068
Cash and cash equivalents of Margin Funds on derivatives contracts	**22,184,833**	**22,184,833**	36,182,526	36,182,526
Other financial assets	**47,172**	**47,172**	19,177	19,177
Accounts receivable and deposits #	**8,509,623**	**8,509,623**	18,346,765	18,346,765
Financial assets of Clearing House Funds:				
Available-for-sale financial assets	**371,494**	**371,494**	361,506	361,506
Time deposits with original maturities over three months	**21,708**	**21,708**	-	-
Cash and cash equivalents of Clearing House Funds	**843,109**	**843,109**	1,841,508	1,841,508
Financial assets at fair value through profit or loss (excluding equity securities and mutual funds)	**2,854,947**	**2,854,947**	2,672,627	2,672,627
Available-for-sale financial assets (including non-current and current portions)	**2,581,683**	**2,581,683**	3,067,007	3,067,007
Time deposits with original maturities over three months	**436,896**	**436,896**	682,174	682,174
Cash and cash equivalents	**4,755,750**	**4,755,750**	4,744,711	4,744,711
Financial guarantee contract				
Undertaking to indemnify the Collector of Stamp Revenue (note 32(a))	**(19,909)**	**89,600**	(19,909)	87,800

Certain debtors were required to place cash deposits with the Group to mitigate the maximum exposure to credit risk.

49. Financial Risk Management (continued)

(c) Credit risk management (continued)

(iii) Exposure to credit risk (continued)

	HKEx			
	2008		2007	
	Carrying amount in statement of financial position $'000	**Maximum exposure to credit risk $'000**	Carrying amount in statement of financial position $'000	Maximum exposure to credit risk $'000
Financial assets				
Other financial assets	**720**	**720**	481	481
Accounts receivable and deposits	**728**	**728**	113	113
Amounts due from subsidiaries	**1,839,066**	**1,839,066**	1,171,921	1,171,921
Available-for-sale financial assets	**8,220**	**8,220**	-	-
Time deposits with original maturities over three months	**142,167**	**142,167**	46,880	46,880
Cash and cash equivalents	**31,680**	**31,680**	20,184	20,184
Financial guarantee contract				
Financial guarantee granted to HKSCC (note 32(b))	**(11,390)**	**50,000**	(11,390)	50,000

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

As at 31 December, the age analysis of the financial assets (which only relate to trade receivables) of the Group that were past due but not determined to be impaired according to the period past due was as follows:

	Group	
	2008 $'000	2007 $'000
Up to 6 months	**206,847**	271,196
Over 6 months to 1 year	**-**	1
Over 1 year to 3 years	**-**	2
Over 3 years	**141**	8,651
Total	**206,988**	279,850

The fair value of cash deposits placed by the related trade debtors with the Group was $10,117,000 (2007: $12,643,000).

No financial assets of HKEx were past due as at 31 December 2008 and 31 December 2007.

49. Financial Risk Management (continued)

(c) Credit risk management (continued)

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

As at 31 December 2008, trade receivables of the Group amounting to $167,449,000 (2007: $4,608,000) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days as at the end of the reporting period or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired are disclosed in note 2(s)(vi). No cash deposits had been received in relation to the impaired trade receivables (2007: $Nil).

No financial assets of HKEx were impaired as at 31 December 2008 and 31 December 2007.

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

As soon as a loan or receivable becomes impaired, the Group may continue to allow the debtors concerned to participate in our markets but no further accounts receivable will be recognised on consolidated statement of financial position as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when cash is received. As at 31 December 2008, the amount of doubtful deferred revenue amounted to $49,455,000 (2007: $48,955,000).

(d) Fair values of financial assets and financial liabilities not reported at fair values

Summarised in the following table are the carrying amounts and fair values of financial assets and financial liabilities not presented in the Group's and HKEx's statements of financial position at their fair values. The carrying amounts of short-term receivables (ie, accounts receivable, deposits and cash and cash equivalents) and short-term payables (ie, accounts payable and other liabilities) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

	Group			
	Carrying amount in statement of financial position		Fair value	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Financial assets				
Other financial assets (note i)	**47,172**	19,177	**42,465**	18,076
Financial liabilities				
Participants' contributions to Clearing House Funds included in non-current liabilities (note i)	**252,000**	244,500	**247,544**	236,575
Financial guarantee contract (note ii)	**19,909**	19,909	**89,600**	25,412

49. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities not reported at fair values (continued)

	HKEx			
	Carrying amount in statement of financial position		**Fair value**	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Financial assets				
Other financial assets (note i)	**720**	481	**700**	455
Financial liabilities				
Financial guarantee contract (note ii)	**11,390**	11,390	**50,000**	14,472

(i) The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets/liabilities, adjusted by an estimated credit spread. Assets/liabilities without a contractual maturity date are assumed to mature exactly one year after the end of the reporting period. The discount rates used ranged from 1.80 per cent to 2.72 per cent as at 31 December 2008 (2007: 3.35 per cent to 3.76 per cent).

(ii) The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate was 1.18 per cent as at 31 December 2008 (2007: 3.46 per cent).

50. Comparative Figures

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