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

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

(Financial figures in this announcement are expressed in Hong Kong Dollar ("HKD"))

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

The board of directors ("Board") of Hong Kong Exchanges and Clearing Limited ("HKEx" or "Company") submits the consolidated results of HKEx and its subsidiaries ("Group") for the year ended 31 December 2008. The Group's financial information for the year ended 31 December 2008 in this announcement was prepared based on the consolidated financial statements which have been reviewed by the auditor. The Group has agreed with the auditor as to the contents of this results announcement.

FINANCIAL HIGHLIGHTS

	2008	2007	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	**$72.1 billion**	$88.1 billion	(18%)
Average daily number of derivatives contracts traded on the Futures Exchange	**207,052**	171,440	21%
Average daily number of stock options contracts traded on the Stock Exchange	**225,074**	187,686	20%

	2008 $'000	2007 $'000	Change
RESULTS			
Revenue and other income	**7,549,090**	8,390,470	(10%)
Operating expenses	**1,620,617**	1,411,565	15%
	5,928,473	6,978,905	(15%)
Gain on disposal of an associate	**-**	206,317	(100%)
Share of profit of an associate	**-**	5,587	(100%)
Profit before taxation	**5,928,473**	7,190,809	(18%)
Taxation	**(799,549)**	(1,021,531)	(22%)
Profit attributable to shareholders	**5,128,924**	6,169,278	(17%)
Basic earnings per share	**$4.78**	$5.78	(17%)
Diluted earnings per share	**$4.75**	$5.72	(17%)
Interim dividend per share	**$2.49**	$1.79	39%
Final dividend per share	**$1.80**	$3.40	(47%)
	$4.29	$5.19	(17%)
Dividend payout ratio	**90%**	90%	N/A

	2008	2007	Change
KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds ($'000)	**7,295,322**	8,377,348	(13%)
Total assets * ($'000)	**62,823,921**	87,955,270	(29%)
Net assets per share #	**$6.79**	$7.83	(13%)

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

Based on 1,073,939,532 shares as at 31 December 2008, being 1,074,886,346 shares issued and fully paid less 946,814 shares held for the Employees' Share Award Scheme ("Share Award Scheme") (2007: 1,069,228,714 shares, being 1,070,285,346 shares issued and fully paid less 1,056,632 shares held for the Share Award Scheme)

BUSINESS REVIEW

Listing

Web Proof Information Pack ("WPIP") Implementation

The Stock Exchange of Hong Kong Limited ("Exchange", "Stock Exchange" or "SEHK") and the Securities and Futures Commission ("SFC") are in advanced stages of finalising the joint review of the pilot scheme launched on 1 January 2008 for posting a WPIP on the HKEx website prior to the issue of an Initial Public Offering ("IPO") prospectus with a view to publishing a consultation paper in relation to a proposal to codify the requirement to post a WPIP in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("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 ("GEM Listing Rules") (collectively "Listing Rules").

2008 Combined Consultation Paper ("2008 CCP")

SEHK published the 2008 CCP on 11 January 2008 to seek market comments on 18 substantive policy and corporate governance related issues. The consultation ended on 7 April 2008 with 105 submissions. The consultation results of 15 substantive policy issues were published in the Consultation Conclusions to the 2008 CCP on 28 November 2008. The related amendments to the Main Board Listing Rules and the GEM Listing Rules took effect on 1 January 2009, save for one revised proposal for extending the "black out" period in relation to directors' dealings which should take effect from 1 April 2009.

On 12 February 2009, the Listing Committee announced that, following careful consideration of new material prepared by the Listing Division including the findings of the Division's analysis on dealings by directors during the year ended 31 December 2008, a memorandum dealing with the recent criticism and other comments concerning the extension of the black out period, observations concerning the impact of the formulation of the new rule, and the considered and authoritative advice from the SFC, the Listing Committee put forward a proposed modification of the rule extending the "black out" period. At the same time, the Listing Committee suggested several measures to enhance Hong Kong's disclosure regime. The revised rule amendment will come into effect on 1 April 2009 and replace the rule amendment announced by the Exchange on 28 November 2008.

The remaining 3 issues, namely public float, general mandates and self-constructed fixed assets remain under assessment and separate conclusions will be published at a later stage.

Electronic Disclosure Project ("EDP") Implementation

To strengthen Hong Kong's market infrastructure for issuers' disclosure, SEHK launched, on 4 February 2008, the HKExnews website (http://www.hkexnews.hk), a bilingual website designated for issuers' regulatory filings. The website is a one-stop platform for electronic disclosure of issuers' information and is also a central issuer document archive that allows the investing public to access issuers' information in a more convenient and timely manner. The website was well received by the investing public with an average of 13.7 million page views recorded per month since its launch.

The final phase of the EDP took effect on 25 June 2008. From that date onwards, every issuer is required to have its own website where the public is able to access its Listing Rules-related documents. The issuer's website serves as an alternative database to the HKExnews website where all its regulatory documents can be found.

Report on Code on Corporate Governance Practices ("CG Code") Implementation

On 29 February 2008, SEHK published a report on the findings from its second annual review of listed issuers' corporate governance practices. The findings revealed that listed issuers have been continuing to improve their corporate governance practices by not only choosing to comply with the CG Code's code provisions, but also adopting many of the recommended best practices. In February 2009, SEHK published the third review report on listed issuers' corporate governance practices, and the Exchange is conducting a review of the CG Code to identify areas for enhancement in 2009.

Joint Consultation Paper on Issue of Paper Application Forms with Electronic Prospectuses

On 1 April 2008, SEHK and the SFC published a joint consultation paper on a proposal to allow distribution of paper application forms for public offers at receiving banks without accompanying hard-copy prospectuses on the condition that electronic prospectuses are available online and other investor protection requirements are satisfied. The consultation conclusions are planned to be published in the second quarter of 2009.

The Growth Enterprise Market ("GEM") Consultation Conclusions

Pursuant to the consultation conclusions of the GEM Review published on 2 May 2008, the Listing Rules were revised to reposition GEM as a second board and as a stepping stone to the Main Board. The process for transferring listing from GEM to the Main Board has been streamlined, where, for example, a sponsor is no longer necessary and that the prospectus has been replaced by regulatory announcements published electronically. The revised rules took effect on 1 July 2008.

Hong Kong Depositary Receipt ("HDR") Framework

As part of the effort to promote the listing of more overseas companies in Hong Kong, the HDR framework became effective on 1 July 2008. An issuer seeking to list in Hong Kong through HDRs will have to comply with generally the same requirements as an issuer of shares.

Shortening the Deadlines for Half-Year and Annual Reporting by Main Board Issuers

On 18 July 2008, the Exchange published its Consultation Conclusion on Shortening the Deadlines for Half-Year and Annual Reporting by Main Board Issuers. Amendments have been made to the Main Board Listing Rules to accelerate the deadlines for the release of half-year results announcements and annual results announcements, covering accounting periods ending on or after 30 June 2010 and 31 December 2010 respectively.

Listing Enforcement Initiatives

On 17 November 2008, the Exchange launched two initiatives to promote transparency of its listing enforcement actions and investigation process, and to facilitate the discharge of its statutory duty. The initiatives include the publication of the first instalment of a series of listing enforcement guidance letters as well as the posting of RFA Announcements (Request for Assistance Announcements) on the HKEx website.

Listing Rules and Related Processes Review

The Board has engaged a consultant to conduct a strategic review of the Listing Rules and their application. The overall objective of the project is to review the existing listing regime (including the Rules and related procedures) with a view to identifying possible means of enhancing the competitiveness of the Stock Exchange as an international listing venue without sacrificing the quality of Hong Kong's securities market. The consultant's report is being reviewed.

IPO Processing

In 2008, the Listing Division vetted a total of 179 (2007: 154) listing applications, of which 137 were new applications and 42 applications were brought forward from 2007. A total of 122 (2007: 106) first comment letters were issued to new listing applicants. The number of first comment letters issued during the year was less than the total number of new applications accepted because there were a number of cases (eg, investment vehicles seeking listing under Chapter 20 and transfer of listing from GEM to the Main Board) that proceeded to the approval process without any comment from the Listing Division. The average time between receipt of an application and the issue of the first comment letter was 20 calendar days and the median was 21 calendar days (2007: both average and median were 21 calendar days).

In 2008, a total of 113 applications (2007: 105 applications) were brought to the Listing Committee and the GEM Listing Committee (collectively "Listing Committees") (or their delegates) for decisions, of which 83 cases (73 per cent) (2007: 76 per cent) were reviewed by the respective Listing Committees (or their delegates) within 120 calendar days, while 4 cases (4 per cent) (2007: 8 per cent) were reviewed in more than 180 calendar days. The Listing Committees (or their delegates) granted approval in principle to 105 applications (2007: 103 applications). However, as at the end of the year, 53 of these 105 approved applications have not yet been listed. While some of the approved applications lapsed during the year, 24 of the 53 approved-but-not-yet-listed cases remained valid as at the year-end date.

A total of 74 (2007: 79) requests for guidance from listing applicants or their advisers seeking clarifications of the Listing Rules relevant to new listing applications were responded to in 2008. All (2007: 97 per cent) initial written responses were made within 25 calendar days.

With effect from 1 July 2008, the Listing Rules have been amended to streamline the process for transferring listing from GEM to the Main Board. There were 15 listing applications accepted for transfer of listing from GEM to the Main Board in 2008 (2007: 5) , of which 12 cases (80 per cent) were reviewed by the Listing Committee within 60 calendar days, while the remaining 3 cases (20 per cent) were reviewed within 120 calendar days.

Compliance and Monitoring

SEHK has continued to monitor listed issuers' compliance by targeting its resources in areas which pose the greatest risks to the maintenance of a fair, orderly and informed market, for instance, continuous disclosure obligations of listed issuers.

Out of the 20,784 announcements vetted in 2008, 13,891 announcements or 67 per cent were post-vetted (2007: 8,213 announcements or 43 per cent), including 2,893 results announcements. In addition, announcements issued pursuant to enquiries on unusual share price and volume movements in the trading of securities (2008: 2,627, 2007: 5,597) are also subject to post-vetting. Among the pre-vetted announcements, 90 per cent were initially commented on by the Exchange within the same business day, and 96 per cent of the pre-vetted circulars were initially commented on by the Exchange within 5 business days. Only 8 per cent of the post-vetted announcements (excluding announcements pursuant to share price and volume movements) resulted in follow-up enquiries from the Exchange, of which 94 per cent and 93 per cent of the initial enquiries relating to post-vetting of results announcements and other announcements were made within 5 business days and 1 business day respectively.

To further shift the Exchange's regulatory focus from pre-vetting towards post-vetting, monitoring and enforcement, the Listing Rules were amended, effective 1 January 2009, to cease pre-vetting of all announcements issued by listed issuers through a phased approach. The first phase of the implementation took effect in January 2009 under which only certain types of announcement continue to be pre-vetted (ie, announcements for transactions or arrangements that require shareholders' approval under the notifiable transaction requirements in the Listing Rules and almost all connected transactions). The Exchange will monitor the new arrangements and, subject to the SFC's approval, proceed to the second phase of implementing the new approach on a wider scope of announcements.

To promote transparency and to assist listed issuers in meeting their continuing obligations under the new vetting regime, guidance materials have been issued to listed issuers, including guidance notes regarding consultation with the Compliance and Monitoring Department, as well as compliance checklists and interpretative guidance on particular Listing Rules. In 2008, the Exchange handled 350 listed issuers' written enquiries on interpretation of Listing Rules and related matters. Among the written enquiries, 84 per cent were responded to, and 51 per cent were dealt with and concluded, within 5 business days.

In 2008, a total of 8,439 share price and trading volume monitoring actions were taken (2007: 10,083) leading to 2,627 clarification announcements published by listed issuers (2007: 5,597). A total of 88,440 press articles on listed issuers were reviewed in 2008 (2007: 58,747), resulting in 536 enquiries raised by the Exchange. The monitoring of market activities in securities and media disclosures are two aspects of the Exchange's monitoring of listed issuers' compliance with their obligations to disclose price sensitive information to the market in a timely manner. Other aspects of monitoring compliance in this area include the handling of complaints against listed issuers and the Exchange's post-vetting of periodic disclosures published by listed issuers in the form of results announcements and other documents.

In addition, the Exchange conducted reviews of listed issuers' disclosure for their compliance with the Listing Rules on a thematic basis, focusing on compliance with particular Listing Rules. Some of the follow-up enquiries are ongoing. Of the completed cases, the majority required no further action. The remaining cases resulted in the Exchange providing verbal or written guidance to listed issuers, and one case which involved a potential non-compliance with the Listing Rules was referred to the Listing Enforcement Department for investigation.

In 2008, 86 cases (2007: 90) were referred to the Listing Enforcement Department for investigation. Referrals are made where the facts of a case of possible breach involve conduct, which gives rise to potentially serious implications for shareholders and the market. The Listing Enforcement Department may then initiate formal disciplinary proceedings before the Listing Committees and take other regulatory actions as may be considered appropriate. The Compliance and Monitoring Department has continued to resolve cases of non-compliance where the facts do not have significant regulatory impact through the provision of specific written or verbal guidance, and in particular circumstances, general guidance to all listed issuers. In 2008, 284 written guidance letters (2007: 245) were issued to listed issuers.

In addition, in view of the recent economic developments which may potentially have an adverse impact on the operations or financial position of listed issuers, the Exchange wrote a letter to all listed issuers on 31 October 2008 to remind them about the continuous disclosure standards and to provide further interpretative guidance and observations on the Exchange's expectations.

Listing Enforcement

In 2008, a number of investigations arising from serious breaches of the Listing Rules were completed leading to the imposition of public and private sanctions by the Listing Committees. The relevant public criticisms, statements and censures can be found on the HKEx website.

In 2008, 9 cases were referred to the Listing Enforcement Department originating from a complaint, which might give rise, after investigation, to disciplinary proceedings. Of the 9 cases investigated, 2 were closed with the issue of warning/caution letters.

Responsibility for compliance with the Listing Rules is a collective and individual responsibility of the directors regardless of them being executive or non-executive directors of listed issuers. That responsibility may rise from the obligation to procure compliance upon having specific knowledge of certain events or developments affecting the business affairs of a company. It may also arise from the obligation to create the conditions by which compliance can be achieved through the creation of adequate compliance systems and controls sufficient to ensure that the directors collectively can discharge that responsibility.

These obligations have been the consistent theme of enforcement actions in recent years during which there has been steady growth in the number of directors who have been the subject of disciplinary action and sanction. In particular, it is noted that the non-executive members of a board have increasingly been the subject of disciplinary sanctions imposed by the Listing Committees.

In addition, continuing with the theme established in earlier years, recommendations have also been made to the Listing Committees in appropriate cases to direct remedial action for the correction of breaches and to improve corporate governance in the future. Such directions covered, for example, an obligation to retain external assistance in the creation or revision of adequate and effective compliance structures. In some cases, the Listing Committees also required directors to undergo training at recognised professional bodies for specific periods of time to improve their knowledge of and performance in compliance matters.

Listing Operations

Continuous growth was witnessed in the Hong Kong structured products market in 2008. During 2008, a total of 5,031 Derivatives Warrant ("DW") listing applications were processed (2007: 7,025), of these 4,822 were new issues (2007: 6,312) and 209 were further issues (2007: 713). The Listing Operations Department also processed 4,281 listing applications for Callable Bull/Bear Contracts ("CBBCs") (4,231 new issues and 50 further issues) during the year, compared to 401 (391 new issues and 10 further issues) for 2007. A total of 20 new debt securities, including issues of Exchange Fund Notes, were listed in 2008.

During the year, the Latest Listed Company Information section remained one of the most popular sections on the HKExnews and GEM websites with over 120 million page views recorded. A total of 143,410 issuers' news items were submitted and published on this section. The majority of issuers' submissions were uploaded within 2 seconds (excluding the Internet transmission time which is beyond HKEx's control).

Up to the end of 2008, the HKEx website housed a total of 703,900 archived issuer documents for public access free of charge. During the year, it recorded over 22 million searches for these issuer documents and 80 per cent of searches were responded to within 0.2 second (excluding the Internet transmission time which is beyond HKEx's control).

HKEx also administers the filing and publication of Disclosure of Interests ("DI") notices through the HKEx website in accordance with the SFC's requirements and specifications set out in Part XV of the Securities and Futures Ordinance ("SFO"). During the year, a total of 54,965 DI filings were submitted and published on the HKEx website and over 27 million page views for these notices were recorded.

Cash Market

Market Performance

In 2008, 47 companies were newly listed on the Main Board (including 18 that transferred from GEM) and 2 on GEM. Meanwhile, 8 Main Board companies and 3 GEM companies (excluding the 18 transfers) were delisted. Total capital raised, including post-listing funds, reached $427.2 billion. As at 31 December 2008, 1,087 and 174 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about $10,298.8 billion. In addition, there were 3,011 DWs, 1,314 CBBCs, 7 Real Estate Investment Trusts, 24 Exchange Traded Funds ("ETFs") and 172 debt securities listed as at 31 December 2008. The average daily turnover in 2008 was about $72 billion on the Main Board and about $213 million on GEM.

Introduction of Five-Digit Stock Codes

To support growth in the number of listed securities, and to provide greater flexibility to differentiate the various types of products traded in the Cash Market with stock codes, HKEx rolled out the five-digit stock codes on 7 April 2008. Those within the range of 10000 to 29999 have been assigned to new DWs listed on or after 7 April 2008; while those within the range of 30000 to 32499 and 60000 to 69999 have been assigned to new CBBCs listed on or after 13 May 2008 and 3 November 2008 respectively.

Consultation on Introduction of a Price Control Mechanism in Closing Auction Session ("CAS")

On 26 May 2008, a CAS was introduced to the securities market in Hong Kong for determining closing prices of securities and facilitating trading at market close by auction. On 28 November 2008, HKEx published a consultation paper on the introduction of a price control mechanism in the CAS. The consultation conclusions report was published on 13 February 2009. HKEx received 102 submissions from a wide spectrum of respondents. Many respondents who supported maintaining the CAS and those who favoured suspending it shared similar concerns about extreme securities price movements during the session. In this circumstance, HKEx decided to introduce a 2 per cent price limit of nominal prices at 4:00pm to restrict extreme price movements during the CAS.

Subject to the approval of the necessary rule amendments by the SFC and market readiness, implementation of the price limit during the CAS is tentatively scheduled for the second quarter of this year. HKEx will review the price limit 6 months after its implementation and seek market views on any possible adjustments.

Substantial Growth in CBBC Market

HKEx's CBBC market has grown substantially. The number of newly listed CBBCs surged to 4,231 in 2008 from 391 in 2007. Among them, 3,033 were issued on 2 Hong Kong indices, 37 were issued on 3 overseas indices and 1,161 were issued on 32 single Hong Kong stocks. During 2008, there were 10 active CBBC issuers, and 1,314 CBBCs were listed as at the end of 2008. The average daily turnover increased from under $100 million in the first 12 months after launch in June 2006 to $4.24 billion in 2008, accounting for about 5.9 per cent of the total market turnover in the Cash Market.

To provide a better distinction between CBBCs and DWs and between a callable bull contract and a bear contract, the Chinese short names of CBBCs were modified effective 13 May 2008.

Introduction of New Products

The first gold ETF on the Exchange, SPDR Gold Trust, was listed on 31 July 2008 to provide an additional channel to access the international gold market. Up to the end of 2008, the average daily turnover of the SPDR Gold Trust was about $19.3 million.

HKEx has been facilitating the listing of Market Access Products ("MAPs") which are structured products issued on non-Hong Kong-listed underlying assets, ranging from regional and international equity indices to foreign currencies, commodities and single overseas-listed stocks, under the Main Board Listing Rules. There were 151 newly listed MAPs on the Exchange during 2008, and 99 remained listed as at 31 December 2008. The average daily turnover of MAPs was about $7 million.

Derivatives Market

Market Performance

In 2008, the total turnover of futures and options recorded a 19 per cent increase from the previous year. The annual turnover exceeded 100 million contracts for the first time on 10 December 2008. Among the main products, Hang Seng Index ("HSI") futures and H-shares Index futures recorded the largest increases of 27 per cent and 33 per cent respectively. The total futures and options turnover volume surpassed the one-million mark for 3 trading days on 26 and 27 March and 24 September in 2008 at 1,180,005, 1,160,428 and 1,006,345 contracts respectively.

Flexible Position Limits

With effect from 3 January 2008, Exchange Participants ("EPs" or "Participants") and their affiliates who demonstrate a relevant business need to facilitate the provision of services to clients may apply to the SFC for an increase in position limits up to 50 per cent above the statutory limits prescribed for HSI futures and options, and Hang Seng China Enterprises ("H-shares") Index futures and options contracts.

Enhancement of Block Trade Execution Arrangement

Effective 28 April 2008, aggregation of orders on block trades by EPs for one side or both sides will be allowed upon fulfilment of certain criteria, which could facilitate booking of the over-the-counter trades to HKEx and execution of large client orders in an efficient manner. The execution of block trades has been enhanced by allowing single entry for spread or combination trades and its transparency has also been improved by showing the number for block trades executed in each series and contract month under a separate column in the Hong Kong Futures Automatic Trading System ("HKATS").

Market Maker Obligation Revisions and Facility Improvement

In order to facilitate market makers in providing quotes more efficiently through HKATS, the mass quote ratio for dissemination of quotes was increased from 1:2 to 1:4 on 16 June 2008. To improve the performance of market makers, stock options market makers are required, effective 2 July 2008, to respond to at least 200 quote requests per minute (compared to the previous requirement of at least 50 quote requests per minute), and to provide price quotes for 30 or more contracts on stock option classes under Liquidity Level 1, and 15 or more contracts on classes under Liquidity Level 2 (compared to the previous minimum of 60 contracts under Liquidity Level 1, and 30 under Liquidity Level 2).

Introduction of New Products

To meet retail investors' trading and hedging needs, Mini H-shares Index futures were introduced on 31 March 2008. They are one-fifth the contract size of the H-shares Index futures. The Commission Levy and Investor Compensation Levy for trading Mini H-shares Index futures contracts were correspondingly lowered from $0.80 and $0.50 to $0.16 and $0.10 respectively on 11 July 2008.

Corresponding to the CAS implementation in HKEx's securities market on 26 May 2008, the closing times for trading stock index futures and options were extended to 4:30pm on normal trading days and 1:00pm on half-day trading days, except the last trading day for which the closing time remains 4:00pm.

Three new stock option classes on China Railway Group Limited, China Shenhua Energy Company Limited and China Railway Construction Corporation Limited commenced trading on 10 June 2008.

To broaden the product offering in the commodities area, gold futures commenced trading on 20 October 2008. The SFC and the Constitutional and Mainland Affairs Bureau also approved the proposed amendments to the Rules, Regulations and Procedures of the Futures Exchange, enabling the Hong Kong Futures Exchange Limited ("HKFE" or "Futures Exchange") Trading Rights to be offered at a discounted price to members of The Chinese Gold & Silver Exchange Society ("CGSES") or its designated affiliates to trade the HKFE products, including the gold futures contracts. The offer is open for application by CGSES members or its designated affiliates until 19 April 2010.

Additional Product Tradable by Taiwan Investors

In addition to HSI futures, HKEx has obtained approval from the Taiwan regulatory authority to allow Taiwan investors to trade Mini-HSI futures, with effect from 1 October 2008.

Clearing

Stock Withdrawal Fee Concession

Effective 14 January 2008, the Central Clearing and Settlement System ("CCASS") Participants may apply for a stock withdrawal fee concession if the shares to be withdrawn had previously been deposited into the CCASS Depository in a jumbo certificate by the same CCASS Participant and on behalf of the same client, or if the withdrawal is for the purpose of making a requisition to convene a special general meeting. For each successful application, the normal stock withdrawal fee of $3.5 per board lot is reduced to a single flat fee of $1,000 per application plus scrip fee at $2.5 per certificate that is payable to the share registrar for re-registration of the deposited shares.

Lowering In-The-Money ("ITM") Triggering Percentage for Automatic Generation of Stock Options Exercise Requests

On the expiry day of a stock options contract, the Derivatives Clearing and Settlement System ("DCASS") will automatically generate for The SEHK Options Clearing House Limited ("SEOCH") Participants' exercise requests in respect of each open long spot month contract which is ITM by or above the prescribed percentage ("ITM Triggering Percentage"). The ITM Triggering Percentage was lowered from 3 per cent to 1.5 per cent effective 30 January 2008, the first expiry day of stock options in 2008. As a result, more open long spot month contracts can be exercised automatically, thereby reducing the SEOCH Participants' operational workload.

CCASS Service Enhancements

On 28 April 2008, the number of Stock Segregated Accounts used by CCASS Clearing and Custodian Participants for internal control and reconciliation purposes was increased from 9 to 15, and the digital certificates used by listed issuers to download Participant Shareholding Reports were replaced by user IDs and passwords.

Effective 15 December 2008, the CCASS electronic IPO ("eIPO") refund mechanism was enhanced with the help from the Hong Kong Interbank Clearing Limited ("HKICL") and the support of the banks whereby Participants using the CCASS eIPO service are able to use the refund of their eIPO application monies on the IPO refund day, ie, 1 day earlier than before.

Introduction of CCASS Shareholding Disclosure Service

HKEx introduced a new CCASS Shareholding Disclosure service to the public on 28 April 2008 by which shareholding information of CCASS Participants (other than those non-consenting Investor Participants ("IPs")) in Hong Kong-listed companies kept by the Hong Kong Securities Clearing Company Limited ("HKSCC") could be accessed free of charge by the public via the HKExnews website. The shareholding of those IPs who have not consented to such disclosure will be shown in aggregate.

CCASS Participants to Receive Settlement Monies for Continuous Net Settlement ("CNS") Transactions in Good Funds on T+2 Settlement Day

Effective 27 October 2008, CCASS Participants are provided with the option of receiving from HKSCC settlement monies for CNS transactions in good funds through the current intraday payment facility in the afternoon of T+2. This option helps eliminate Participants' overnight credit risk and helps improve the funding liquidity of the securities market at large.

HKSCC makes use of the cash prepayment monies received from CCASS Participants on T+2 to settle its money obligations to CCASS Participants by referring to their outstanding positions settled after completion of the third batch settlement run at around 2:30pm on T+2. If the cash prepayment monies received by HKSCC are insufficient to meet its money settlement obligations in full to all CCASS Participants, the relevant payments will be made on a pro-rata basis, and the outstanding balances will be settled under normal CCASS money settlement for CNS transactions through the overnight batch processing run of HKICL whereby CCASS Participants can only receive settlement monies for CNS transactions in good funds in the morning of T+3.

New DCASS Backup Centre

Effective 21 November 2008, DCASS Participants may use the DCASS terminals available at the new backup centre free of charge on a first-come-first-serve basis. The new backup centre offers DCASS Participants additional means to manage emergency situations when they cannot access DCASS from their offices due to technical reasons such as power failure. The DCASS backup centre is located at HKEx's newly renovated training facility at Vicwood Plaza and is open from 10:00am to 6:45pm, Monday to Friday except public holidays.

CCASS Depository Counter Expansion

On 15 December 2008, HKSCC expanded the CCASS Depository counter area by adding 15 counters to ensure efficient customer service for the deposit and withdrawal of physical certificates by CCASS Participants. With a total of 32 counters operating at the CCASS Depository, we aim to shorten our customers' waiting time to no more than 15 minutes even during times of high market turnover and concurrent IPOs.

Participant Services

Streamlining Admission and Registration Procedures for EPs

Effective 20 June 2008, an EP will not be required to register its employees who are authorised to have access to the trading devices of HKEx as an Authorised Clerk or a Registered User. Examinations for operating the Third Generation Automatic Order Matching and Execution System ("AMS/3") terminals and HKATS workstations have also been terminated while respective training courses continue. In addition, all Responsible Officers licensed by the SFC are automatically registered with HKEx. Similarly, any registration or change in the information of substantial shareholders approved by the SFC is no longer required to be duplicated, certified and filed with HKEx.

Participant Training and Market Education

In 2008, HKEx organised 59 Continuous Professional Training ("CPT") courses jointly with the Hong Kong Securities Institute on the services and products in HKEx's markets for about 1,800 market participants. A number of the training courses on AMS/3 and HKATS were also held to familiarise EPs with the operation of the trading devices and the relevant rules and procedures.

In addition, 34 briefing sessions and seminars were held specifically on our derivatives products for over 3,600 representatives from EPs in 2008. Since September 2008, we have sponsored a number of EPs in organising a series of gold futures marketing activities such as online trading simulation games and online question-and-answer games on EPs' websites, and educational seminars.

EP Recruitment

On 20 May 2008, HKEx held seminars on Hong Kong's market infrastructure and EP admission procedures in Beijing for Mainland brokerage houses which might be qualified to set up branch offices in Hong Kong under the third phase of the Closer Economic Partnership Arrangement ("CEPA"). Representatives from 28 firms attended those seminars.

In 2008, 17 SEHK Participants and 12 HKFE Participant were newly admitted, including those from Australia, France, Switzerland, Taiwan, the Mainland and the Netherlands. Up till now, there have been a total of 9 EPs admitted from the Mainland through CEPA.

Promotional Activities

Listing Promotional Activities in the Mainland

Our Beijing Representative Office works closely with local government authorities to promote the listing of companies in Hong Kong. In 2008, our Chairman and/or Chief Executive made courtesy visits to Beijing, Hangzhou, Shanghai and Shenzhen to further strengthen relationships with the Mainland regulators and government authorities.

During 2008, HKEx organised/co-organised 13 major seminars and roundtable meetings in various provinces in the Mainland. In February 2008, our Chairman visited Hebei and in July 2008, he led Hong Kong financial services delegations which included senior executives from investment banks, accountants, lawyers and venture capitalists to Fujian to promote the Hong Kong fund-raising platform to Mainland enterprises. In November 2008, our Chief Executive led another delegation to Nanjing to participate in the "Listing in Hong Kong Conference" organised by HKEx.

In order to attract quality companies to list in Hong Kong, over 80 marketing trips involving presentations and one-on-one meetings with potential issuers were arranged in more than 50 cities throughout China in 2008.

Listing Promotional Activities in Hong Kong and Overseas

In 2008, we co-organised 3 conferences to promote listing in Hong Kong. The one held in October focused on the latest development of the revamped GEM. As part of our initiatives to attract enterprises in Hong Kong, we joined business associations, chambers and incubation centres to promote to their member firms the advantages of listing in Hong Kong.

In 2008, 4 conferences to promote listing in Hong Kong were organised in India, Mongolia, Russia and the US. At the conferences held in Moscow and Silicon Valley, the Secretary for Financial Services and the Treasury, Professor K C Chan, was invited to be the keynote speaker.

Throughout 2008, more than 30 trips were made to various markets worldwide, including Australia, Canada, India, Japan, Kazakhstan, Korea, Malaysia, Mongolia, Russia, Taiwan, the UK, the US, Ukraine and Vietnam. With increasing interests in Hong Kong as an international market for the listing of resources companies, we participated in a number of important mining industry events in Hong Kong and overseas.

Training Programmes regarding Listing in Hong Kong

During 2008, HKEx co-organised 2 training programmes in Hong Kong with the Hong Kong Polytechnic University and the State Council's Office of Hong Kong and Macau Affairs Research Institute. The training programmes were targeted at accounting and finance senior management of H-share companies, and covered corporate governance areas and the latest rules and regulations relating to listing in Hong Kong.

Promoting HKEx's Markets

HKEx participated in different activities in relation to the financial industry organised by various Hong Kong and overseas financial organisations. These included our participation as an exhibitor in the International Derivatives Expo and the Asia Derivatives Conference 2008 to promote HKEx's Derivatives Market, and as an exhibitor and panel speakers at the Asia Pacific Financial Information Conference to promote HKEx's information services. Through meetings with different market participants and discussions on market development matters at these promotional events, we had successfully obtained useful feedback for service and product developments in our markets.

Information Services

Market Performance

As at the end of 2008, there were 112 and 41 real-time information vendor licences for Cash Market data and Derivatives Market data respectively (2007: 92 and 41 respectively). The licensed information vendors altogether offered a total of 699 types of real-time market data services to the market (2007: 555).

The number of delayed market data vendors increased to 75 as at the end of 2008 (2007: 42), representing a growth of more than 70 per cent.

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

HKEx extended its discount programme for Mainland users of its real-time securities market data to the end of 2010. Against the maximum regular monthly fee of $200, discounted monthly fees of $80 and $120 remain in place for retail end-users and corporate end-users respectively until the end of 2009 but they will be adjusted to $100 and $160 respectively effective 1 January 2010. A futures data package without market depth will continue to be offered together with the securities market data free of charge despite the regular rate at $25.

As at the end of 2008, there were 28 authorised information vendors registered under the programme (2007: 22).

Review of Vendor Licensing Procedures and Requirements

To maintain an orderly, informed and fair market, HKEx attaches great importance to making sure that its information vendors are capable of providing quality information services to investors. To this end, HKEx reviewed its requirements for real-time information vendors and strengthened them in three aspects, namely: (i) technical requirements; (ii) market transparency in respect of available services to end-users; and (iii) financial requirements.

The technical requirements for direct connection Market Datafeed ("MDF") vendors were tightened to ensure that their systems are capable of properly receiving our market data.

Information vendors are also required to provide their customers with detailed technical requirements for their information services. A list of real-time services offered by individual licensed information vendors as well as their key features has been published on the HKEx website since the end of September 2008.

HKEx's application procedures for real-time information vendors have been tightened and formalised to improve efficiency and to increase the predictability of the process. HKEx endeavours to inform a potential licensee of its application result within 4 weeks after the applicant has submitted a properly completed licence application form and paid the applicable deposit. During 2008, the minimum paid-up capital requirement was increased from $5 million to $7.5 million for vendor applicants who are not EPs.

The new requirements and vendor application procedures were published and took effect at the end of March 2008, with a grace period given to existing real-time data vendors until September 2008.

Membership of Financial Information Services Division ("FISD") of Software & Information Industry Association

HKEx joined the FISD as an Exchange Member in April 2008. The FISD is an international association which aims to foster the development of the market data industry. Its members include exchanges, market data vendors, software vendors, brokers, banks and institutional investors. HKEx was the host sponsor of the Asia Pacific Financial Information Conference held in Hong Kong by FISD in October 2008.

Development of MDF Simulator

A newly developed testing tool, MDF Simulator, was delivered to all MDF direct connection vendors in May 2008 free of charge. The MDF Simulator software replays the transmission of MDF data and helps facilitate information vendors' functional and capacity tests. The MDF Simulator can help information vendors adjust the throughput rate to perform tests at various levels of data volume. They can also obtain system performance results from the test reports provided by the MDF Simulator. Hence, MDF direct connection vendors are able to ensure their readiness for major MDF enhancements before the market rehearsals organised by HKEx. This should facilitate the effective use of resources by HKEx and information vendors, and the smooth rollout of market initiatives.

Issuer Information Feed System ("IIS") Indirect Connections

To facilitate the wider distribution of listed issuers' announcements, effective June 2008, IIS vendors are allowed to source IIS data indirectly from another IIS vendor which is connected to the HKEx's IIS host system directly. The vendor licence fee for IIS remains unchanged at $45,000 per quarter for both IIS direct and indirect connection vendors.

Proposal to Provide Free Basic Real-time Market Prices on Websites

On 18 September 2008, HKEx issued a request for the expression of interest ("RFI") in developing a business model for free dissemination of its basic real-time market prices on selected websites. HKEx has short-listed 12 candidates from the 34 responses to the RFI for submission of full proposals. All 12 shortlisted candidates submitted full proposals to HKEx before the deadline on 6 January 2009. Evaluation of the full proposals is expected to be completed in the first quarter of 2009 and the launch of service is expected in the second half of 2009.

We believe that the new service will increase market transparency, raise the profile of the Hong Kong securities market, particularly in the Mainland, and generate a new revenue source for HKEx.

Mainland Market Data Collaboration Programme

On 20 October 2008, HKEx Information Services Limited and the SSE Infonet Limited, the information business subsidiaries of HKEx and the Shanghai Stock Exchange respectively, signed an agreement for a market data collaboration programme with an aim to enhance the transparency of the issuers whose shares are dually listed in the two markets and help Mainland investors to have better understanding of the operations of the Hong Kong securities market. By the end of 2008, there were 49 issuers with listings in both Hong Kong and Shanghai, and therefore covered under the programme.

The Mainland Market Data Collaboration Programme between HKEx and the Shanghai Stock Exchange came into effect on 1 January 2009. It will last for 2 years until the end of 2010. A total of 12 information vendors have signed up for the programme as of its effective date and more are expected to join. A total of 28 new services have since been introduced including real-time streaming and snapshot data services delivered via leased-lines, the Internet, mobile phones, PDAs (personal digital assistants) and pagers.

Compliance and Unauthorised Dissemination

With the objective of maintaining a level playing field and a market environment that encourages fair competition, HKEx delivers presentations on vendor management and selects vendors for annual inspection to ensure compliance with the contractual requirements. In 2008, a total of 24 (2007: 22) information vendors were included in the Vendor Inspection Programme, representing 68 per cent (2007: 74 per cent) of our total information income. A total of 20 unauthorised dissemination cases were resolved in 2008 (2007: 24) to better protect investors.

Information Technology ("IT")

Production Systems Stability and Reliability

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

System Capacity Planning and Upgrade

HKEx has proactively initiated and completed capacity and technology upgrades for all its key IT systems and infrastructure.

For the Cash Market, the capacity and technology upgrades for AMS/3, the Latest Generation of CCASS ("CCASS/3"), and MDF were successfully completed during the first quarter of 2008. The entire Cash Market infrastructure is now capable to support 5 million trades per day, an increase of 3.5 million trades per day.

MDF was upgraded in March 2008 to increase the number of linked securities from 200 to 500. The "linked securities" function enables information vendors to identify securities such as DWs of the same underlying stocks so that related market data can be put together for their clients' ease of reference.

The SDNet, the next generation network for HKEx's securities and derivatives markets, bandwidth upgrade, involving more than 2,100 circuits for various AMS/3 trading devices, was completed in August 2008, which increases the market data dissemination rate for stock price updates from 300 stocks per second to 500 in order to cope with the rapid rise in the number of stock counters and the corresponding growth in data traffic for stock price updates.

For the Derivatives Market, the capacity and technology upgrades for DCASS and the Price Reporting System ("PRS") were successfully completed on 19 July 2008. The upgrades included the deployment of the latest storage area network, or SAN, technology for large scale and high performance enterprise storage systems for DCASS, as well as the Itanium technology with open and much improved price performance platform for PRS. DCASS and PRS can now handle 2 million trades per day and 2,200 messages per second respectively to support the planned business initiatives and projected activity increase in the Derivatives Market.

In addition, the bandwidth of all Derivatives Market circuits for EPs was upgraded from 256 kbps (kilobits per second) to 1 mbps (megabits per second) in September 2008 to enable HKATS to accommodate large transaction throughput demand, thereby reducing the time required for transaction queries and downloading of clearing reports. Moreover, the maximum number of connections per network gateway was increased from 5 to 10 to allow EPs to consolidate the existing network gateways and to save costs.

In order to improve communication with EPs of the Derivatives Market during critical situations, for instance, the occurrence of an unexpectedly large number of error trades, HKEx has enhanced the Market Message Window on Click workstation in HKATS to draw EPs' attention to important messages.

Obsolete Technology Replacement and Upgrade

On 3 March 2008, HKATS and DCASS were upgraded to Release 19.1 to offer new functional and technical features, such as new access controls, enhanced trade give-ups and improved report distributions. The upgraded software also enables HKEx to achieve alignment with the product roadmap of its supplier for HKATS and DCASS software to secure its quality support, and thereby safeguarding the reliability and stability of the critical applications.

Upon completion of the technology upgrade of the CCASS/3 middle-tier subsystem on 23 August 2008, HKEx also finished the entire technology and capacity upgrades for the key IT systems which support trading, clearing and settlement, and market data dissemination in the Cash and Derivatives Markets.

System Consolidation and Operational Efficiency

On 31 March 2008, HKEx successfully launched the upgraded version of the Securities Markets Automated Research Training & Surveillance, or SMARTS, which is used to monitor the trading of HKEx's products and EPs' activities. The system upgrade offers enhanced features and improved data processing performance to further strengthen HKEx's Market Surveillance and Enforcement Department's analysis capability to detect unusual market movements and trading activities.

In June 2008, HKEx completed the development of the Participant Financial Resources Surveillance System to automate the processing of EPs' financial return data, which will further enhance HKEx's analysis and market surveillance capabilities.

In December 2008, HKEx completed the enhancement to the Participant Information System to support data import from the participant database maintained by the SFC. The enhancement streamlines HKEx's operational efficiency and helps avoid dual filing by EPs of information update.

Independent Review of Information Technology Governance ("ITG") and Electronic Disclosure System ("EDS")

In the second quarter of 2008, HKEx commissioned an external consultant to perform an independent review of its ITG and EDS. The reviews, completed on 1 September 2008, confirmed that HKEx's ITG is in proper order and satisfactory controls are in place for EDS.

HKEx Website Revamp

A consultant has been selected for the HKEx website revamp project which includes reviewing the existing features, making recommendations for improvements and implementing recommendations approved by HKEx. We aim to benchmark our website with local and international best practices. The revamped website is anticipated to be launched in the third quarter of 2009.

HKEx Data Centre and IT Office Consolidation

HKEx is relocating its HKATS/DCASS primary data centre and its Derivatives IT office from Central to Quarry Bay as the first phase to further consolidate its IT infrastructure and various IT offices. The relocation is expected to be completed in mid-2009.

Risk Management

Measures for Failed Settlement of CNS Short Stock Positions

After giving consideration to CCASS Participants' comments, HKSCC expanded the scope of buy-in exemption grounds and introduced a cap of the default fee for failed settlement of CNS short stock positions. The cap was set at $100,000 per position for any failed settlement of CNS short stock position(s) effective 23 January 2008. Unless the prescribed buy-in exemption grounds are met, CNS short stock positions which are not settled on T+2 are subject to buy-in and default fees. In direct cooperation with the SFC, the default fee was also increased from 0.25 per cent of the market value of each CNS short position to 0.50 per cent effective 2 October 2008. The maximum default fee per position remains unchanged.

Enhancements to Holiday Margin Arrangements

Holiday margin is designed to help mitigate the potential cumulative market risks caused by overseas market movements during periods when Hong Kong markets are closed. The holiday margin arrangements of the HKFE Clearing Corporation Limited ("HKCC") and SEOCH were revised effective 1 December 2008 to simplify the triggering condition for margin changes and to refine the calculation by adopting a more precise methodology to determine margin levels during Hong Kong holiday periods.

Strengthening of Intra-day Risk Management Arrangements

HKCC's intra-day risk management arrangements were strengthened with the introduction of a routine intra-day margin call specific to the collection of variation adjustments based on: (i) the daily intra-day risk assessment after the end of the morning trading session; (ii) Participants' latest positions and the prevailing market price levels; and (iii) Participants who have breached certain thresholds. The new measures were additions to the ad hoc intraday call measures that were already in place and implemented on 8 December 2008 after providing a 3-month notification period to the HKCC Participants.

Default by Lehman Brothers Securities Asia Limited ("LBSA")

On 16 September 2008, the SFC issued a restriction notice on LBSA, which prohibited LBSA from settling its outstanding positions in CCASS. There was serious concern expressed by the Board and the executive management of HKEx to the SFC regarding the material repercussions of restriction notices in such circumstances not permitting the settlement of outstanding positions in CCASS.

Consequential to the issue of the restriction notice, LBSA was declared a defaulter and its outstanding positions were promptly closed out by HKSCC in accordance with the General Rules of CCASS ("CCASS Rules"). HKSCC incurred a loss of approximately $155 million (including costs and expenses net of recoveries up to 31 December 2008) as a result of such closing-out. The accounting treatment of the loss and details concerning potential means of loss recovery are set out in note 6(a) to the consolidated accounts of this announcement. HKSCC will seek recovery of the closing out loss via the LBSA liquidation process.

Since the LBSA default HKEx has had a series of discussions with the SFC on how to gain SFC's support for permitting the orderly settlement of outstanding CCASS positions under similar circumstances in the future and as specifically provided for in the SFO. HKEx also introduced additional risk management measures permitted under the CCASS Rules which provide for the requirement of additional collateral from Participants based on a range of risk based criteria in order to enhance the level of protection of HKSCC and the HKSCC Guarantee Fund against the risk of material loss in the event of another sizeable default. These added measures were made effective 22 September 2008.

Default by Lehman Brothers Futures Asia Limited ("LBFA")

On 16 September 2008, the SFC also issued a restriction notice on LBFA. Under the conditions of the SFC's restriction notice, LBFA was prohibited from carrying on all of the regulated activities for which they were licensed by the SFC. However, LBFA was permitted to take actions necessary to facilitate the closing and transferring out of existing futures and options contracts in HKFE pursuant to clients' instructions being confirmed.

LBFA was initially granted 1 day by the SFC to manage the close-out and transfer process and that deadline was subsequently extended by the SFC for an additional day. LBFA closed part of its options and futures positions during this two-day period. On 17 September 2008, LBFA failed to meet an intra-day demand for variation adjustments by HKCC and LBFA was promptly suspended by HKFE and HKCC. HKCC immediately assumed responsibility for the close-out of all remaining positions which was initiated and concluded successfully before market close on 18 September 2008 under the Rules and Procedures of HKCC. As there was sufficient margin collateral in place to cover the close-out costs of the LBFA default, no loss was incurred by HKCC. Provisional liquidators were appointed for LBFA by the High Court on 17 September 2008. In accordance with its Rules, HKCC has refunded all surplus margin collateral to LBFA's provisional liquidator.

The issue of a restriction notice on LBSA prohibiting LBSA from settling its outstanding positions in CCASS was brought to the attention of the Risk Management Committee ("RMC"), a statutory committee formed under Section 65 of the SFO. Suffice to say that the RMC appreciates the importance of a satisfactory and early resolution of this matter, in particular any systemic risk that may arise consequent on similar restriction notice in the future, and is thus closely monitoring on-going discussions between the SFC and HKEx.

Treasury

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling $62.3 billion on average in 2008 (2007: $49.7 billion).

As compared with 31 December 2007, the overall size of funds available for investment as at 31 December 2008 decreased by 22 per cent or $15.3 billion to $53.8 billion (2007: $69.1 billion). Details of the asset allocation of the investments as at 31 December 2008 against those as at 31 December 2007 are set out below.

	Investment Fund Size $ billion		**Bonds**		**Cash or Bank Deposits**		**Global Equities**	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Corporate Funds	**10.8**	11.5	**50%**	50%	**48%**	47%	**2%**	3%
Margin Funds	**41.8**	55.4	**39%**	30%	**61%**	70%	**0%**	0%
Clearing House Funds	**1.2**	2.2	**30%**	16%	**70%**	84%	**0%**	0%
Total	**53.8**	69.1	**41%**	33%	**59%**	66%	**0%**	1%

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the Clearing House Funds and Margin Funds. Excluding equities and mutual funds held under the Corporate Funds ($0.2 billion as at 31 December 2008 and $0.3 billion as at 31 December 2007), which have no maturity date, the maturity profiles of the remaining investments as at 31 December 2008 ($53.6 billion) and 31 December 2007 ($68.8 billion) were as follows:

	Investment Fund Size $ billion		**Overnight**		**>Overnight to 1 month**		**>1 month to 1 year**		**>1 year to 3 years**		**> 3 years**	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Corporate Funds	**10.6**	11.2	**42%**	33%	**4%**	13%	**37%**	36%	**11%**	12%	**6%**	6%
Margin Funds	**41.8**	55.4	**32%**	41%	**35%**	26%	**33%**	32%	**0%**	1%	**0%**	0%
Clearing House Funds	**1.2**	2.2	**66%**	84%	**13%**	0%	**21%**	16%	**0%**	0%	**0%**	0%
Total	**53.6**	68.8	**35%**	41%	**28%**	23%	**34%**	32%	**2%**	3%	**1%**	1%

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 31 December 2008, had a weighted average credit rating of Aa2 (2007: Aa1) and a weighted average maturity of 0.6 year (2007: 0.6 year). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk ("VaR") and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (1 year is used by the Group). The overall risk, as measured by the VaR methodology, during 2008 and 2007 was as follows:

	Average VaR $ million		**Highest VaR** $ million		**Lowest VaR** $ million	
	2008	2007	**2008**	2007	**2008**	2007
Corporate Funds	**17.9**	15.0	**22.0**	19.1	**15.0**	11.2
Margin Funds	**23.8**	13.8	**31.3**	25.7	**17.1**	10.1
Clearing House Funds	**0.6**	0.4	**0.9**	0.6	**0.2**	0.1

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

FINANCIAL REVIEW

Overall Performance

	2008 $'000	2007 $'000
RESULTS		
Revenue and other income:		
Income affected by market turnover	**4,704,991**	5,290,786
Stock Exchange listing fees	**711,983**	688,538
Income from sale of information	**673,445**	678,909
Other revenue	**390,855**	489,109
Net investment income	**999,175**	1,238,228
Other income	**68,641**	4,900
	7,549,090	8,390,470
Operating expenses	**1,620,617**	1,411,565
	5,928,473	6,978,905
Gain on disposal of an associate	**-**	206,317
Share of profit of an associate	**-**	5,587
Profit before taxation	**5,928,473**	7,190,809
Taxation	**(799,549)**	(1,021,531)
Profit attributable to shareholders	**5,128,924**	6,169,278

Profit attributable to shareholders decreased by 17 per cent to $5,129 million for the year ended 31 December 2008 against $6,169 million for 2007 mainly due to lower turnover-related income, lower net investment income, higher operating expenses and the one-off gain on disposal of an associate in 2007 which was not repeated in 2008 but was partly offset by a lower taxation charge.

Financial markets around the world were badly hit by the financial crisis in 2008 and Hong Kong was no exception. Hong Kong's market capitalisation as at 31 December 2008 had fallen by 50 per cent from a year before. Although considerable growth was recorded in the Derivatives Market resulting in increase in trading fees and trading tariff derived therefrom, the increase was more than offset by the negative impact due to a fall of 18 per cent in the average daily turnover value on the Stock Exchange. As a result, the total turnover-related income of the Group fell by $586 million to $4,705 million for 2008.

Net investment income dropped primarily due to the fair value losses of Corporate Fund investments in 2008 as opposed to the fair value gains in 2007, which reflected market downward movements amid the financial crisis.

Total operating expenses increased by 15 per cent during the year mainly due to the higher provision for impairment losses of trade receivables from defaulting Participants (in particular the provision relating to the Lehman Brothers Group of $157 million) as well as higher information technology and computer expenses and a higher depreciation charge.

The accounts have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which have been aligned with the requirements of International Financial Reporting Standards ("IFRSs") in all material respects as at 31 December 2008.

Revenue and Other Income

(A) Income affected by Market Turnover

	2008 $'000	2007 $'000	Change
Trading fees and trading tariff	**2,803,081**	3,086,250	(9%)
Clearing and settlement fees	**1,405,202**	1,577,433	(11%)
Depository, custody and nominee services fees	**496,708**	627,103	(21%)
Total	**4,704,991**	5,290,786	(11%)

Key Market Indicators

	2008	2007	Change
Average daily turnover value on the Stock Exchange	**$72.1 billion**	$88.1 billion	(18%)
Average daily number of derivatives contracts traded on the Futures Exchange	**207,052**	171,440	21%
Average daily number of stock options contracts traded on the Stock Exchange	**225,074**	187,686	20%

Trading Fees and Trading Tariff

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

The increase in trading fees and trading tariff from the Derivatives Market was mainly driven by the increase in the number of contracts traded. The total number of futures, options, HSI Futures, H-shares Index Futures and stock options traded set a record high in 2008.

Clearing and Settlement Fees

Clearing and settlement fees are derived predominantly from Cash Market transactions. The decrease in clearing and settlement fees in 2008 was mainly due to the lower market turnover on the Cash Market. Despite being mostly ad valorem fees, clearing and settlement fees are also affected by the volume of settlement instructions and subject to a minimum and a maximum fee per transaction and therefore may not always move exactly with the changes in the turnover on the Cash Market. In 2008, clearing and settlement fees did not decrease by the same percentage as the turnover on the Cash Market since the drop in transaction value of settlement instructions was smaller, and a lower proportion of the value of exchange-traded transactions settled was subject to the maximum fee and a higher proportion of the value of exchange-traded transactions settled was subject to the minimum fee.

Depository, Custody and Nominee Services Fees

Depository, custody and nominee services fees mainly comprise scrip fees, eIPO handling fees, stock custody fees, dividend collection fees, corporate action fees and stock withdrawal fees. Depository, custody and nominee services fees dropped mainly due to a significant decrease in eIPO handling fees as the number of newly listed companies fell, in particular the larger IPOs. Similarly, scrip fees also decreased consequential to the drop in fees from the first book close of newly listed companies but the decrease was partly offset by a rise in dividend collection fees, stock withdrawal fees and stock custody fees. Other than eIPO handling fees, the other fees are generally influenced by the level of Cash Market activity but do not move proportionately with changes in the turnover on the Cash Market as they vary mostly with the number of board lots rather than the value or turnover of the securities concerned, and many are subject to a maximum fee. Moreover, scrip fees are only chargeable on the net increase in individual Participants' aggregate holdings of the securities from one book closing date to the next, and thus are unusually large on the first book closing date after a new listing.

(B) Stock Exchange Listing Fees

	2008 $'000	2007 $'000	Change
Annual listing fees	**346,263**	308,163	12%
Initial and subsequent issue listing fees	**360,944**	374,239	(4%)
Others	**4,776**	6,136	(22%)
Total	**711,983**	688,538	3%

The increase in annual listing fees was attributable to the higher number of listed companies. Initial and subsequent issue listing fees fell following the decrease in the number of new and subsequent issues of DWs and newly listed companies but the drop in fees was partly offset by the increase in fees earned from the higher number of newly listed CBBCs and higher initial listing fees forfeited due to increased numbers of lapsed and withdrawn IPO applications and approved IPOs not listed within 6 months of application.

Key Drivers for Annual Listing Fees

	As at 31 Dec 2008	As at 31 Dec 2007	Change
Number of companies listed on Main Board	**1,087**	1,048	4%
Number of companies listed on GEM	**174**	193	(10%)
Total	**1,261**	1,241	2%

Key Drivers for Initial and Subsequent Issue Listing Fees

	2008	2007	Change
Number of newly listed DWs	**4,822**	6,312	(24%)
Number of newly listed CBBCs	**4,231**	391	982%
Number of newly listed companies on Main Board	**47**	82	(43%)
Number of newly listed companies on GEM	**2**	2	0%
Number of other newly listed securities on Main Board and GEM	**77**	98	(21%)
Total number of newly listed securities	**9,179**	6,885	33%

	2008 $ billion	2007 $ billion	Change
Total equity funds raised on Main Board	**418.2**	571.1	(27%)
Total equity funds raised on GEM	**9.0**	19.7	(54%)
Total	**427.2**	590.8	(28%)

(C) Income from Sale of Information

	2008 $'000	2007 $'000	Change
Income from sale of information	**673,445**	678,909	(1%)

Income from sale of information dropped as demand for information shrank in tandem with the Cash Market activity.

(D) Other Revenue

	2008 $'000	2007 $'000	Change
Network, terminal user, dataline and software sub-license fees	**289,783**	311,187	(7%)
Participants' subscription and application fees	**34,614**	34,043	2%
Brokerage on direct IPO allotments	**5,313**	97,730	(95%)
Trading booth user fees	**9,603**	9,624	(0%)
Accommodation income on securities deposited by Participants as alternatives to cash deposits of Margin Funds	**21,844**	15,555	40%
Sales of Trading Right	**8,335**	3,000	178%
Miscellaneous revenue	**21,363**	17,970	19%
Total	**390,855**	489,109	(20%)

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

Brokerage on direct IPO allotments fell sharply as the number of newly listed companies decreased, in particular the larger IPOs.

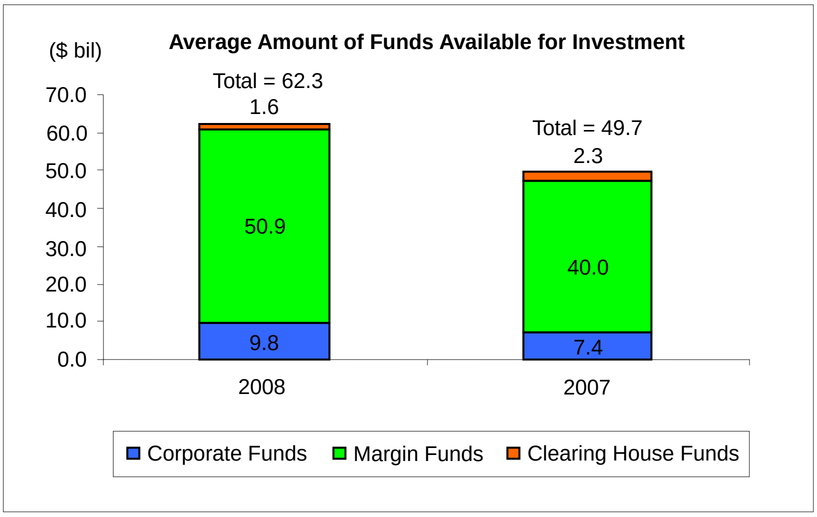
Accommodation income increased mainly due to the increase in utilisation of non-cash collateral by Participants to meet their margin obligations.

Income from sales of Trading Right rose in line with the increase in Trading Rights issued by the Group in 2008 as the scheme was only introduced in March 2007.

(E) Net Investment Income

	2008 $'000	2007 $'000	Change
Investment income	**1,075,590**	1,949,955	(45%)
Interest rebates to Participants	**(76,415)**	(711,727)	(89%)
Net investment income	**999,175**	1,238,228	(19%)

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

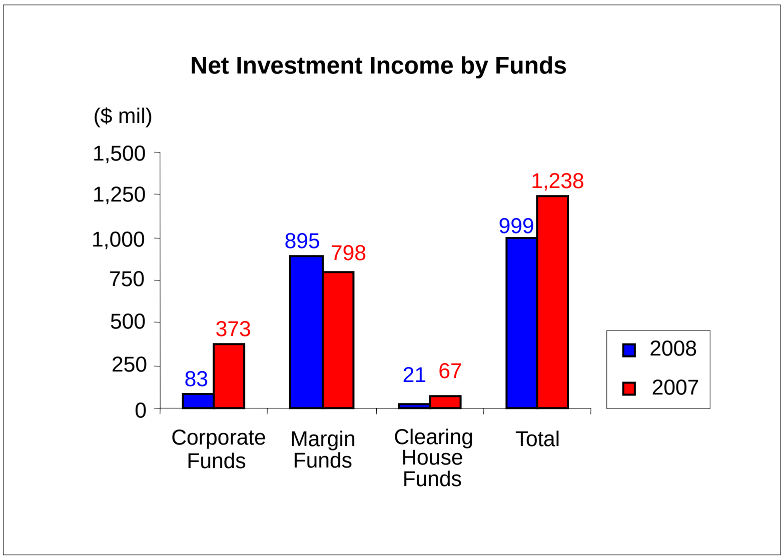


Average amount of Corporate Funds increased as the sizeable profit generated in the second half of 2007 was not distributed until May 2008.

Average amount of Margin Funds rose primarily due to the increase in open interest in futures and options contracts during 2008 and the higher margin rate demanded per contract.

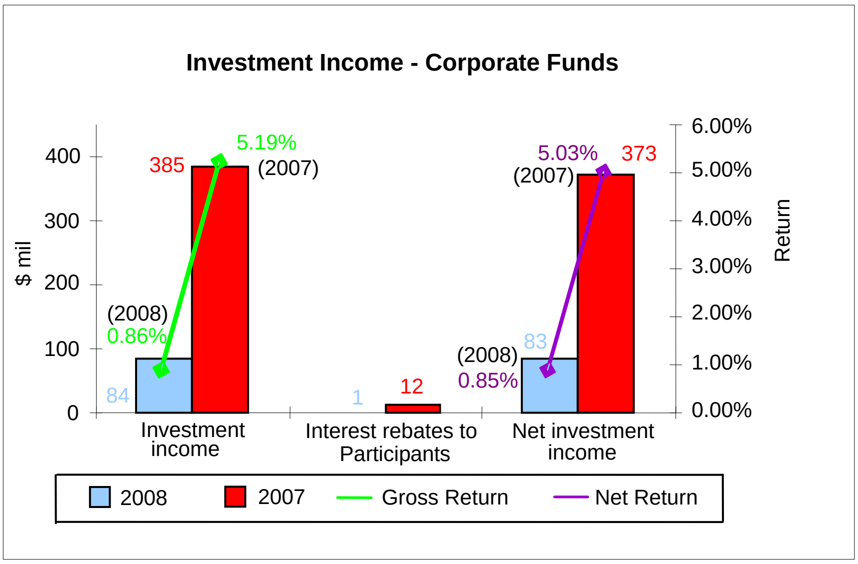
The lower average amount of Clearing House Funds was mainly on account of the decrease in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

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

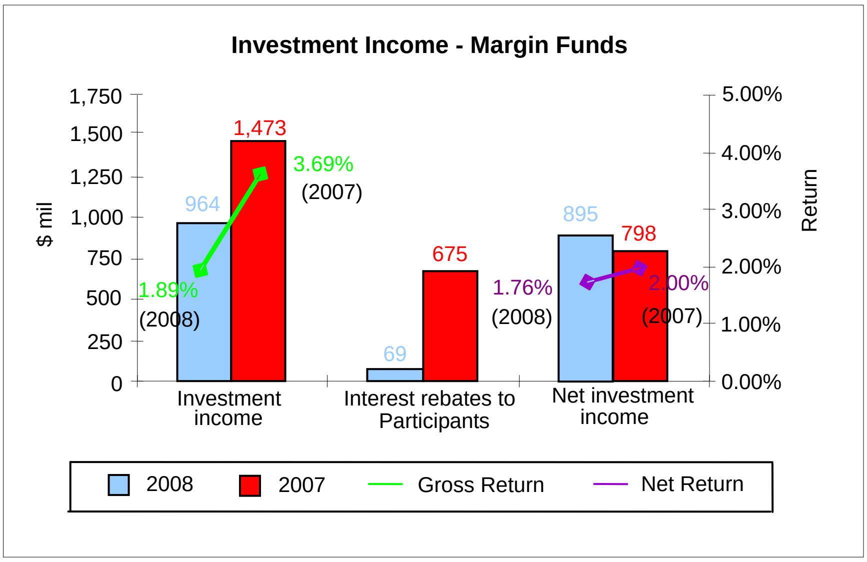


The lower net investment income was mainly due to the decrease in net investment income of the Corporate Funds which was caused by the fair value losses of investments.

The analysis of investment income by Funds is as follows:

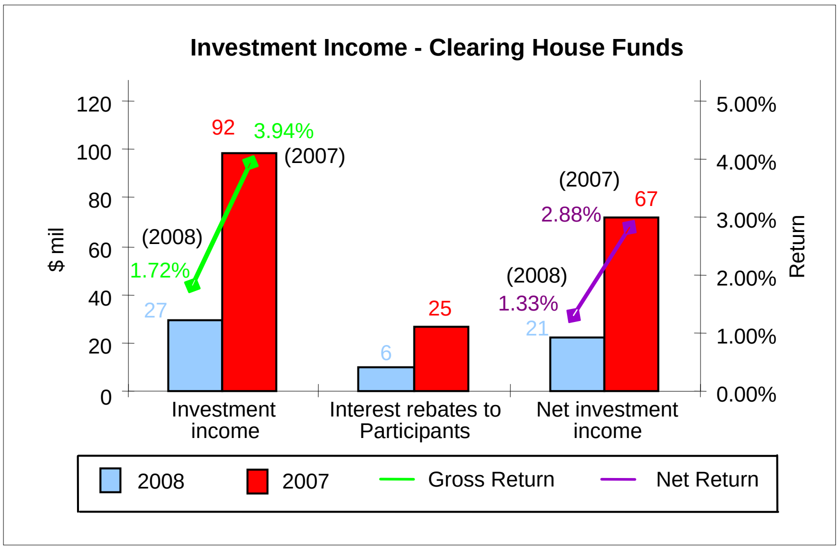


Investment income of Corporate Funds decreased mainly due to the fair value losses of investments, reflecting market movements, as opposed to the fair value gains of investments in 2007 and the drop in interest rates, which led to a significant drop in the income and rate of return.



Net investment income of Margin Funds rose due to an increase in average fund size. The drop in investment income before interest rebates arising from the reduction in interest rates was more than offset by the decrease in interest rebates paid to Participants.

The gross return on Margin Fund investments was brought down by the decrease in interest rates and the increase in the proportion of Margin Funds denominated in Japanese Yen, which generated a very low return. The net return did not drop significantly from last year as the decrease in gross return was mostly offset by the drop in interest rate (savings rate) payable to margin depositors.



Investment income of Clearing House Funds dropped due to the lower average fund size and the drop in interest rates.

The lower gross return was mainly due to decreases in the interest rate for overnight deposits. The decrease in net return was less than the drop in gross return as a lower proportion of Clearing House Fund contributions was eligible for interest rebates in 2008.

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

(F) Other Income

	2008 $'000	2007 $'000	Change
Gain on disposal of properties	**68,641**	-	N/A
Fair value gain of an investment property	-	4,900	(100%)
	68,641	4,900	1,301%

The Group sold an investment property and one of the leasehold properties during 2008 generating a gain of $69 million.

Operating Expenses

	2008 $'000	2007 $'000	Change
Staff costs and related expenses	**803,106**	827,116	(3%)
Information technology and computer maintenance expenses	**238,917**	207,422	15%
Premises expenses	**150,295**	132,244	14%
Product marketing and promotion expenses	**16,986**	14,054	21%
Legal and professional fees	**25,128**	27,185	(8%)
Depreciation	**108,813**	79,144	37%
Other operating expenses	**277,372**	124,400	123%
Total	**1,620,617**	1,411,565	15%

Staff costs and related expenses decreased by $24 million, primarily due to a decrease in performance bonus of $86 million (2008: $168 million; 2007: $254 million) on account of the lower profit of the Group in 2008, but the decrease was partly offset by higher salary costs and provident fund contributions as a result of the increase in headcount and salary adjustments in 2008.

Information technology and computer maintenance expenses of the Group, after excluding services and goods directly consumed by the Participants of $97 million (2007: $73 million), were $142 million (2007: $135 million). The increase in costs of services and goods consumed by the Group was mainly due to higher CCASS/3 maintenance costs. The increase in costs of services and goods directly consumed by Participants was primarily due to an increase in AMS/3 line rentals incurred by the Participants. Costs of services and goods consumed by Participants were mostly recovered from the Participants and the income was included as part of network, terminal user, dataline and software sub-license fees under Other Revenue.

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

Depreciation increased as the capacity upgrade of certain trading and clearing systems was completed in late 2007 and in 2008.

Other operating expenses rose mainly due to a provision for impairment losses of trade receivables from defaulting Participants (in particular the provision for impairment losses of $157 million relating to the default of the Lehman Brothers Group in 2008).

Gain on Disposal of an Associate

	2008 $'000	2007 $'000	Change
Gain on disposal of an associate	**-**	206,317	(100%)

In April 2007, the Group disposed of all of its 30 per cent interest in the Computershare Hong Kong Investor Services Limited ("CHIS"), as the Board considered that the sale represented a good opportunity for the Group to realise the gain on the associate.

Share of Profit of an Associate

	2008 $'000	2007 $'000	Change
Share of profit of an associate	-	5,587	(100%)

As the Group disposed of its entire interest in the associate in April 2007, there was no share of profit in 2008.

Taxation

	2008 $'000	2007 $'000	Change
Taxation	**799,549**	1,021,531	(22%)

The decrease in taxation was mainly attributable to the cut in the Hong Kong Profits Tax rate from 17.5 per cent to 16.5 per cent and the decrease in profit before taxation.

Liquidity, Financial Resources, Gearing and Capital Commitment

Working capital fell by $620 million or 8 per cent to $7,197 million as at 31 December 2008 (2007: $7,817 million). The decrease was primarily due to the payment of the 2007 final dividend of $3,646 million and the 2008 interim dividend of $2,673 million and $32 million of shares purchased for the Share Award Scheme, but the decrease was partly offset by the profit generated during the year of $5,129 million, the decrease in financial assets of Margin Funds on derivatives contracts maturing over 1 year of $456 million, the proceeds from issuing shares upon the exercise of employee share options of $67 million, and the increase in other net current assets of $79 million.

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

Borrowings of the Group have been rare and are mostly event driven, with little seasonality. As at 31 December 2008 and 31 December 2007, the Group had no bank borrowings, and therefore had zero gearing.

As at 31 December 2008, 99 per cent (2007: 99 per cent) of the Group's cash and cash equivalents (comprising cash on hand, bank balances and time deposits within 3 months of maturity when acquired) were denominated in HKD or USD.

The Group's capital expenditure commitments as at 31 December 2008, mainly related to the upgrade and enhancement of trading and clearing systems, development and purchases of various computer systems, and office and data centre consolidation, amounted to $84 million (2007: $165 million). The Group has adequate internal resources to fund its capital expenditure commitments.

Charges on Assets

None of the Group's assets was pledged as at 31 December 2008 and 31 December 2007.

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

Save for those disclosed in this announcement, there were no significant investments held, nor material acquisitions and disposals of subsidiaries during the year. There is no plan for material investments or capital assets as at the date of this announcement.

Exposure to Fluctuations in Exchange Rates and Related Hedges

When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency 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.

As at 31 December 2008, the aggregate net open foreign currency positions amounted to HK$6,584 million, of which HK$211 million were non-USD exposures (2007: HK$4,727 million, of which HK$210 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK$3,219 million (2007: HK$2,926 million). All forward foreign exchange contracts would mature within 2 months (2007: 2 months).

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

Contingent Liabilities

The Group has a contingent liability in respect of potential calls to be made by the SFC to replenish all or part of compensation less recoveries paid by the 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.

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. 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).

HKEx gave an undertaking on 6 March 2000 in favour of HKSCC to contribute an amount not exceeding $50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within 1 year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the debts and liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs, charges and expenses of winding up.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	**2008 $'000**	2007 $'000
Trading fees and trading tariff		**2,803,081**	3,086,250
Stock Exchange listing fees		**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	4	**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	5	**999,175**	1,238,228
Other income		**68,641**	4,900
	3	**7,549,090**	8,390,470
OPERATING EXPENSES			
Staff costs and related expenses		**803,106**	827,116
Information technology and computer maintenance expenses		**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	6(a)	**163,203**	-
Others	6(b)	**114,169**	124,400
	3	**1,620,617**	1,411,565
	3	**5,928,473**	6,978,905
GAIN ON DISPOSAL OF AN ASSOCIATE	3/7	**-**	206,317
SHARE OF PROFIT OF AN ASSOCIATE	3	**-**	5,587
PROFIT BEFORE TAXATION	3	**5,928,473**	7,190,809
TAXATION	8	**(799,549)**	(1,021,531)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		**5,128,924**	6,169,278
Earnings per share			
Basic	10(a)	**$4.78**	$5.78
Diluted	10(b)	**$4.75**	$5.72

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

	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 FINANCIAL POSITION AS AT 31 DECEMBER 2008

	Note	2008 $'000	2007 $'000
NON-CURRENT ASSETS			
Fixed assets		**311,179**	317,065
Lease premium for land		**60,199**	60,708
Financial assets of Margin Funds on derivatives contracts		**-**	456,396
Available-for-sale financial assets		**-**	25,270
Deferred tax assets		**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	11	**8,526,557**	18,364,129
Lease premium for land		**509**	509
Tax recoverable		**-**	148
Financial assets of Clearing House Funds		**393,202**	361,506
Cash and cash equivalents of Clearing House Funds		**843,109**	1,841,508
		1,236,311	2,203,014
Financial assets of Margin Funds on derivatives contracts		**19,655,161**	18,790,237
Cash and cash equivalents of Margin Funds on derivatives contracts		**22,184,833**	36,182,526
		41,839,994	54,972,763
Financial assets at fair value through profit or loss		**3,020,035**	2,996,555
Available-for-sale financial assets		**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	12	**-**	64,092
		62,397,735	87,069,832
CURRENT LIABILITIES			
Participants' contributions to Clearing House Funds		**197,520**	1,252,355
Other financial liabilities of Clearing House Funds		**72,319**	10,810
Margin deposits from Clearing Participants on derivatives contracts		**41,839,991**	55,428,888
Other financial liabilities of Margin Funds on derivatives contracts		**3**	271
Accounts payable, accruals and other liabilities	13	**12,410,854**	21,375,909
Financial liabilities at fair value through profit or loss		**26,254**	6,149
Participants' admission fees received		**83,150**	85,600
Deferred revenue		**392,688**	375,174
Taxation payable		**141,363**	687,726
Provisions		**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

	Note	2008 $'000	2007 $'000
NON-CURRENT LIABILITIES			
Participants' contributions to Clearing House Funds		**252,000**	244,500
Deferred tax liabilities		**30,775**	36,873
Financial guarantee contract		**19,909**	19,909
Provisions		**25,483**	24,128
		328,167	325,410
NET ASSETS		**7,295,322**	8,377,348
CAPITAL AND RESERVES			
Share capital		**1,074,886**	1,070,285
Share premium		**346,902**	266,170
Shares held for Share Award Scheme		**(65,254)**	(47,803)
Employee share-based compensation reserve		**47,032**	49,669
Revaluation reserves		**96,681**	56,036
Designated reserves		**552,383**	694,853
Retained earnings	14	**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

NOTES TO THE CONSOLIDATED ACCOUNTS

1. Basis of Preparation and Accounting Policies

These consolidated accounts have been prepared in accordance with HKFRSs, issued by HKICPA, which have been aligned with the requirements of IFRSs in all material respects as at 31 December 2008.

For the year 2008, the Group adopted a number of new/revised/improved HKFRSs, none of which has any financial impact to the Group. The new/revised/improved HKFRSs adopted are as follows:

Adoption of new/revised HKFRSs effective in 2008

- Amendments to the Hong Kong Accounting Standard ("HKAS") 39 and HKFRS 7: Reclassification of Financial Assets

Early adoption of new/revised HKFRSs

- 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

Adoption of improvements to HKFRSs

- HKAS 1: Presentation of Financial Statements
- HKAS 28: Investment in Associates
- HKAS 38: Intangible Assets
- HKAS 39: Financial Instruments – Recognition and Measurement

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.

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. Participants' contributions to Clearing House Funds which may be refunded to Participants within 12 months are reclassified as current liabilities.

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

Reclassification of 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 7 years from the date of its admission as a Participant or upon the termination of its participation in 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 12 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 1 year from the date of termination of their participation in CCASS and to Participants within 1 year of the date of sale of their Stock Exchange Trading Rights.

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

Presentation of Net Investment Income

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.

2. Turnover

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

3. Operating Segments

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

The Group has 4 reportable segments. The segments are managed separately as each business offers different products and services and requires different 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, CBBCs, ETFs, warrants and rights. Currently, the Group operates 2 Cash Market platforms, the Main Board and GEM. The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market.

The **Derivatives Market** business refers to the derivatives products traded on the Futures Exchange and stock options traded on the Stock Exchange, which includes the provision and maintenance of trading platforms for a range of derivatives products, such as stock and equity index futures and options, 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.

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

	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. 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.

(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.

4. 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

5. 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

6. Other Operating Expenses

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

The amount $163,203,000 (2007: $Nil) 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 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 CCASS Rules. 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	**1,757**	(71)
(Reversal of provision for)/provision for impairment losses of leasehold buildings – revaluation (gain)/deficit	**(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

7. 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 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.

8. Taxation

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

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

(a) 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.

9. 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 for Share Award Scheme	**(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 for Share Award Scheme 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 for the Share Award Scheme, of which $528,000 relates to shares acquired by the Share Award Scheme 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.

10. 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

11. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits amounted to $8,526,557,000 (2007: $18,364,129,000). These mainly represented the Group's CNS money obligations receivable under the T+2 settlement cycle, which accounted for 93 per cent (2007: 94 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within 2 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 3 months.

12. Non-current Assets Held for Sale

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

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.

13. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities amounted to $12,410,854,000 (2007: $21,375,909,000). These mainly represented the Group's CNS money obligations payable under the T+2 settlement cycle, which accounted for 64 per cent (2007: 81 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within 2 days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within 3 months.

14. Retained Earnings (Including Proposed Dividends)

	2008 $'000	2007 $'000
At 1 Jan	**6,288,138**	3,366,989
Profit attributable to shareholders (note a)	**5,128,924**	6,169,278
Deficit/(surplus) of net investment income net of expenses less closing-out losses of Clearing House Funds transferred from/(to) Clearing House Funds reserves	**142,470**	(67,037)
Transfer from leasehold buildings revaluation reserve on disposal of a leasehold property	**3,155**	-
	145,625	(67,037)
Dividends:		
2007/2006 final dividend	**(3,634,850)**	(1,266,387)
Dividend on shares issued for employee share options exercised after 31 Dec 2007/31 Dec 2006	**(11,309)**	(3,879)
	(3,646,159)	(1,270,266)
2008/2007 interim dividend	**(2,670,320)**	(1,911,131)
Dividend on shares issued for employee share options exercised after 30 Jun 2008/30 Jun 2007	**(3,055)**	(1,062)
	(2,673,375)	(1,912,193)
Unclaimed dividend forfeited	**2,566**	2,454
Vesting of shares of Share Award Scheme	**(3,027)**	(1,087)
At 31 Dec	**5,242,692**	6,288,138
Representing:		
Retained earnings	**3,309,601**	2,652,760
Proposed dividends	**1,933,091**	3,635,378
At 31 Dec	**5,242,692**	6,288,138

(a) 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).

PROSPECTS

New waves of volatility are still hitting the global financial systems, and the end of the unprecedented financial crisis is not yet in sight. The economy of Mainland China, which is the strongest in the region and the third largest in the world, also recorded sharp GDP (gross domestic product) growth slowdown from 9 per cent in the third quarter to 6.8 per cent in the fourth quarter of 2008. A RMB 4 trillion economic stimulus package has been introduced by the Central Government to try to maintain the GDP growth at the target of 8 per cent for 2009. Indeed, since then the Central Government appears prepared to introduce additional measures if need be. Slower growth in the region will inevitably adversely affect the Hong Kong financial markets, as well as HKEx.

The speed and severity of the economic recession has nonetheless resulted in quick action of the part of governments of the world's major economies in taking bold stimulus measures. The main thrust seems clear: prevent further decline and deal with the consequences later. Our Government also acted promptly by introducing measures to create employment and to provide liquidity in the money market, guaranteeing most deposits in financial institutions in Hong Kong and making available to our small-and-medium enterprises financing in an otherwise tight liquidity environment. The economic scenario is far from clear but perhaps Hong Kong as part of China and sitting at the heart of Asia, is in an enviable position. This is not to say we will not have our share of the pain of adjustment but we have weathered severe crisis before and have emerged stronger.

Despite the headwinds, HKEx will continue to move forward by exploring new opportunities whilst exercising stringent cost containment measures, and reviewing its organisational structure with a view to rationalising internal processes to improve effectiveness and efficiency but always enhancing market confidence.

We will focus on our core business and will continue pursuing organic growth by implementing our Three-Year Strategic Plan of 2007-2009 which focuses on our Mainland positioning, expanding our businesses and ensuring market quality. As we are moving into the last year of the plan, preparation for the strategic plan of 2010-2012 is underway. We need to tackle the challenges ahead as well as to explore opportunities for HKEx in order to achieve sustainable growth. In this connection, the Board together with the management will remain vigilant to international market developments which may bring about a "new financial order". This could also mean new opportunities for HKEx both in exchange-traded product and other areas. We will also enhance communications with different stakeholders in order to ensure that emerging issues or market recommendations are addressed properly in the upcoming strategic plan.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of $1.80 (2007: $3.40) per share to the shareholders ("Shareholders") whose names appear on HKEx's Register of Members ("ROM") on 23 April 2009, and the retention of the remaining profit for the year. Together with the interim dividend of $2.49 (2007: $1.79) per share, this will bring the total dividend distribution for the year to $4.29 (2007: $5.19) per share.

The proposed final dividend together with the interim dividend payment amounts to a total of about $4,611 million (including dividend of about $4,765,000 for shares held in trust under the Share Award Scheme) (2007: $5,565 million, including dividend of about $6,426,000 for shares held in trust under the Share Award Scheme).

CLOSURE OF REGISTER OF MEMBERS

HKEx's ROM will be closed from Monday, 20 April 2009 to Thursday, 23 April 2009, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify for the proposed final dividend and be entitled to attend and vote at the annual general meeting to be held on 23 April 2009 ("AGM"), all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with HKEx's registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30pm on Friday, 17 April 2009. Subject to Shareholders' approval of the proposed final dividend at the AGM, dividend warrants will be despatched on or about Tuesday, 5 May 2009 to Shareholders whose names are on HKEx's ROM on 23 April 2009.

ANNUAL GENERAL MEETING

The AGM will be held at the Exchange Auditorium in the Exchange Exhibition Hall of the Stock Exchange on 1st Floor, One and Two Exchange Square, Central, Hong Kong on Thursday, 23 April 2009 at 4:30pm. The Notice of AGM will be published on the HKEx website at http://www.hkex.com.hk/relation/notices/AnnNotice.htm and the HKExnews at http://www.hkexnews.hk, and despatched to Shareholders on or about Friday, 20 March 2009.

APPOINTMENT AND ELECTION OF HKEx'S DIRECTORS ("DIRECTORS")

The Board currently consists of 13 Directors, including 6 Directors appointed by the Financial Secretary of the Government of the Hong Kong Special Administrative Region ("Government Appointed Directors"), 5 Directors elected by Shareholders ("Elected Directors"), a Director appointed by the Board to fill a casual vacancy for an Elected Director and an *ex-officio* Director.

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

Additionally, the terms of office of 2 Directors, namely Dr Christine K W Loh, an Elected Director, and Mr John M M Williamson who was appointed by the Board on 18 June 2008 to fill a casual vacancy, will expire at the conclusion of the AGM. Pursuant to Article 93(5) and Article 92 of HKEx's Articles, both of them are eligible for re-appointment. Dr Loh has indicated that she will not stand for re-election at the AGM and will retire as a Director with effect from the conclusion of the AGM. Dr Loh has confirmed that she has no disagreement with the Board and that she is not aware of any matters that need to be brought to Shareholders' attention.

The Board would like to thank Dr Loh for her valuable contribution to the Board especially her excellent advice on emissions trading and CSR development in the past 3 years.

For the AGM, the Nomination Committee has nominated, and the Board has recommended Mr Williamson and Mr Ignatius T C Chan, to stand for election as Directors at the AGM.

Mr Ignatius T C Chan currently works for The Bank of East Asia Limited as a consultant and he was Citigroup's Country Officer for Hong Kong and Head of Corporate and Investment Banking business for Greater China before retiring from his position in May 2007.

Shareholders are invited to elect up to 2 Directors at the AGM to fill the vacancies available due to the retirement of the said 2 Directors. According to Article 90(1A) of HKEx's Articles, 2 Directors to be elected at the AGM will be appointed for a term of not more than approximately 3 years expiring at the conclusion of HKEx's annual general meeting to be held in 2012.

A circular containing, inter alia, the Notice of AGM and further information concerning nomination and election of Directors, including the particulars of the above two proposed candidates, will be sent to Shareholders on or about 20 March 2009.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2008, including the accounting principles and practices adopted by the Group, in conjunction with HKEx's external auditor and internal auditors.

EMPLOYEES

Quality and dedicated staff are valuable assets contributing to the Group's success. HKEx's remuneration policy is built on the principle of providing an equitable, performance-oriented, motivating and market-competitive remuneration package for every employee. To enable our employees to reach their full potential, we are committed to staff training and development. In 2008, HKEx spent $3.8 million on staff training and organised 116 in-house training classes with more than 3,500 participants. In addition, 19 employees in different grade levels participated in the academic sponsorship programme and 763 participants attended external training programmes. HKEx's e-learning programme also provided a wide variety of courses covering managerial, language and technical skills to 172 employees. More details are set out in the Corporate Social Responsibility ("CSR") section of the HKEx website. As at 31 December 2008, we had a total of 848 permanent employees (2007: 805) and 17 temporary employees (2007: 32) and maintained a low turnover rate of 6.8 per cent (2007: 10.4 per cent).

CORPORATE GOVERNANCE

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

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

CORPORATE SOCIAL RESPONSIBILITY DEVELOPMENT

As a listed issuer with public interest responsibilities, HKEx has to also safeguard the interests of its stakeholders, particularly its shareholders, employees and customers, and be mindful of its wider obligations to support the community and help preserve the environment. With a view to further enhance HKEx's CSR measures and to develop CSR practices that are both appropriate and sustainable, we took a series of actions at the beginning of 2008 to improve HKEx's CSR development, in particular, the formation of a CSR Committee in September 2008. Details of the HKEx's CSR developments are set out in the CSR section of the HKEx website.

PURCHASE, SALE OR REDEMPTION OF HKEx'S LISTED SECURITIES

In 2008, neither HKEx nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Exchange a total of 214,600 HKEx shares at a total consideration of $32,494,000.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the HKEx website at http://www.hkex.com.hk/relation/results/ResultsAnn.htm and the HKExnews at http://www.hkexnews.hk. The 2008 Annual Report will be available on both websites and despatched to Shareholders on or about Friday, 20 March 2009.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises 12 Independent Non-executive Directors, namely Mr ARCULLI, Ronald Joseph (Chairman), Mrs CHA May-Lung, Laura, Dr CHENG Mo Chi, Moses, Dr CHEUNG Kin Tung, Marvin, Mr FAN Hung Ling, Henry, Mr FONG Hup, Dr KWOK Chi Piu, Bill, Mr LEE Kwan Ho, Vincent Marshall, Dr LOH Kung Wai, Christine, Mr STRICKLAND, John Estmond, Mr WILLIAMSON, John Mackay McCulloch and Mr WONG Sai Hung, Oscar, and one Executive Director, Mr CHOW Man Yiu, Paul, who is also the Chief Executive.

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

Hong Kong, 4 March 2009