



(Stock Code: 388)

# **Condensed Consolidated Financial Statements**

**For the six months ended**

**30 June 2009**

## CONDENSED CONSOLIDATED INCOME STATEMENT

(Financial figures are expressed in Hong Kong Dollar)

	Note	Unaudited Six months ended 30 Jun 2009 \$'000	Unaudited Six months ended 30 Jun 2008 \$'000	Unaudited Three months ended 30 Jun 2009 \$'000	Unaudited Three months ended 30 Jun 2008 \$'000
Trading fees and trading tariff	4	1,216,284	1,553,482	720,453	687,372
Stock Exchange listing fees	5	326,774	355,960	173,181	164,848
Clearing and settlement fees		651,432	774,860	394,604	354,053
Depository, custody and nominee services fees		319,415	296,095	257,429	231,876
Income from sale of information		326,501	354,419	171,681	169,358
Other revenue	6	174,366	217,923	89,959	97,299
<b>REVENUE</b>		<b>3,014,772</b>	<b>3,552,739</b>	<b>1,807,307</b>	<b>1,704,806</b>
Investment income		340,565	662,734	205,828	224,623
Interest rebates to Participants		(2,243)	(72,783)	(1,376)	(2,742)
Net investment income	7	338,322	589,951	204,452	221,881
Gain on disposal of properties	8	-	68,641	-	-
	3	3,353,094	4,211,331	2,011,759	1,926,687
<b>OPERATING EXPENSES</b>					
Staff costs and related expenses	9	409,571	451,986	226,983	223,086
Information technology and computer maintenance expenses	10	119,769	121,526	60,683	59,943
Premises expenses		111,924	69,722	58,121	35,762
Product marketing and promotion expenses		6,335	9,637	3,366	6,077
Legal and professional fees		7,153	8,850	3,262	5,260
Depreciation		47,619	49,938	22,776	26,275
Other operating expenses	11	57,647	57,284	30,420	29,981
	3	760,018	768,943	405,611	386,384
<b>PROFIT BEFORE TAXATION</b>	3	<b>2,593,076</b>	<b>3,442,388</b>	<b>1,606,148</b>	<b>1,540,303</b>
<b>TAXATION</b>	12	<b>(392,191)</b>	<b>(467,982)</b>	<b>(239,502)</b>	<b>(215,638)</b>
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>	27	<b>2,200,885</b>	<b>2,974,406</b>	<b>1,366,646</b>	<b>1,324,665</b>
<b>Basic earnings per share</b>	14(a)	<b>\$2.05</b>	\$2.78	<b>\$1.27</b>	\$1.24
<b>Diluted earnings per share</b>	14(b)	<b>\$2.04</b>	\$2.76	<b>\$1.27</b>	\$1.23

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## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Financial figures are expressed in Hong Kong Dollar)

	Unaudited Six months ended 30 Jun 2009 \$'000	Unaudited Six months ended 30 Jun 2008 \$'000	Unaudited Three months ended 30 Jun 2009 \$'000	Unaudited Three months ended 30 Jun 2008 \$'000
Profit attributable to shareholders	2,200,885	2,974,406	1,366,646	1,324,665
Other comprehensive income:				
Available-for-sale financial assets:				
Change in fair value during the period	(32,154)	5,553	14,779	(51,268)
Change in fair value on maturity	(49,018)	(41,350)	(33,989)	(26,195)
Less: Reclassification adjustment:				
Gains included in profit or loss on disposal	(2,520)	(4,678)	(2,520)	-
Deferred tax	13,808	6,860	3,585	12,688
Other comprehensive income attributable to shareholders, net of tax	(69,884)	(33,615)	(18,145)	(64,775)
Total comprehensive income attributable to shareholders	2,131,001	2,940,791	1,348,501	1,259,890

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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Financial figures are expressed in Hong Kong Dollar)

	Unaudited						
	Share capital, share premium and shares held for Share Award Scheme (note 23) \$'000	Employee share-based compensation reserve (note 24) \$'000	Other comprehensive income		Designated reserves (note 26) \$'000	Retained earnings (note 27) \$'000	Total equity \$'000
			Revaluation				
			reserves	reserves			
	(note 25) \$'000	(note 25) \$'000	(note 25) \$'000				
At 1 Jan 2009	1,356,534	47,032	96,681	552,383	5,242,692	7,295,322	
Total comprehensive income attributable to shareholders	-	-	(69,884)	-	2,200,885	2,131,001	
2008 final dividend at \$1.80 per share	-	-	-	-	(1,934,708)	(1,934,708)	
Unclaimed dividends forfeited	-	-	-	-	2,761	2,761	
Shares issued under employee share option schemes	18,734	-	-	-	-	18,734	
Shares purchased for Share Award Scheme	(6,702)	-	-	-	-	(6,702)	
Vesting of shares of Share Award Scheme	859	(796)	-	-	(63)	-	
Employee share-based compensation benefits	-	11,770	-	-	-	11,770	
Transfer of reserves	5,467	(5,467)	-	5,006	(5,006)	-	
<b>At 30 Jun 2009</b>	<b>1,374,892</b>	<b>52,539</b>	<b>26,797</b>	<b>557,389</b>	<b>5,506,561</b>	<b>7,518,178</b>	

	Unaudited						
	Share capital, share premium and shares held for Share Award Scheme \$'000	Employee share-based compensation reserve \$'000	Other comprehensive income		Designated reserves \$'000	Retained earnings \$'000	Total equity \$'000
			Revaluation				
			reserves	reserves			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
At 1 Jan 2008	1,288,652	49,669	56,036	694,853	6,288,138	8,377,348	
Total comprehensive income attributable to shareholders	-	-	(33,615)	-	2,974,406	2,940,791	
2007 final dividend at \$3.40 per share	-	-	-	-	(3,646,159)	(3,646,159)	
Unclaimed dividends forfeited	-	-	-	-	1,944	1,944	
Shares issued under employee share option schemes	53,718	-	-	-	-	53,718	
Shares purchased for Share Award Scheme	(29,434)	-	-	-	-	(29,434)	
Vesting of shares of Share Award Scheme	347	(280)	-	-	(67)	-	
Employee share-based compensation benefits	-	16,511	-	-	-	16,511	
Transfer of reserves	14,899	(14,899)	(3,155)	12,009	(8,854)	-	
<b>At 30 Jun 2008</b>	<b>1,328,182</b>	<b>51,001</b>	<b>19,266</b>	<b>706,862</b>	<b>5,609,408</b>	<b>7,714,719</b>	

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Financial figures are expressed in Hong Kong Dollar)

	Note	Unaudited at 30 Jun 2009 \$'000	Audited at 31 Dec 2008 \$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	15	281,785	311,179
Lease premium for land		59,944	60,199
Financial assets of Clearing House Funds	16(c)	233,730	-
Financial assets of Margin Funds on derivatives contracts	17(c)	3,325,803	-
Available-for-sale financial assets	18	943,125	-
Time deposits with maturity over one year		287,797	-
Deferred tax assets		4,417	4,429
Other financial assets		48,477	47,172
Other assets		3,207	3,207
		<b>5,188,285</b>	426,186
<b>CURRENT ASSETS</b>			
Accounts receivable, prepayments and deposits	19	6,109,181	8,526,557
Lease premium for land		509	509
Financial assets of Clearing House Funds	16(c)	179,674	393,202
Cash and cash equivalents of Clearing House Funds	16	846,404	843,109
		<b>1,026,078</b>	1,236,311
Financial assets of Margin Funds on derivatives contracts	17(c)	11,434,504	19,655,161
Cash and cash equivalents of Margin Funds on derivatives contracts	17	7,064,934	22,184,833
		<b>18,499,438</b>	41,839,994
Financial assets at fair value through profit or loss	20	3,545,296	3,020,035
Available-for-sale financial assets	18	1,228,228	2,581,683
Time deposits with original maturities over three months		619,365	436,896
Cash and cash equivalents		5,138,451	4,755,750
		<b>36,166,546</b>	62,397,735
<b>CURRENT LIABILITIES</b>			
Participants' contributions to Clearing House Funds	16	247,843	197,520
Other financial liabilities of Clearing House Funds	16	28,241	72,319
Margin deposits from Clearing Participants on derivatives contracts	17	21,825,241	41,839,991
Other financial liabilities of Margin Funds on derivatives contracts	17	-	3
Accounts payable, accruals and other liabilities	21	10,719,159	12,410,854
Financial liabilities at fair value through profit or loss	20	50,154	26,254
Participants' admission fees received		81,900	83,150
Deferred revenue		217,764	392,688
Taxation payable		294,072	141,363
Provisions	22	35,167	36,290
		<b>33,499,541</b>	55,200,432
<b>NET CURRENT ASSETS</b>		<b>2,667,005</b>	7,197,303
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>7,855,290</b>	7,623,489

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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)**

	Note	Unaudited at 30 Jun 2009 \$'000	Audited at 31 Dec 2008 \$'000
<b>NON-CURRENT LIABILITIES</b>			
Participants' contributions to Clearing House Funds	16	268,500	252,000
Deferred tax liabilities		22,861	30,775
Financial guarantee contract	30(b)	19,909	19,909
Provisions	22	25,842	25,483
		<b>337,112</b>	328,167
<b>NET ASSETS</b>		<b>7,518,178</b>	7,295,322
<b>CAPITAL AND RESERVES</b>			
Share capital	23	1,075,939	1,074,886
Share premium	23	370,050	346,902
Shares held for Share Award Scheme	23	(71,097)	(65,254)
Employee share-based compensation reserve	24	52,539	47,032
Revaluation reserve	25	26,797	96,681
Designated reserves	26	557,389	552,383
Retained earnings	27	5,506,561	5,242,692
<b>SHAREHOLDERS' FUNDS</b>		<b>7,518,178</b>	7,295,322
<b>TOTAL ASSETS</b>	3(c)	<b>41,354,831</b>	62,823,921
<b>TOTAL LIABILITIES</b>		<b>33,836,653</b>	55,528,599
<b>SHAREHOLDERS' FUNDS PER SHARE</b>		<b>\$6.99</b>	\$6.79

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# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Financial figures are expressed in Hong Kong Dollar)

	Note	Unaudited Six months ended 30 Jun 2009 \$'000	Unaudited Six months ended 30 Jun 2008 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net cash inflow from operating activities	28	2,133,766	1,767,679
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for purchases of fixed assets		(23,968)	(169,177)
Net proceeds from sales of properties		-	132,733
Net proceeds from sales of fixed assets		-	1
Increase in time deposits with original maturities more than three months		(470,266)	(1,708,635)
Net (increase)/decrease in available-for-sale financial assets of the Corporate Funds:			
Payments for purchases of available-for-sale financial assets		(1,566,873)	(2,893,377)
Net proceeds from maturity and disposal of available-for-sale financial assets		2,059,000	3,983,831
Interest received from available-for-sale financial assets		160,710	292,364
Net cash inflow/(outflow) from investing activities		158,603	(362,260)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares under employee share option schemes		18,734	53,718
Purchase of shares for Share Award Scheme		(6,702)	(29,434)
Dividends paid		(1,921,700)	(3,623,843)
Net cash outflow from financing activities		(1,909,668)	(3,599,559)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>382,701</b>	<b>(2,194,140)</b>
Cash and cash equivalents at 1 Jan		4,755,750	4,744,711
<b>Cash and cash equivalents at 30 Jun</b>		<b>5,138,451</b>	<b>2,550,571</b>
<b>Analysis of cash and cash equivalents</b>			
Time deposits with original maturities within three months		477,258	958,392
Cash at bank and in hand		4,661,193	1,592,179
<b>Cash and cash equivalents at 30 Jun</b>		<b>5,138,451</b>	<b>2,550,571</b>

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

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## NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

### 1. Basis of Preparation and Accounting Policies

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

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

### 2. Turnover

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

### 3. Operating Segments

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

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

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

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

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

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



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**NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED) (CONT'D)**
**3. Operating Segments (continued)**

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

	Six months ended 30 Jun 2009					Group \$'000
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Inter-segment elimination (note b) \$'000	
Income from external customers	1,292,321	361,556	1,034,170	326,725	-	3,014,772
Net investment income	63,728	197,581	82,233	355	(5,575)	338,322
	<b>1,356,049</b>	<b>559,137</b>	<b>1,116,403</b>	<b>327,080</b>	<b>(5,575)</b>	<b>3,353,094</b>
Operating expenses						
Direct costs	304,987	82,720	170,622	25,180	(5,575)	577,934
Indirect costs	85,356	27,588	56,473	12,667	-	182,084
	<b>390,343</b>	<b>110,308</b>	<b>227,095</b>	<b>37,847</b>	<b>(5,575)</b>	<b>760,018</b>
Reportable segment profit before taxation	<b>965,706</b>	<b>448,829</b>	<b>889,308</b>	<b>289,233</b>	<b>-</b>	<b>2,593,076</b>

	Six months ended 30 Jun 2008					Group \$'000
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000		
Income from external customers	1,722,951	339,116	1,134,932	355,740		3,552,739
Net investment income	53,980	506,428	29,373	170		589,951
Gain on disposal of properties	33,442	11,580	19,116	4,503		68,641
	<b>1,810,373</b>	<b>857,124</b>	<b>1,183,421</b>	<b>360,413</b>		<b>4,211,331</b>
Operating expenses						
Direct costs	295,588	71,913	180,369	26,728		574,598
Indirect costs	92,968	30,627	58,340	12,410		194,345
	<b>388,556</b>	<b>102,540</b>	<b>238,709</b>	<b>39,138</b>		<b>768,943</b>
Reportable segment profit before taxation	<b>1,421,817</b>	<b>754,584</b>	<b>944,712</b>	<b>321,275</b>		<b>3,442,388</b>

- (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, Lehman Brothers Securities Asia Limited ("LBSA"). There were no inter-segment sales and charges during the six-month period ended 30 June 2008.

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NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED) (CONT'D)

**3. Operating Segments (continued)**

(c) Reportable segment assets

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

	At 30 Jun 2009				
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Group \$'000
Reportable segment assets	<b>4,038,341</b>	<b>22,522,841</b>	<b>14,665,381</b>	<b>123,851</b>	<b>41,350,414</b>

  

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

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

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Reportable segment assets	<b>41,350,414</b>	62,819,492
Unallocated assets:		
Deferred tax assets	<b>4,417</b>	4,429
Total assets per condensed consolidated statement of financial position	<b>41,354,831</b>	62,823,921

**4. Trading Fees and Trading Tariff**

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Trading fees and trading tariff were derived from:				
Securities traded on the Cash Market	<b>829,075</b>	1,192,668	<b>509,909</b>	521,636
Derivatives contracts traded on the Derivatives Market	<b>387,209</b>	360,814	<b>210,544</b>	165,736
	<b>1,216,284</b>	1,553,482	<b>720,453</b>	687,372

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED) (CONT'D)

5. Stock Exchange Listing Fees

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

	Six months ended 30 Jun 2009				Six months ended 30 Jun 2008			
	Equity		CBBs, Derivative warrants and others	Total	Equity		CBBs, Derivative warrants and others	Total
	Main Board	GEM			Main Board	GEM		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>Stock Exchange Listing Fees</b>								
Annual listing fees	164,014	11,737	1,214	176,965	155,744	12,755	1,305	169,804
Initial and subsequent issue listing fees	31,203	765	115,734	147,702	36,149	2,400	144,877	183,426
Prospectus vetting fees	1,260	165	50	1,475	1,410	210	10	1,630
Other listing fees	596	36	-	632	824	276	-	1,100
<b>Total</b>	<b>197,073</b>	<b>12,703</b>	<b>116,998</b>	<b>326,774</b>	<b>194,127</b>	<b>15,641</b>	<b>146,192</b>	<b>355,960</b>
<b>Costs of Listing Function</b>								
<u>Direct costs</u>								
Staff costs and related expenses	90,084	18,897	6,283	115,264	92,648	20,744	7,036	120,428
Information technology and computer maintenance expenses	2,671	500	134	3,305	2,211	444	136	2,791
Premises expenses	16,738	3,621	819	21,178	9,040	1,954	424	11,418
Legal and professional fees	2,356	399	-	2,755	4,406	18	-	4,424
Depreciation	2,001	611	824	3,436	2,066	576	655	3,297
Other operating expenses	2,617	872	198	3,687	3,625	1,158	309	5,092
<b>Total direct costs</b>	<b>116,467</b>	<b>24,900</b>	<b>8,258</b>	<b>149,625</b>	<b>113,996</b>	<b>24,894</b>	<b>8,560</b>	<b>147,450</b>
<b>Total indirect costs</b>	<b>18,677</b>	<b>3,326</b>	<b>4,379</b>	<b>26,382</b>	<b>19,461</b>	<b>3,644</b>	<b>5,256</b>	<b>28,361</b>
<b>Total costs</b>	<b>135,144</b>	<b>28,226</b>	<b>12,637</b>	<b>176,007</b>	<b>133,457</b>	<b>28,538</b>	<b>13,816</b>	<b>175,811</b>
<b>Contribution to Cash</b>								
<b>Market Segment</b>								
<b>Profit before Taxation</b>	<b>61,929</b>	<b>(15,523)</b>	<b>104,361</b>	<b>150,767</b>	<b>60,670</b>	<b>(12,897)</b>	<b>132,376</b>	<b>180,149</b>

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED) (CONT'D)

5. Stock Exchange Listing Fees (continued)

	Three months ended 30 Jun 2009				Three months ended 30 Jun 2008			
	Equity		CBBs, Derivative warrants and others	Total	Equity		CBBs, Derivative warrants and others	Total
	Main Board	GEM			Main Board	GEM		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Stock Exchange Listing Fees</b>								
Annual listing fees	82,803	6,027	616	89,446	78,714	6,362	682	85,758
Initial and subsequent issue listing fees	12,544	425	69,608	82,577	20,280	1,230	56,137	77,647
Prospectus vetting fees	690	90	50	830	840	135	-	975
Other listing fees	308	20	-	328	418	50	-	468
<b>Total</b>	<b>96,345</b>	<b>6,562</b>	<b>70,274</b>	<b>173,181</b>	<b>100,252</b>	<b>7,777</b>	<b>56,819</b>	<b>164,848</b>
<b>Costs of Listing Function</b>								
<u>Direct costs</u>								
Staff costs and related expenses	50,293	10,560	3,495	64,348	45,008	11,466	3,419	59,893
Information technology and computer maintenance expenses	1,211	212	77	1,500	1,104	219	62	1,385
Premises expenses	8,879	1,925	437	11,241	4,522	1,091	216	5,829
Legal and professional fees	1,294	34	-	1,328	2,923	-	-	2,923
Depreciation	962	320	406	1,688	1,075	309	415	1,799
Other operating expenses	1,013	407	95	1,515	2,078	756	100	2,934
<b>Total direct costs</b>	<b>63,652</b>	<b>13,458</b>	<b>4,510</b>	<b>81,620</b>	<b>56,710</b>	<b>13,841</b>	<b>4,212</b>	<b>74,763</b>
<b>Total indirect costs</b>	<b>10,126</b>	<b>1,851</b>	<b>2,695</b>	<b>14,672</b>	<b>10,405</b>	<b>2,048</b>	<b>2,476</b>	<b>14,929</b>
<b>Total costs</b>	<b>73,778</b>	<b>15,309</b>	<b>7,205</b>	<b>96,292</b>	<b>67,115</b>	<b>15,889</b>	<b>6,688</b>	<b>89,692</b>
<b>Contribution to Cash</b>								
<b>Market Segment</b>								
<b>Profit before Taxation</b>	<b>22,567</b>	<b>(8,747)</b>	<b>63,069</b>	<b>76,889</b>	<b>33,137</b>	<b>(8,112)</b>	<b>50,131</b>	<b>75,156</b>

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

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

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**NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED) (CONT'D)**

**6. Other Revenue**

	<b>Six months ended 30 Jun 2009 \$'000</b>	Six months ended 30 Jun 2008 \$'000	<b>Three months ended 30 Jun 2009 \$'000</b>	Three months ended 30 Jun 2008 \$'000
Network, terminal user, dataline and software sub-license fees	<b>130,089</b>	159,820	<b>67,556</b>	69,969
Participants' subscription and application fees	<b>17,540</b>	17,129	<b>8,761</b>	8,601
Brokerage on direct IPO allotments	<b>928</b>	4,577	<b>723</b>	843
Trading booth user fees	<b>7,419</b>	4,777	<b>3,838</b>	2,380
Accommodation income on securities deposited by Participants as alternatives to cash deposits of				
Margin Funds	<b>2,704</b>	15,216	<b>1,180</b>	6,300
Sales of Trading Rights	<b>7,500</b>	6,835	<b>4,000</b>	3,835
Miscellaneous revenue	<b>8,186</b>	9,569	<b>3,901</b>	5,371
	<b>174,366</b>	217,923	<b>89,959</b>	97,299

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**NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED) (CONT'D)**
**7. Net Investment Income**

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Interest income				
- bank deposits	60,066	347,424	31,220	99,970
- listed available-for-sale financial assets	5,918	4,711	2,780	2,185
- unlisted available-for-sale financial assets	150,488	312,550	61,919	123,549
	<b>216,472</b>	664,685	<b>95,919</b>	225,704
Interest rebates to Participants	(2,243)	(72,783)	(1,376)	(2,742)
Net interest income	<b>214,229</b>	591,902	<b>94,543</b>	222,962
Net realised and unrealised gains/(losses) and interest income on financial assets and financial liabilities at fair value through profit or loss				
<u>On designation</u>				
- unlisted securities with embedded derivatives	9,134	-	9,134	-
- bank deposits with embedded derivatives	(482)	-	(482)	-
- exchange differences	1,547	-	1,547	-
	<b>10,199</b>	-	<b>10,199</b>	-
<u>Held for trading</u>				
- listed securities	84,536	(28,830)	71,986	(3,401)
- unlisted securities	32,370	20,154	23,279	1,960
- exchange differences	(3,952)	1,463	4,019	(443)
	<b>112,954</b>	(7,213)	<b>99,284</b>	(1,884)
	<b>123,153</b>	(7,213)	<b>109,483</b>	(1,884)
Realised gains on disposal of unlisted available-for-sale financial assets	1,500	1,460	1,500	23
Dividend income from listed financial assets at fair value through profit or loss	1,215	2,424	530	974
Other exchange differences on loans and receivables	(1,775)	1,378	(1,604)	(194)
Net investment income	<b>338,322</b>	589,951	<b>204,452</b>	221,881
Net investment income was derived from:				
Corporate Funds	147,843	80,400	115,074	32,166
Margin Funds	185,694	497,420	86,862	184,806
Clearing House Funds	4,785	12,131	2,516	4,909
	<b>338,322</b>	589,951	<b>204,452</b>	221,881

**8. Gain on Disposal of Properties**

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

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NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED) (CONT'D)

**9. Staff Costs and Related Expenses**

Staff costs and related expenses comprised the following:

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Salaries and other short-term employee benefits	<b>366,666</b>	404,784	<b>206,890</b>	197,183
Employee share-based compensation benefits (note 24)				
- employee share options	<b>623</b>	4,439	<b>259</b>	2,478
- Awarded Shares	<b>11,147</b>	12,072	<b>4,265</b>	7,755
	<b>11,770</b>	16,511	<b>4,524</b>	10,233
Termination benefits	<b>529</b>	428	<b>352</b>	394
Retirement benefit costs (note a):				
- ORSO Plan	<b>30,371</b>	30,004	<b>15,102</b>	15,149
- MPF Scheme	<b>235</b>	259	<b>115</b>	127
	<b>409,571</b>	451,986	<b>226,983</b>	223,086

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

**10. Information Technology and Computer Maintenance Expenses**

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Costs of services and goods:				
- consumed by the Group	<b>69,820</b>	73,819	<b>35,461</b>	36,153
- directly consumed by Participants	<b>49,949</b>	47,707	<b>25,222</b>	23,790
	<b>119,769</b>	121,526	<b>60,683</b>	59,943

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED) (CONT'D)

11. Other Operating Expenses

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
(Reversal of provision for)/provision for impairment losses of trade receivables	(445)	317	(166)	413
Provision for impairment losses of fixed assets	800	-	800	-
Insurance	2,285	2,347	1,140	1,175
Financial data subscription fees	2,488	2,157	1,213	1,038
Custodian and fund management fees	5,541	6,060	2,726	2,944
Bank charges	4,146	5,487	2,478	2,454
Repair and maintenance expenses	4,657	4,078	2,383	1,906
License fees	8,381	7,897	3,770	3,062
Communication expenses	2,511	2,765	1,288	1,669
Other miscellaneous expenses	27,283	26,176	14,788	15,320
	<b>57,647</b>	<b>57,284</b>	<b>30,420</b>	<b>29,981</b>

12. Taxation

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

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Provision for Hong Kong Profits Tax for the period (note a)	386,321	470,372	239,874	207,259
Overprovision in respect of prior years	(36)	-	(36)	-
	<b>386,285</b>	<b>470,372</b>	<b>239,838</b>	<b>207,259</b>
Deferred taxation	5,906	(2,390)	(336)	8,379
	<b>392,191</b>	<b>467,982</b>	<b>239,502</b>	<b>215,638</b>

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

13. Dividends

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Interim dividend declared of \$1.84 (2008: \$2.49) per share based on issued share capital as at 30 Jun	1,979,728	2,673,381	1,979,728	2,673,381
Less: Dividend for shares held by HKEx Employees' Share Award Scheme as at 30 Jun	(1,867)	(3,061)	(1,867)	(3,061)
	<b>1,977,861</b>	<b>2,670,320</b>	<b>1,977,861</b>	<b>2,670,320</b>

(a) Actual 2008 interim dividend was \$2,673,375,000, of which \$3,055,000 was paid on shares issued for employee share options exercised after 30 June 2008.



**14. Earnings Per Share**

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

(a) Basic earnings per share

	Six months ended 30 Jun 2009	Six months ended 30 Jun 2008	Three months ended 30 Jun 2009	Three months ended 30 Jun 2008
Profit attributable to shareholders (\$'000)	<b>2,200,885</b>	2,974,406	<b>1,366,646</b>	1,324,665
Weighted average number of shares in issue less shares held for Share Award Scheme	<b>1,074,345,534</b>	1,070,922,358	<b>1,074,745,846</b>	1,072,060,063
Basic earnings per share	<b>\$2.05</b>	\$2.78	<b>\$1.27</b>	\$1.24

(b) Diluted earnings per share

	Six months ended 30 Jun 2009	Six months ended 30 Jun 2008	Three months ended 30 Jun 2009	Three months ended 30 Jun 2008
Profit attributable to shareholders (\$'000)	<b>2,200,885</b>	2,974,406	<b>1,366,646</b>	1,324,665
Weighted average number of shares in issue less shares held for Share Award Scheme	<b>1,074,345,534</b>	1,070,922,358	<b>1,074,745,846</b>	1,072,060,063
Effect of employee share options	<b>3,339,051</b>	6,750,785	<b>3,165,452</b>	5,630,315
Effect of Awarded Shares	<b>909,702</b>	1,140,122	<b>913,128</b>	1,161,422
Weighted average number of shares for the purpose of calculating diluted earnings per share	<b>1,078,594,287</b>	1,078,813,265	<b>1,078,824,426</b>	1,078,851,800
Diluted earnings per share	<b>\$2.04</b>	\$2.76	<b>\$1.27</b>	\$1.23

**15. Fixed Assets**

The Group is heavily reliant on the capability and reliability of its computer systems for its business operations, including those required for its electronic trading platforms and for post-trading clearing and settlement services. The total cost of additions to fixed assets of the Group during the six months to 30 June 2009 was \$19,025,000 (2008: \$43,886,000). The total cost and net book value of disposals and write-offs of fixed assets during the six months to 30 June 2009 were \$14,129,000 and \$Nil respectively (2008: \$6,447,000 and \$2,000 respectively). During the six months ended 30 June 2009, an impairment loss of \$800,000 (2008: \$Nil) was charged to the condensed consolidated income statement under other operating expenses in relation to the reinstatement cost of office premises the lease of which expired in July 2009.

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED) (CONT'D)

16. Clearing House Funds

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
The Clearing House Funds comprised the following Funds (notes a and b):		
HKSCC Guarantee Fund	216,660	215,573
SEOCH Reserve Fund	249,170	208,291
HKCC Reserve Fund	604,792	578,853
	<b>1,070,622</b>	<b>1,002,717</b>
The Clearing House Funds were composed of:		
Available-for-sale financial assets:		
Unlisted debt securities, at market value	344,717	371,494
Time deposits with original maturities over three months	68,687	21,708
Financial assets of Clearing House Funds (note c)	413,404	393,202
Cash and cash equivalents	846,404	843,109
	<b>1,259,808</b>	<b>1,236,311</b>
Less: Other financial liabilities of Clearing House Funds	(28,241)	(72,319)
	<b>1,231,567</b>	<b>1,163,992</b>
Provision for loss arising from closing-out losses of defaulting Participants (note d)	(160,945)	(161,275)
	<b>1,070,622</b>	<b>1,002,717</b>
The Clearing House Funds were funded by:		
Clearing Participants' cash contributions due within twelve months	247,843	197,520
Clearing Participants' cash contributions due after twelve months	268,500	252,000
Designated reserves (note 26 and note e):		
At 1 Jan	552,383	694,853
Transfer from/(to) retained earnings (note 27 and note f)	5,006	(142,470)
At 30 Jun 2009/31 Dec 2008	557,389	552,383
Revaluation reserve (note 25(b))	(3,110)	814
	<b>1,070,622</b>	<b>1,002,717</b>

- (a) Amounts excluded bank guarantees received and utilised as alternatives to cash contributions (note 31).
- (b) The Clearing House Funds were established to support the respective clearing houses (ie, HKSCC, HKCC and SEOCH) to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Clearing Participants arising from depositing defective securities into the Central Clearing and Settlement System ("CCASS").

**16. Clearing House Funds (continued)**

- (c) The maturity profile of the financial assets of Clearing House Funds was as follows:

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Amounts maturing after more than twelve months	233,730	-
Amounts maturing within twelve months	179,674	393,202
	<b>413,404</b>	393,202

- (d) In December 2008, the Board resolved to recover the closing-out losses caused by defaulting Participants (less any contributions forfeited and recoveries from the liquidation process of the defaulting Participants concerned) from the Clearing House Funds. As at 30 June 2009, the losses to be recovered totalled \$160,945,000 (31 December 2008: \$161,275,000) and, subject to further recoveries, if any, will be paid to the clearing houses after the completion of the defaulting Participants' liquidation. The provision has been eliminated against the amounts due from the defaulting Participants on consolidation.
- (e) In December 2008, the Board resolved that the closing-out losses caused by defaulting Participants incurred by the Clearing House Funds would not be allocated to any Clearing Participants except for the amounts contributed to the Clearing House Funds by the defaulting Clearing Participants. Consequently, the designated reserves of the Clearing House Funds were reduced by \$163,203,000 in the year ended 31 December 2008, which was attributable to firstly the forfeited contributions of the defaulting Clearing Participant and the accumulated net investment income net of expenses of the relevant Clearing House Funds recognised in profit or loss of the Group up to 31 December 2008 and then the clearing houses' contributions.
- (f) The amount comprised net investment income net of expenses of \$4,676,000 (year ended 31 December 2008: \$20,733,000) and reversal of provision for closing-out losses of \$330,000 (year ended 31 December 2008: provision for closing-out losses of \$163,203,000).

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED) (CONT'D)

17. Margin Funds on Derivatives Contracts

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
The Margin Funds comprised (note a):		
SEOCH Clearing Participants' Margin Funds	3,115,215	3,735,254
HKCC Clearing Participants' Margin Funds	18,710,026	38,104,737
	<b>21,825,241</b>	41,839,991
The net assets of the Margin Funds comprised:		
Financial assets at fair value through profit or loss, on designation:		
Unlisted debt securities with embedded derivatives, at market value (note b)	809,011	-
Bank deposits with embedded derivatives, at market value (note b)	850,231	-
Available-for-sale financial assets:		
Debt securities, at market value:		
- listed outside Hong Kong	-	324,301
- unlisted	7,252,214	16,116,617
Time deposits with original maturities over three months	5,838,837	3,205,408
Margin receivable from Clearing Participants	10,014	8,835
Financial assets of Margin Funds (note c)	14,760,307	19,655,161
Cash and cash equivalents	7,064,934	22,184,833
	<b>21,825,241</b>	41,839,994
Less: Other financial liabilities of Margin Funds	-	(3)
	<b>21,825,241</b>	41,839,991

The Group's liabilities in respect of the Margin Funds were as follows:

Margin deposits from SEOCH and HKCC Participants on derivatives contracts	21,825,241	41,839,991
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- (a) Amounts excluded non-cash collateral received and utilised as alternative to cash margin (note 31).
- (b) The maximum exposure to credit risk of the debt securities and the bank deposits with embedded derivatives as at 30 June 2009 were \$809,011,000 and \$850,231,000 respectively (31 December 2008: \$Nil and \$Nil respectively). No related credit derivative or similar instrument was used to mitigate the maximum exposure to credit risk. There was no fair value change of the debt securities and bank deposits with embedded derivatives attributable to changes in credit risk since their acquisition in 2009, which was determined as the amount of change in fair value that was not attributable to changes in market conditions that gave rise to market risk.
- (c) The maturity profile of the financial assets of Margin Funds was as follows:

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Amounts maturing after more than twelve months	3,325,803	-
Amounts maturing within twelve months	11,434,504	19,655,161
	<b>14,760,307</b>	19,655,161

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**NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED) (CONT'D)****18. Available-for-sale Financial Assets**

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Debt securities, at market value		
- listed outside Hong Kong	158,476	160,601
- unlisted	2,012,877	2,421,082
	<b>2,171,353</b>	<b>2,581,683</b>
Analysis of available-for-sale financial assets:		
Non-current portion maturing after twelve months	943,125	-
Current portion maturing within twelve months	1,228,228	2,581,683
	<b>2,171,353</b>	<b>2,581,683</b>

**19. Accounts Receivable, Prepayments and Deposits**

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement ("CNS") money obligations receivable under the T+2 settlement cycle, which accounted for 89 per cent (31 December 2008: 93 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 30 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits would mature within three months.

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

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
<b>Analysis of financial assets at fair value through profit or loss:</b>		
<u>Held for trading</u>		
Equity securities, at market value		
- listed in Hong Kong	8,890	12,701
- listed outside Hong Kong	114,906	94,680
	<b>123,796</b>	107,381
Debt securities, at market value		
- listed in Hong Kong	96,486	79,074
- listed outside Hong Kong	1,548,183	1,386,067
- unlisted	1,315,424	1,371,057
	<b>2,960,093</b>	2,836,198
Mutual funds, at market value		
- listed outside Hong Kong	61,852	57,707
Derivative financial instruments, at market value		
- forward foreign exchange contracts	1,450	18,749
<u>On designation</u>		
Unlisted debt securities with embedded derivatives, at market value (note a)	100,874	-
Bank deposits with embedded derivatives, at market value (note a)	297,231	-
	<b>3,545,296</b>	3,020,035

**Analysis of financial liabilities at fair value through profit or loss:**

Held for trading

Derivative financial instruments, at market value

- equity index futures contracts, listed outside Hong Kong (note b)	256	627
- forward foreign exchange contracts	49,898	25,627

	<b>50,154</b>	26,254
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- (a) The maximum exposure to credit risk of the debt securities and the bank deposits with embedded derivatives as at 30 June 2009 were \$100,874,000 and \$297,231,000 respectively (31 December 2008: \$Nil and \$Nil respectively). No related credit derivative or similar instrument was used to mitigate the maximum exposure to credit risk. There was no fair value change of the debt securities and bank deposits with embedded derivatives attributable to changes in credit risk since their acquisition in 2009, which was determined as the amount of change in fair value that was not attributable to changes in market conditions that gave rise to market risk.
- (b) The total notional amount of the equity index futures contracts outstanding was \$16,805,000 (31 December 2008: \$26,963,000).

**21. Accounts Payable, Accruals and Other Liabilities**

The Group's accounts payable, accruals and other liabilities mainly represented the Group's CNS money obligations payable under the T+2 settlement cycle, which accounted for 51 per cent (31 December 2008: 64 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

**22. Provisions**

	Reinstatement costs \$'000	Employee benefit costs \$'000	Total \$'000
At 1 Jan 2009	26,669	35,104	61,773
Provision for the period	1,159	20,598	21,757
Amount used during the period	(840)	(20,750)	(21,590)
Amount paid during the period	-	(931)	(931)
At 30 Jun 2009	26,988	34,021	61,009
		At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Analysis of provisions:			
Current		35,167	36,290
Non-current		25,842	25,483
		61,009	61,773

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NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED) (CONT'D)

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

				At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Authorised:					
2,000,000,000 shares of \$1 each				<b>2,000,000</b>	2,000,000
Issued and fully paid:					
	Number of shares of \$1 each	Share capital \$'000	Share premium \$'000	Shares held for Share Award Scheme \$'000	Total \$'000
At 1 Jan 2008	1,069,228,714	1,070,285	266,170	(47,803)	1,288,652
Shares issued under					
employee share option schemes (note a)	4,601,000	4,601	61,932	-	66,533
Transfer from employee					
share-based compensation reserve (note 24)	-	-	18,800	-	18,800
Shares purchased for Share					
Award Scheme (note b)	(214,600)	-	-	(32,494)	(32,494)
Vesting of shares of Share					
Award Scheme (note c)	324,418	-	-	15,043	15,043
At 31 Dec 2008	1,073,939,532	1,074,886	346,902	(65,254)	1,356,534
At 1 Jan 2009	<b>1,073,939,532</b>	<b>1,074,886</b>	<b>346,902</b>	<b>(65,254)</b>	<b>1,356,534</b>
Shares issued under					
employee share option schemes (note a)	1,053,000	1,053	17,681	-	18,734
Transfer from employee					
share-based compensation reserve (note 24)	-	-	5,467	-	5,467
Shares purchased for Share					
Award Scheme (note b)	(76,900)	-	-	(6,702)	(6,702)
Vesting of shares of Share					
Award Scheme (note c)	9,076	-	-	859	859
At 30 Jun 2009	<b>1,074,924,708</b>	<b>1,075,939</b>	<b>370,050</b>	<b>(71,097)</b>	<b>1,374,892</b>

- (a) During the period, employee share options granted under the first Share Option Scheme (“Pre-Listing Scheme”) and the second Share Option Scheme (“Post-Listing Scheme”) were exercised to subscribe for 1,053,000 shares (year ended 31 December 2008: 4,601,000 shares) in HKEx at an average consideration of \$17.79 per share (year ended 31 December 2008: \$14.46 per share), of which \$1.00 per share was credited to share capital and the balance was credited to the share premium account.



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

- (b) During the period, the HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust") acquired 76,900 HKEx shares (year ended 31 December 2008: 214,600 shares) through purchases on the open market for the Share Award Scheme (note 24(c)). The total amount paid to acquire the shares during the period was \$6,702,000 (year ended 31 December 2008: \$32,494,000) and had been deducted from shareholders' equity.
- (c) During the period, the HKEx Employee Share Trust transferred 9,076 HKEx shares (year ended 31 December 2008: 324,418 shares) to the awardees upon vesting of certain HKEx shares awarded ("Awarded Shares") and the related shares arising from dividends reinvested. The total cost of the related vested shares was \$859,000 (year ended 31 December 2008: \$15,043,000).

**24. Employee Share-based Compensation Reserve**

	2009 \$'000	2008 \$'000
At 1 Jan	47,032	49,669
Employee share-based compensation benefits (note a and note 9)	11,770	28,179
Transfer to share premium upon exercise of employee share options (note 23)	(5,467)	(18,800)
Vesting of shares of Share Award Scheme	(796)	(12,016)
At 30 Jun 2009/31 Dec 2008	<b>52,539</b>	47,032

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

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

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

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

24. Employee Share-based Compensation Reserve (continued)

(b) Share options (continued)

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

	2009		2008	
	Average exercise price per share \$	Number of shares issuable under options granted	Average exercise price per share \$	Number of shares issuable under options granted
<b>Pre-Listing Scheme</b>				
Outstanding at 1 Jan	6.88	130,000	6.88	379,000
Exercised	6.88	(16,000)	6.88	(249,000)
Outstanding at 30 Jun 2009/ 31 Dec 2008	6.88	114,000	6.88	130,000
<b>Post-Listing Scheme</b>				
Outstanding at 1 Jan	18.30	4,555,500	16.67	9,089,500
Exercised	17.96	(1,037,000)	14.89	(4,352,000)
Forfeited	-	-	18.53	(182,000)
Outstanding at 30 Jun 2009/ 31 Dec 2008	18.40	3,518,500	18.30	4,555,500
Total	18.04	3,632,500	17.98	4,685,500

(c) Awarded Shares

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

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

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

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

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

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

**24. Employee Share-based Compensation Reserve (continued)**

(c) Awarded Shares (continued)

(i) (continued)

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

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

<sup>Ω</sup> Awarded to the Chief Executive of HKEx

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

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

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

During the period, 17,000 HKEx shares (year ended 31 December 2008: 59,400 shares) were acquired by the Trustee through reinvesting dividends received at a total cost (including related transaction costs) of \$1,793,000 (year ended 31 December 2008: \$7,167,000), of which 15,394 shares (year ended 31 December 2008: 56,377 shares) were subsequently allocated to awardees.

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

**24. Employee Share-based Compensation Reserve (continued)**

(c) Awarded Shares (continued)

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

	2009	2008
	Number of shares awarded/allocated	Number of shares awarded/allocated
Outstanding at 1 Jan	876,813	1,024,262
Awarded *	59,900	155,165
Forfeited	(20,840)	(32,798)
Vested	(8,506)	(296,756)
Dividends reinvested:		
- allocated to awardees	15,394	56,377
- allocated to awardees but subsequently forfeited	(1,502)	(1,775)
- vested	(570)	(27,662)
Outstanding at 30 Jun 2009/31 Dec 2008	920,689	876,813

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

- (iii) As at 30 June 2009, 93,949 forfeited or unallocated shares (31 December 2008: 70,001 shares) were held by the HKEx Employee Share Trust and would be allocated to awardees in future.

**25. Revaluation Reserve**

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Investment revaluation reserve	26,797	96,681

- (a) The investment revaluation reserve is stated net of applicable deferred tax.
- (b) Included gross investment revaluation deficit of \$3,110,000 (31 December 2008: surplus of \$814,000) which was attributable to investments of the Clearing House Funds.

**26. Designated Reserves**

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

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Clearing House Funds reserves		
- HKSCC Guarantee Fund reserve	121,110	119,309
- SEOCH Reserve Fund reserve	107,466	106,646
- HKCC Reserve Fund reserve	328,813	326,428
	557,389	552,383

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**NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED) (CONT'D)**

**27. Retained Earnings (Including Proposed Dividend)**

	2009 \$'000	2008 \$'000
At 1 Jan	5,242,692	6,288,138
Profit for the period/year (note a)	2,200,885	5,128,924
Transfer (to)/from Clearing House Funds reserves (note 16)	(5,006)	142,470
Transfer from leasehold buildings revaluation reserve on disposal of a leasehold property	-	3,155
	(5,006)	145,625
Dividends:		
2008/2007 final dividend	(1,932,993)	(3,634,850)
Dividend on shares issued for employee share options exercised after 31 Dec 2008/31 Dec 2007	(1,715)	(11,309)
	(1,934,708)	(3,646,159)
2008 interim dividend	-	(2,670,320)
Dividend on shares issued for employee share options exercised after 30 Jun 2008	-	(3,055)
	-	(2,673,375)
Unclaimed dividends forfeited	2,761	2,566
Vesting of shares of Share Award Scheme	(63)	(3,027)
At 30 Jun 2009/31 Dec 2008	5,506,561	5,242,692
Representing:		
Retained earnings	3,528,700	3,309,601
Proposed dividend	1,977,861	1,933,091
At 30 Jun 2009/31 Dec 2008	5,506,561	5,242,692

- (a) The Group's profit for the period included a surplus attributable to the net investment income net of expenses and reversal of provision for closing-out losses of the Clearing House Funds of \$5,006,000 (year ended 31 December 2008: net deficit attributable to the net investment income net of expenses less provision for closing-out losses of the Clearing House Funds of \$142,470,000).

28. Notes to the Condensed Consolidated Statement of Cash Flows

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

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000
Profit before taxation	2,593,076	3,442,388
Adjustments for:		
Net interest income	(214,229)	(591,902)
Net realised and unrealised (gains)/losses and interest income on financial assets and financial liabilities at fair value through profit or loss	(123,153)	7,213
Realised gains on available-for-sale financial assets of Corporate Funds	-	(23)
Dividend income from financial assets at fair value through profit or loss	(1,215)	(2,424)
Amortisation of lease premiums for land	255	255
Depreciation	47,619	49,938
Employee share-based compensation benefits	11,770	16,511
(Reversal of provision for)/provision for impairment losses of trade receivables	(445)	317
Provision for impairment losses of fixed assets	800	-
Changes in provisions	(1,083)	4,277
Gain on disposal of properties	-	(68,641)
Loss on disposal of fixed assets	-	1
Net (increase)/decrease in Clearing House Fund financial assets	(27,421)	635,943
Net increase/(decrease) in Clearing House Fund financial liabilities	22,745	(647,952)
Net decrease in Margin Fund financial assets	19,948,884	19,608,235
Net decrease in Margin Fund financial liabilities	(20,014,753)	(19,636,300)
Net increase in financial assets and financial liabilities at fair value through profit or loss	(410,791)	(84,240)
Net admission fees refunded to Participants	(1,250)	(600)
Decrease in accounts receivable, prepayments and deposits	2,406,909	3,204,781
Decrease in other current liabilities	(1,987,594)	(4,403,858)
Net cash inflow from operations	2,250,124	1,533,919
Interest received from bank deposits	60,066	347,424
Dividends received from financial assets at fair value through profit or loss	1,183	2,338
Interest received from financial assets at fair value through profit or loss	58,233	69,672
Interest paid	(2,264)	(73,211)
Hong Kong Profits Tax paid	(233,576)	(112,463)
Net cash inflow from operating activities	2,133,766	1,767,679

**29. Commitments**

Commitments in respect of capital expenditures:

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Contracted but not provided for	6,086	16,908
Authorised but not contracted for	48,521	66,982
	<b>54,607</b>	83,890

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

**30. Contingent Liabilities**

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

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

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

In the unlikely event that all of its remaining 457 trading Participants as at 30 June 2009 (31 December 2008: 448) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to \$91,400,000 (31 December 2008: \$89,600,000).

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

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

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

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

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

	At 30 Jun 2009		At 31 Dec 2008	
	Amount received \$'000	Amount utilised \$'000	Amount received \$'000	Amount utilised \$'000
<b>Clearing House Funds</b>				
Bank guarantees	1,209,430	31,861	1,226,940	26,940
<b>Margin Funds</b>				
Equity securities, listed in Hong Kong, at market value	1,657,532	- *	2,865,194	864,830 *
US Treasury Bills, at market value	1,626,732	1,060,650	3,560,442	2,161,732
Bank guarantees	770,000	308,036	770,000	179,739
	4,054,264	1,368,686	7,195,636	3,206,301
	5,263,694	1,400,547	8,422,576	3,233,241

\* Certain equity securities received were used to cover call options issued by SEOCH Participants whose underlying stocks were the same as the collateral received. Under the Operational Clearing Procedures for Options Trading Exchange Participants of SEOCH, such call options issued are not marginable positions (ie, no margin requirements). Hence, the amount is not treated as having been utilised for covering Margin Fund obligations. As at 30 June 2009, \$913,513,000 (31 December 2008: \$512,584,000) of equity securities received were used for such purpose (including those amounts decovered but not yet released of \$71,331,000 (31 December 2008: \$588,000)).



**32. Material Related Party Transactions**

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

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

(a) Key management personnel compensation

	Six months ended 30 Jun 2009 \$'000	Six months ended 30 Jun 2008 \$'000	Three months ended 30 Jun 2009 \$'000	Three months ended 30 Jun 2008 \$'000
Salaries and other short-term employee benefits	<b>39,053</b>	41,143	<b>20,640</b>	20,371
Employee share-based compensation benefits	<b>3,674</b>	6,355	<b>1,567</b>	3,856
Retirement benefit costs	<b>3,381</b>	3,184	<b>1,575</b>	1,638
	<b>46,108</b>	50,682	<b>23,782</b>	25,865

(b) Post-retirement benefit plans

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

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

### 33. Financial Risk Management

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

#### (a) Market risk management

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

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

#### (i) Foreign exchange risk management

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

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

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

As at 30 June 2009, the aggregate net open foreign currency positions amounted to HK\$7,510 million, of which HK\$129 million were non-USD exposures (31 December 2008: HK\$6,584 million, of which HK\$211 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK\$3,350 million (31 December 2008: HK\$3,219 million). All forward foreign exchange contracts would mature within two months (31 December 2008: two months).

**33. Financial Risk Management (continued)**

(a) Market risk management (continued)

(ii) Equity and commodity price risk management

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

(iii) Interest rate risk management

There are two types of interest rate risk:

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

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

(iv) Risk management techniques

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

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

**33. Financial Risk Management (continued)**

(a) Market risk management (continued)

(iv) Risk management techniques (continued)

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

	Six months ended			Six months ended		
	30 Jun 2009			30 Jun 2008		
	Average	Highest	Lowest	Average	Highest	Lowest
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Foreign exchange risk	12,507	14,993	9,921	6,178	7,480	5,175
Equity price risk	19,322	29,135	10,413	13,632	16,499	12,166
Interest rate risk	37,869	56,677	27,885	33,457	40,093	27,290
Total VaR	39,916	58,918	31,356	31,016	37,025	25,135

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

(b) Liquidity risk management

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

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. In addition, banking facilities have been put in place for contingency purposes. As at 30 June 2009, the Group's total available banking facilities amounted to \$9,550 million (31 December 2008: \$3,850 million), of which \$9,000 million (31 December 2008: \$3,000 million) was repurchase facilities and \$500 million (31 December 2008: \$800 million) was a facility to draw down against certain bank deposits.

**33. Financial Risk Management (continued)**

(c) Credit risk management

(i) Investment and accounts receivable-related risk

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

(ii) Clearing and settlement-related risk management

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

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

**33. Financial Risk Management (continued)**

(c) Credit risk management (continued)

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

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. As of 30 June 2009, bank guarantees of \$2,353,100,000 (31 December 2008: \$4,534,000,000) were accepted for such purpose.

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

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

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

	At 30 Jun 2009 \$'000	At 31 Dec 2008 \$'000
Up to 6 months	50,168	206,847
Over 3 years	141	141
<b>Total</b>	<b>50,309</b>	206,988

The fair value of cash deposits placed by the related trade debtors with the Group was \$9,781,000 (31 December 2008: \$10,117,000).

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

As at 30 June 2009, trade receivables of the Group amounting to \$167,004,000 (31 December 2008: \$167,449,000) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days as at the end of the reporting period or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired were disclosed in the 2008 annual accounts. No cash deposits had been received in relation to the impaired trade receivables (31 December 2008: \$Nil).

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

As soon as a loan or receivable becomes impaired, the Group may continue to allow the debtors concerned to participate in our markets but no further accounts receivable will be recognised on the condensed consolidated statement of financial position as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when cash is received. As at 30 June 2009, the amount of doubtful deferred revenue amounted to \$52,971,000 (31 December 2008: \$49,455,000).

**34. Comparative Figures**

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