



2010 Annual Report





We are bullish on the opportunities for our market and its participants. The rise of China and the reshaping of the global economy have created multipolar sources of growth. HKEx, with its unique combination of attributes, is well positioned to enhance their evolution for a more robust and sustainable future. We are committed to serving not only as a link between the East and the West, but as a dependable platform to achieve progress, strengthen connections, and fulfil diverse aspirations. With the perseverance and diligence of bulls, we aim to turn opportunities into beneficial results.

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(Financial figures in this Annual Report are expressed in HKD unless otherwise stated)

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FINANCIAL HIGHLIGHTS

	2010	2009	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange (\$bn)	69.1	62.3	11%
Average daily number of derivatives contracts traded on the Futures Exchange	221,487	206,458	7%
Average daily number of stock options contracts traded on the Stock Exchange	246,474	191,676	29%

	2010 \$m	2009 \$m	Change
RESULTS			
Revenue and other income	7,566	7,035	8%
Operating expenses	1,612	1,493	8%
Profit before taxation	5,954	5,542	7%
Taxation	(917)	(838)	9%
Profit attributable to shareholders	5,037	4,704	7%
Basic earnings per share	\$4.68	\$4.38	7%
Diluted earnings per share	\$4.67	\$4.36	7%
Interim dividend per share	\$1.89	\$1.84	3%
Final dividend per share	\$2.31	\$2.09	11%
	\$4.20	\$3.93	7%
Dividend payout ratio	90%	90%	N/A

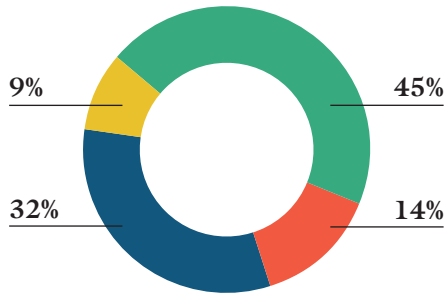
	2010	2009	Change
KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds (\$m)	8,677	8,027	8%
Total assets ¹ (\$m)	47,884	45,332	6%
Net assets per share ² (\$)	8.06	7.46	8%

Notes:

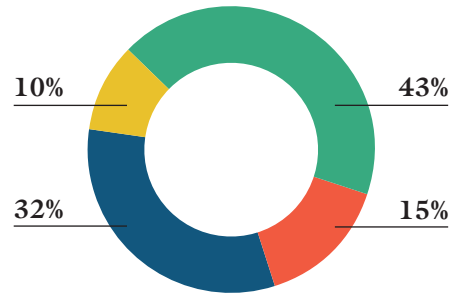
- The Group's total assets include the Margin Funds received from Participants on futures and options contracts.
- Based on 1,076,436,353 shares at 31 December 2010, being 1,078,092,346 shares issued and fully paid less 1,655,993 shares held for the Share Award Scheme (2009: 1,075,514,581 shares, being 1,076,190,346 shares issued and fully paid less 675,765 shares held for the Share Award Scheme)

BY BUSINESS SEGMENT*

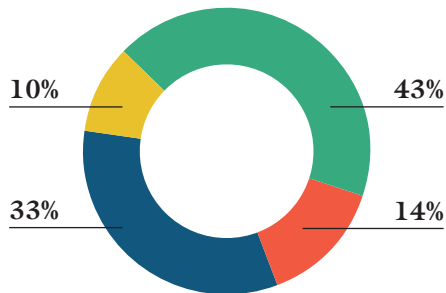
2010 Revenue and other income



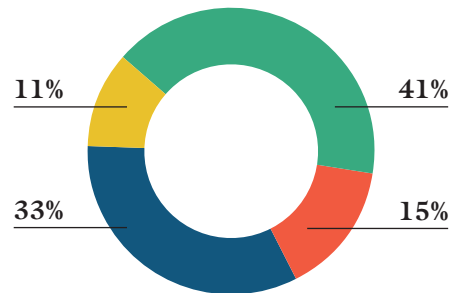
2009 Revenue and other income



2010 Reportable segment profit before taxation



2009 Reportable segment profit before taxation



● Cash Market
 ● Derivatives Market
 ● Clearing Business
 ● Market Data

* Details are set out in note 4 to the consolidated accounts of this Annual Report.

HIGHLIGHTS OF THE YEAR

Regulatory Framework

1 January

Implemented phase two of the post-vetting regime which covers announcements relating to major transactions and connected transactions

20 May

Published consultation conclusions on proposed changes to connected transaction rules and requirements for circulars and listing documents of listed issuers, and new Listing Rules for mineral companies

13 August

Published consultation conclusions on T+2 Finality and the results of a review of listing issuers' financial reports

21 September

Published joint consultation conclusions with the SFC and the Federation of Share Registrars Limited on a proposal to introduce a scripless securities market in Hong Kong

13 October

Published interim guidance on pre-IPO investments

26 November

Published joint consultation conclusions with the SFC on issue of paper application forms with electronic prospectuses

10 December

Published consultation conclusions on the acceptance of Mainland accounting and auditing standards and Mainland audit firms for Mainland incorporated companies listed in Hong Kong

Market Infrastructure

22 February

Set to start developing a NGDC

August to September

Conducted a series of market activities to engage Exchange and Clearing Participants to prepare for the trading and clearing of RMB products and launched a settlement service for RMB transactions on 13 September

20 September

Introduced automated stamp duty reporting and payment

8 October

Published information paper on AMS/3.8 and MDS/3.8 system upgrades which are scheduled for completion by the end of 2011

18 October

Implemented phase one of the capacity and technology upgrade of HKATS and DCASS

22 November

Announced our plan to offer hosting services at the NGDC

23 November

Decided to extend the trading hours in 2 phases beginning in March 2011

10 December

Decided to establish a new clearing house by the end of 2012 for derivatives traded in Hong Kong's OTC market

Service Enhancements

14 March

Launched the revamped corporate website

7 December

Announced the launch of the Basic Market Prices service effective 1 April 2011 and the PRS Plus in the second quarter of 2011

Products and Markets

8 February

Introduced Flexible Index Options

12 July

Introduced options on A-shares ETFs

29 October

AIA's IPO became Hong Kong's largest ever, raising more than \$159 billion

**1 November**

Rolled out HSI Dividend Point Index Futures and HSCEI Dividend Point Index Futures

8 December

The first Hong Kong depository receipt issued by Vale S.A. started trading on the Exchange

Corporate News

16 January

Mr Charles Li became the Chief Executive of HKEx

21 January

Issued a joint statement with the Shanghai Stock Exchange on closer cooperation initiatives

**4 March**

Announced the Strategic Plan 2010-2012 and revised corporate structure

18 April

Received "The Exchange of the Year" in The Asian Banker Leadership Achievement Awards for Markets and Exchanges 2009

27 April

The HKSAR Acting Chief Executive approved the re-appointment of Mr Ronald Arculli as HKEx's Chairman

29 AprilReceived the "Most Proactive Exchange for ETF Derivatives/Options (Asia-Pacific)" and the "Most Informative ETF Website (Asia-Pacific)" in the 6th Annual ETF Global Awards**30 April**

Donated \$1 million to support relief efforts in areas affected by the earthquake in Qinghai

24 May

Signed a MOU with the Korea Exchange on cooperation and the exchange of information

2 July

Signed a MOU with the Hanoi Stock Exchange on cooperation and the exchange of information

26 July

Included in the newly launched Hang Seng Corporate Sustainability Index Series

20 September

Included in the Dow Jones Sustainability Asia Pacific Index for the first time

12 October

HKEx Chairman Ronald Arculli was elected Chairman of the World Federation of Exchanges



CHAIRMAN'S STATEMENT



“2010 was the 10th anniversary of HKEx’s listing. We are proud to have witnessed the laying of a sound foundation over the past decade to enable us to thrive in the evolving markets in which we operate, and to support sustainable growth in the future.”

HKEx's Performance

Market activity improved in 2010 following the gradual recovery of the global economy. The average daily turnover value on the Stock Exchange was about \$69 billion and the average daily turnover on the Futures Exchange was 221,487 contracts, up 11 per cent and 7 per cent respectively over the previous year. New listings surged 55 per cent from the previous year to 113 companies. We were also proud and privileged to host two of the three largest IPOs in the world, namely, AIA Group Ltd and Agricultural Bank of China Ltd which raised USD20 billion and USD12 billion (out of a total of USD22 billion) respectively in Hong Kong.

In 2010, HKEx's profit attributable to shareholders was \$5,037 million, a rise of 7 per cent from a year ago. The Board proposes a final dividend of \$2.31 per share making the full-year dividend amounted to \$4.20 per share at a payout ratio of about 90 per cent.

Market highlights

- The market capitalisation of companies listed on the Stock Exchange reached \$21 trillion at the end of 2010, which brought HKEx's global ranking up from 11th in 2000 to 7th;
- IPO funds raised in 2010 of about \$450 billion reached a record high, and made Hong Kong the world's biggest IPO centre for the second consecutive year; and
- HKEx's market capitalisation of about \$190.1 billion as at 31 December 2010 was the highest among the world's listed exchanges.

Risk from Economic Uncertainties

Barring unforeseen circumstances, the global economy is expected to continue on its recovery path in 2011. Nonetheless, sustained high unemployment in the US, massive sovereign debts in Europe, rising interest rates to check inflation and asset bubbles in the emerging markets, and political unease in the Middle East might impede the pace of recovery. We must therefore, continue to carefully monitor developments in the international arena and be vigilant.

Opportunities from the Mainland's Economic Development

In the aftermath of the financial crisis, the world is repositioning itself towards multipolar sources of growth with economic power more broadly distributed than before. The more affluent countries, not burdened by excessive debt, are seeking worldwide investments in particular staking more capital in emerging countries for the potential they offer. Global investments flows are expanding.



The Mainland is likely to continue acting as a major global growth engine. Its gross domestic product (GDP) is forecast to grow over 9 per cent per annum between 2011 and 2015 and its estimated contribution to the world's GDP (based on purchasing-power-parity) is expected to reach about 17 per cent by 2015¹. Mainland enterprises' appetite for capital to fund their internal growth and international expansion is expected to continue. In 2010, 72 Mainland enterprises staged their IPOs in Hong Kong, an increase of 50 per cent over that of 2009, and the funds they raised accounted for about 50 per cent of the total IPO funds raised.

In order to further strengthen HKEx's position as the international exchange of choice for our Greater China and international issuers and investors, we have made a considerable effort to provide new products and services to the market as well as update our rules and regulations where appropriate. Recent and ongoing initiatives include the acceptance of Mainland accounting and auditing standards and Mainland audit firms as auditors for Mainland incorporated companies listed in Hong Kong; the extension of trading hours in 2 phases to align the morning and afternoon opening of our trading hours with the Mainland exchanges' opening hours; the preparation of our infrastructure for the trading of RMB products; and the continued dissemination of real-time HKEx securities market data in the Mainland. As part of the Strategic Plan 2010-2012, further cooperation with the Mainland, especially on product and market development, and support for the internationalisation of the RMB are the key foci.

Challenges from Evolving Exchange Landscape

Challenges facing us are no less than the opportunities ahead. Proliferation of alternative trading platforms bypassing exchanges is creating fragmented market structure and eroding market share of the traditional regulated exchanges. Hence, it would not be surprising to see mergers of leading exchanges in the quest for strategic flexibility and synergy, but the moves would also intensify competition among exchanges. For HKEx, our objectives are clear – to ensure a fair and orderly market in order to protect investors; and to increase our competitive advantage in order to deliver good returns for Shareholders. Our Strategic Plan for 2010 to 2012 remains unchanged. We may seek strategic alliances with technology providers, industry participants, and our regional and global counterparts to expedite our growth initiatives. Any alliance we pursue would need to present strategically compelling benefits consistent with our focus on markets in Greater China.

¹ International Monetary Fund, World Economic Outlook Database, October 2010

Market Integrity and Transparency

The listing of a company on a regulated exchange with high standards of listing and corporate governance requirements in itself serves an important signal for investors. Hence, our dedication to promoting high corporate governance standards in our market never wavers. We recently proposed changes to the CG Code in the Listing Rules and certain Listing Rules relating to corporate governance to promote the development of a higher level of corporate governance practices among issuers. We also fully support the Government's implementation of a statutory obligation to disclose price sensitive information. We will continue to work closely with the Government and the SFC to strengthen the regulatory regime for the Stock Exchange and foster market integrity and investor confidence.

The regulated exchange environment provides for transparent price discovery, with visibility of the bid and offer prices shown in the central order book. As an advocate of the global regulatory initiatives of the Group of Twenty, or G-20, we have decided to support those initiatives by establishing an OTC derivatives clearing house by the end of 2012. Once completed, this will be instrumental in reducing counterparty risk and will help market regulators provide effective oversight of trades. Separately, new measures were adopted last year to help investors better differentiate between index tracking strategies of ETFs.

System Reliability and Efficiency

System reliability and efficiency are critical to support HKEx's sustained growth. We have long maintained best in class system uptime in our markets and we are committed to upgrading the technology and capacity of our major trading, clearing and settlement, and market data dissemination systems to ensure their reliability, availability and stability. We will continue devoting our best efforts to providing market systems that meet the highest standard.

We are excited about establishing our NGDC to bolster long term business development. We envisage that the NGDC project will help us provide a more efficient market infrastructure and create value for both customers and Shareholders. It will also further solidify Hong Kong's competitive advantage as a global financial centre.

Product and Service Diversification

Diversification is essential for us to raise HKEx's standing as the China exchange of choice for global investors and issuers. Hence, we will continue to promote our listing platform and establish quality products and services so that we can attract more quality companies from around the world to raise capital in a cost-effective manner. In so doing we would also offer our investors better choice of investments thus enhancing the depth and liquidity of our market.

Following the introduction of new products such as flexible index options, options on A-share-related ETFs, and dividend futures, we will continue to work hard on product enhancements to ensure the healthy growth of our markets. With regard to ETFs, there has been an overwhelming market response, with an average annual growth of 113 per cent in the turnover value for the past five years. The rapid development of the ETF market in Hong Kong earned us accolades as the Most Proactive Exchange for ETF Derivatives/Options and the Most Informative ETF Website in Asia-Pacific in the 6th Annual ETF Global Awards organised by Exchangetradedfunds.com.



Moreover, we launched a number of initiatives to further improve our market data services, including the provision of broader access to real-time market prices and faster derivatives market data for the investing public, and a simpler licensing regime for IVs. As a partner of investors, we endeavour to regularly review our product and service portfolio and to make refinements when necessary in order to cater for investors' different and evolving needs.

Commitment to Corporate Social Responsibility

With more stakeholders expecting businesses to acknowledge their environmental, social, and ethical obligations, companies must respond. As a frontline regulator and a listed company, we have doubled our efforts not only in pursuing ethical and socially responsible business practices in the HKEx Group, but also by sowing the seeds of sustainable development in our markets.

The Stock Exchange is developing a voluntary Guide on ESG (Environmental, Social, and Governance) Performance and Reporting for listed companies in Hong Kong which will help promote responsible corporate practices and provide information that investors can use to analyse risk. Another successful initiative is our Stock Code Balloting for Charity Scheme which raised a total of \$69.5 million in 2010, surpassing the record of \$63.7 million in 2007, for The Community Chest of Hong Kong to support some 148 agencies that provide a wide range of social, welfare and other services to the community.

I am also pleased to report that HKEx has been included in the Dow Jones Sustainability Asia Pacific Index for the first time as well as the Hang Seng Corporate Sustainability Index Series which was launched in July of last year.

Our stakeholders' participation and support underpin our achievements. We look forward to greater and more fruitful collaboration in the future as we continue to develop as an exchange operator that is committed to providing robust markets and a quality workplace, and building a caring community in a healthy environment.

I will also invite you to read our CSR work in greater detail set out in the 2010 CSR Report which will be available on the HKEx website on or about 14 March 2011.

Acknowledgments

HKEx's success would not be possible without the concerted effort of many parties. First, I extend my sincere thanks to my fellow Board members as well as the Committee members for their invaluable advice and contributions throughout the year. Their hard work and observations received positive remarks from the independent consultant we engaged to carry out an evaluation of the performance of the Board before the end of last year.

On behalf of the Board, I would like to express our gratitude and appreciation to our management team and our staff for their dedication and hard work in pursuing the initiatives that underlie HKEx's success. Our thanks also extend to all the Shareholders and our other stakeholders for their ongoing support, trust and confidence in HKEx.

In conclusion, as the Chairman of the World Federation of Exchanges (WFE), I will ensure that HKEx continues to join other WFE members in the ongoing discussion of financial market regulations and reform, and to assist in steering the constructive development of the global financial markets. I am confident that with resolute focus on our strategy of strengthening HKEx's core business, we will be able to capitalise on the opportunities emerging from the challenging exchange arena and to deliver another year of positive results.

Ronald Joseph ARCULLI
Chairman

Hong Kong, 2 March 2011



CHIEF EXECUTIVE'S REVIEW



“We are delighted with the achievement made and milestones accomplished in 2010, but we are also acutely aware of the challenges ahead as we transform HKEx into a truly global exchange.”

The year of 2010 was a critical juncture for HKEx. We faced the twin forces of China's accelerating pace of opening, particularly in the internationalisation of RMB, and the intensifying international competition in the global exchange industry. The opportunities are as abundant as the challenges are unprecedented. HKEx is ready to pursue these opportunities and face these challenges with renewed focus and rigor.

We have made important headways in the first year under our Strategic Plan 2010-2012: we have started our significant investment programme to substantially upgrade our IT infrastructure; we have launched our major initiatives to strengthen our clearing and risk management framework; and we have begun to undertake important market microstructure reforms. We are also embarking on our major initiatives to develop RMB product capabilities and Mainland connectivity and compatibility efforts.

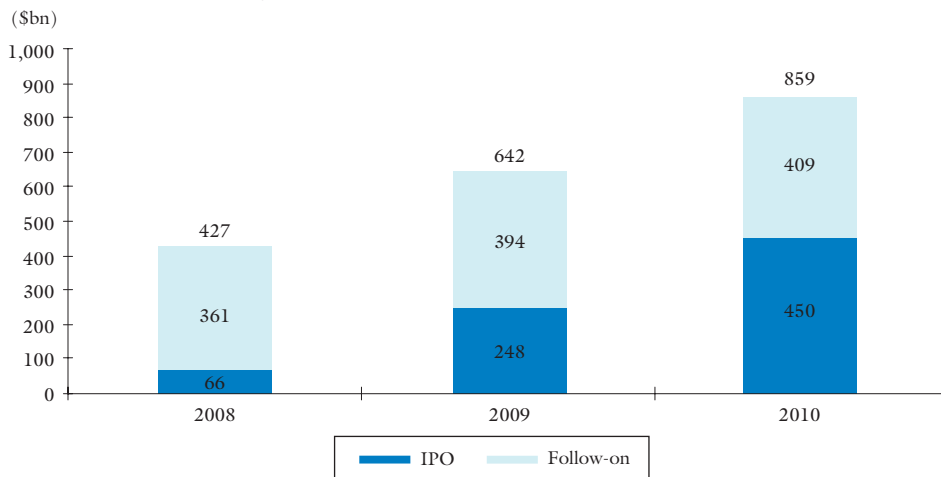
We are proud of these achievements, but we are even more keenly aware that greater challenges are yet to come.

Market Performance

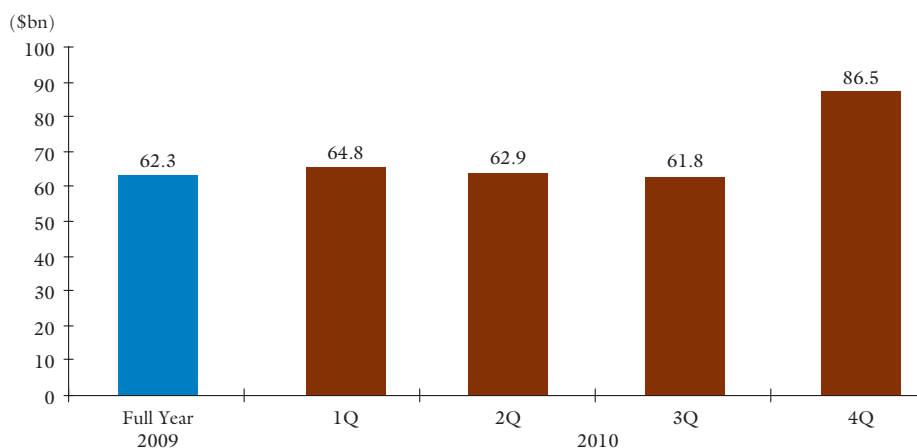
2010 proved to be a record year on multiple fronts in our markets. In the primary market, a total of 113 companies were listed. IPO and total funds raised both reached record high, totalling to \$450 billion and \$859 billion respectively. On 31 December 2010, market capitalisation was \$21,077 billion, an 18 per cent increase from the end of 2009.

In the secondary market, turnover remained relatively stable in the first 3 quarters and picked up significantly in September and the following 2 months, mainly driven by the abundant liquidity around the globe. Average daily turnover value increased from \$63.1 billion in the first 3 quarters to \$86.5 billion in the fourth quarter. In terms of shares traded, 2010 average daily turnover reached a record high at 140.5 billion shares. Turnover in ETFs continued to rank first in Asia Pacific.

IPO and Follow-on offering 2008-2010



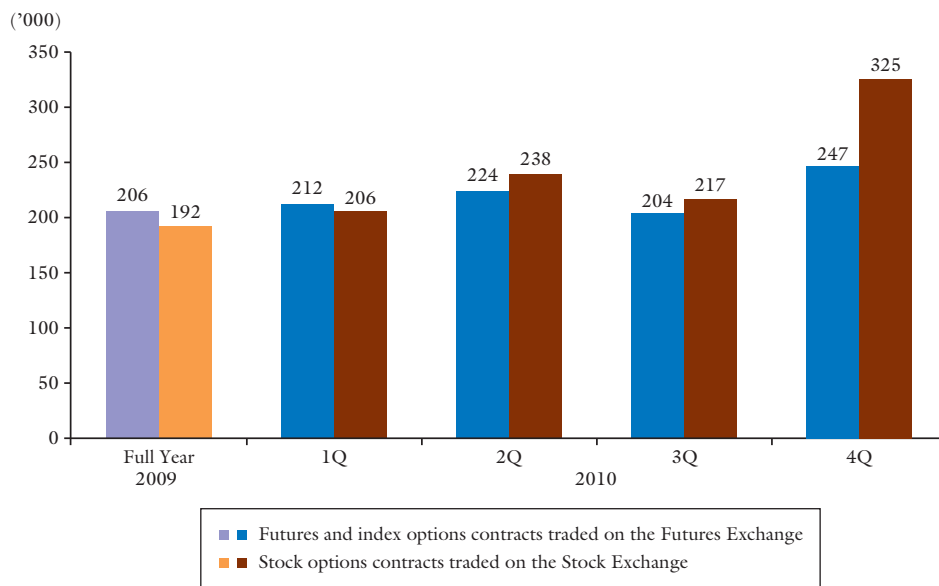
Average daily turnover value of the Cash Market





Turnover in the Derivatives Market also experienced a rebound in the fourth quarter, especially stock options turnover. Interest in futures and options remained strong: full-year market turnover reached an all-time high of 116,054,377 contracts, mainly driven by increases in trading of HSI options, H-shares Index options, and stock options.

Average daily number of contracts traded on the Futures Exchange and Stock Exchange



HKEx's markets among world exchanges' markets

	Value/Volume		Ranking	
	2010	2010	2010	2009
IPO funds raised	USD57 billion	1 st	1 st	1 st
Total funds raised	USD109 billion	2 nd	4 th	4 th
Stock Options turnover	61,125,647 contracts	1 st in Asia Pacific	1 st in Asia Pacific	1 st in Asia Pacific
ETF turnover	USD78 billion	1 st in Asia Pacific	2 nd in Asia Pacific	2 nd in Asia Pacific
Market capitalisation	USD2,711 billion	7 th	7 th	7 th
Share trading value	USD1,598 billion	11 th	11 th	11 th

Source of information: World Federation of Exchanges and Futures Industry Association

Note: Figures have been rounded.

Business Review

2010 was not only a record year on many fronts, but also the first year of our Strategic Plan 2010-2012. We will continue to focus on the following three key components of the plan: improving our platform infrastructure and market structure, reinforcing our position as a global listing venue by promoting international listings, and developing our RMB capability and Mainland compatibility.

Improvement to Platform Infrastructure and Market Structure

As we strive to preserve and enhance our global competitiveness, one of the most important tasks is further improvement in our IT infrastructure. We accelerated various IT infrastructure initiatives in 2010, including: upgrading the Cash Market trading system (known as AMS/3.8) to achieve lower latency and higher capacity, upgrading the Derivatives Market trading and clearing systems (known as HKATS and DCASS), and preparing to build our NGDC in Hong Kong's Tseung Kwan O Industrial Estate. We also kicked off the hosting services project, aiming to offer our market participants low-latency co-location with our markets and other hosted servers in the NGDC.

As to market structure reform, we have made several significant breakthroughs. First, we completed the market consultation on extending trading hours in November 2010. Implementation will be carried out in 2 phases, beginning from March 2011. We believe that the proposed changes will improve the price discovery function for Mainland-related securities listed in Hong Kong by increasing the overlap of our trading hours with those of the Mainland exchanges. The changes will also strengthen our competitiveness by narrowing the gap between our trading hours and those of our regional and global competitors.

The decision to implement the scripless market model was another major milestone in 2010. Once in place, the new paperless option will enable investors to hold securities in their own names as registered shareholders, thus offering more opportunities for straight-through-processing to enhance market efficiency. We are currently working closely with the SFC to get prepared for the implementation of the scripless market model in terms of legislation, market infrastructure, key operators, and market participants.

Promoting International Listings

In the Vision Statement of our Strategic Plan, we state that we aspire to position ourselves as “the China exchange of choice for our global investors and issuers”, and “the international exchange of choice for our Greater China issuers and investors”. After successfully bringing Mainland enterprises to list in Hong Kong and attracting international investors in the past decade, our next goal is to attract more international issuers to list here. In fact, we experienced accelerated growth of international listings in 2010:

- 17 Overseas Companies¹ either issued new shares or were listed at HKEx;
- About 45 per cent of IPO funds raised went to Overseas Companies, compared to only 5 per cent in 2007; and
- Recognised jurisdictions of incorporation for the purpose of eligibility for listing increased by 5, bringing the total number of recognised jurisdictions to 15 in addition to the 4 jurisdictions stipulated in the Listing Rules: Hong Kong, Mainland China, Bermuda, and the Cayman Islands (listing applicants incorporated in other jurisdictions are assessed on a case-by-case basis based on their standards of shareholder protection).

We attribute this trend to: (i) international issuers with business nexus with China/Asia viewing Hong Kong as a gateway to the region; (ii) international issuers wanting to align their growth drivers with their shareholder base; (iii) international issuers spinning off or monetising their Chinese/Asian subsidiaries; (iv) international issuers wanting to access the growing regional investor base in Asia; and (v) Hong Kong's transparent and efficient listing regime. We are optimistic that the trend will continue in the future.

¹ Definition of “Overseas Companies” is based on (i) place of incorporation; (ii) 10 per cent substantial shareholding test; and/or (iii) place of headquarters.


Developing RMB Capability and Mainland Compatibility

The RMB internationalisation process gained considerable momentum in 2010. After the revised “Settlement Agreement on the Clearing of RMB Business” was signed by the People’s Bank of China and the Bank of China (Hong Kong) on 19 July 2010, we witnessed exponential growth of RMB deposits in Hong Kong – the total RMB deposits increased from RMB104 billion to RMB315 billion between July and December 2010. We also saw a wider range of RMB investment options in Hong Kong, including RMB bonds and RMB insurance products. We are actively preparing ourselves to capture RMB-related opportunities, including running test sessions with market participants to simulate trading of RMB products, to ensure that our systems as well as the market participants are ready to support the trading and clearing of listed products denominated in RMB.

Outlook

Given the solid groundwork that was laid in 2010, I am confident that we are now in a strong position to pursue the opportunities that we identified in the Strategic Plan 2010-2012.

Our focus for 2011 will continue to be on the three key components of our Strategic Plan mentioned above. For example, in the platform infrastructure and market structure area, we are working on the OTC Clearing Project, which we announced jointly with the Hong Kong Monetary Authority on 10 December last year. It is targeted for launch in 2012. We will also consult the market on our clearing houses’ risk management regime, in order to enhance our capital adequacy to meet our current and future needs. With respect to international listings, we will continue to visit overseas markets to promote the benefits of listing in Hong Kong. We also plan to accept more overseas jurisdictions as recognised places of incorporation for listed issuers, including India and South Africa. On the RMB capability and Mainland compatibility front, we are exploring the development of a sustainable listing and trading model that is not completely dependent upon availability of RMB liquidity.



We are fully aware that pursuing these new opportunities will not be without challenges or risks. HKEx has had a strong track record of system reliability and operational excellence, which was achieved through relentless management focus. As an organisation that is an important part of Hong Kong’s financial system, we will continue to do our utmost to meet our responsibilities. Market quality remains our top priority as we prepare of the future.

However, we are not operating in a static environment. Regional players are developing rapidly either through organic growth or consolidation. Alternative trading venues also pose a potential threat to our leading market position. To preserve our global competitiveness, we need to constantly reinvent ourselves, including upgrading critical infrastructure, pushing through essential market reforms to enhance efficiency, developing new capabilities, and capturing strategic opportunities. To this end, we built a brand new Market Development Division in 2010 to spearhead strategic initiatives while trying to minimise any impact on the existing lines of business.

I strongly believe that we are heading in the right direction by focusing on enhancing our competitiveness; maintaining the status quo is not a viable option. I have a strong conviction that our people are skilful, diligent, and aligned with our strategic vision. I also have a strong conviction that our members of the Board, who understand the market and the business well, will work with and support the management to make the right, although sometimes difficult, decisions that will ultimately benefit the Company in the long term.

Votes of Thanks

People are our greatest asset and I would like to thank the 866 staff of HKEx whose excellent work made 2010 such a great year. We have experienced a few personnel changes in the past year: a handful of senior management retired or resigned to pursue other opportunities after long years of service to the Company. I would like to take this opportunity to thank them for all their contributions to HKEx. We also welcome a few new colleagues, including Christine Wong (Head of Legal Services and Chief Counsel), Samuel Wong (Chief Financial Officer), Qiumei Yang (Deputy Head of Market Development and Head of Mainland Development Department) and Eric Landheer (Head of Issuer Marketing). I look forward to their partnership in the years to come.

I would also like to thank our market participants and other stakeholders for embracing our new initiatives under Strategic Plan 2010-2012. We appreciate their valuable feedback and input, and we will maintain constant dialogue with them for our future initiatives.

Last but not least, I would like to thank the members of Board for their support and guidance, which made my first year as Chief Executive of HKEx such a fruitful and rewarding experience.

LI Xiaojia, Charles

Director and Chief Executive

Hong Kong, 2 March 2011

BOARD AND COMMITTEES



Board

Independent Non-executive Chairman

Ronald Joseph ARCULLI *¹ GBM, GBS, JP

Executive Director, Chief Executive

CHOW Man Yiu, Paul² GBS, JP

LI Xiaojia, Charles³

INEDs

CHA May-Lung, Laura *⁴ GBS, JP

CHAN Tze Ching, Ignatius BBS, JP

CHENG Mo Chi, Moses *⁴ GBS, JP

CHEUNG Kin Tung, Marvin * GBS, JP

HUI Chiu Chung, Stephen * JP

KWOK Chi Piu, Bill JP

LEE Kwan Ho, Vincent Marshall

LEE Tze Hau, Michael *

John Estmond STRICKLAND⁵ GBS, JP

John Mackay McCulloch WILLIAMSON

WONG Sai Hung, Oscar⁵

Committees

Audit Committee

CHEUNG Kin Tung, Marvin (Chairman)

LEE Kwan Ho, Vincent Marshall (Deputy Chairman)

CHAN Tze Ching, Ignatius

CHENG Mo Chi, Moses⁶

KWOK Chi Piu, Bill⁷

John Mackay McCulloch WILLIAMSON

Executive Committee

Ronald Joseph ARCULLI⁸ (Chairman)

CHOW Man Yiu, Paul²

KWOK Chi Piu, Bill

LEE Kwan Ho, Vincent Marshall

LI Xiaojia, Charles³

John Mackay McCulloch WILLIAMSON

Investment Advisory Committee

John Estmond STRICKLAND⁹ (Chairman)

WONG Sai Hung, Oscar⁹ (Deputy Chairman)

HUI Chiu Chung, Stephen

LEE Tze Hau, Michael

LUI Yin Tat, David

Notes:

* Government Appointed Directors

** Appointed by the Financial Secretary

Δ Established under Section 65 of the SFO

1 Re-appointed as Director and Chairman on 22 and 27 April 2010 respectively

2 Retired on 16 January 2010

3 Appointment effective 16 January 2010

4 Re-appointment effective 22 April 2010

5 Re-elected on 22 April 2010

6 Appointment ceased effective 23 April 2010

7 Appointment effective 23 April 2010

8 Re-appointment effective 27 April 2010

9 Re-appointment effective 23 April 2010

10 Appointment ceased effective 20 January 2010



Nomination Committee

Ronald Joseph ARCULLI ⁹ (Chairman)
 CHAN Tze Ching, Ignatius
 CHENG Mo Chi, Moses ⁹
 John Estmond STRICKLAND ⁹
 WONG Sai Hung, Oscar ⁹

Panel Member Nomination Committee

CHA May-Lung, Laura ⁹ (Chairman)
 KWOK Chi Piu, Bill
 LEE Kwan Ho, Vincent Marshall
 LEE Tze Hau, Michael
 WONG Sai Hung, Oscar ⁹

Remuneration Committee

Ronald Joseph ARCULLI ⁹ (Chairman)
 CHA May-Lung, Laura ⁹
 CHENG Mo Chi, Moses ⁹
 LEE Kwan Ho, Vincent Marshall
 John Mackay McCulloch WILLIAMSON

Risk Management Committee ^Δ

Ronald Joseph ARCULLI ⁸ (Chairman)
 CHAN Ka-lok ^{**}
 CHEUNG Kin Tung, Marvin
 FONG Hup ^{**}
 HUNG Pi Cheng, Benjamin ^{** 10}
 KWOK Chi Piu, Bill
 LAU Ying Pan, Edmond ^{**}
 LUI Kei Kwong, Keith ^{**}
 Mark Seumas McCOMBE ^{** 11}
 WONG Tung Shun, Peter ^{** 12}

Corporate Social Responsibility Committee

LI Xiaojia, Charles ³ (Chairman)
 CHOW Man Yiu, Paul ² (ex-Chairman)
 CHAN Tsan Fai, David ¹³
 CHOW Lok Sum, Eddie ¹⁴
 Peter Joseph CURLEY ¹⁵
 LEE Kwok Keung, Roger ¹⁶
 MAU Kam Shing, Joseph
 WONG Kwok Kuen, Alfred ¹⁷
 YEN Tai Mui, Brenda

Company Secretary

MAU Kam Shing, Joseph

¹¹ Appointment effective 28 July 2010

¹² Appointment for the period from
 20 January to 27 July 2010

¹³ Appointment effective 16 November 2010

¹⁴ Retired on 1 June 2010

¹⁵ Appointment ceased effective 1 August 2010

¹⁶ Appointment effective 1 September 2010

¹⁷ Retired on 1 September 2010

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Board of Directors



Ronald Joseph ARCULLI
GBM, GBS, JP

Independent Non-executive Chairman
Aged 72

Director since 26 April 2006
Chairman since 28 April 2006
Term of office: 22 April 2010
(re-appointed) to 2012 AGM

Other positions held within the Group

HKEx – chairman of Executive Committee, Nomination Committee, Remuneration Committee and Risk Management Committee
SEHK – chairman of Listing Appeals Committee and member of Listing Nominating Committee

Other major offices

Hang Lung Properties Limited * – non-executive director (1980~)
HKR International Limited * – non-executive director (1989~)
Hutchison Harbour Ring Limited * – non-executive director (2001~)
King & Wood – partner/senior partner (2005~)
Power Assets Holdings Limited * ¹ – non-executive director (1997~)
SCMP Group Limited * – non-executive director (1996~)
Sino Hotels (Holdings) Limited * – non-executive director (1994~)
Sino Land Company Limited * – non-executive director (1981~)
Tsim Sha Tsui Properties Limited * – non-executive director (1994~)
World Federation of Exchanges – chairman and director (2010~) ²

Past offices

Arculli and Associates – senior partner (2000-2005)
Shanghai Century Acquisition Corporation (listed on the American Stock Exchange) – non-executive director (2005-2008)
Sun Hung Kai Securities Limited – executive director (1974-1975)
Woo Kwan Lee & Lo – partner (retired in 2000)

Public service

Executive Council of the Hong Kong Government
– non-official member (2005~)
Health and Medical Development Advisory Committee
– vice-chairman (2005~)
Honours Committee – member (2010~)
Non-official Justices of the Peace Selection Committee
– member (2007~)
The Hong Kong Award for Young People – honorary president (2010~)
West Kowloon Cultural District Authority – board member (2008~)

Qualifications

Barrister (Hong Kong and England & Wales)
Barrister and Solicitor (Victoria, Australia)
Solicitor (Hong Kong)
Doctor of Laws honoris causa (The Hong Kong University of Science and Technology)
Honorary Doctor of Social Science (City University of Hong Kong)
Honorary fellow (HKIoD)
Fellow (HKMA)

* Currently listed on the Stock Exchange.

1 Change of company name (formerly known as Hongkong Electric Holdings Limited) effective 16 February 2011.

2 Appointment as the chairman effective 12 October 2010, prior to that, Mr Arculli was the vice-chairman of the World Federation of Exchanges.



LI Xiaojia, Charles

Executive Director, Chief Executive
Aged 49

Joined on 16 October 2009

Chief Executive since 16 January 2010
Ex-officio member of the Board
Term of office: 16 January 2010 to
15 October 2012

Other positions held within the Group

HKEx – member of Executive Committee and chairman of Corporate Social Responsibility Committee
SEHK – member of Listing Committee and GEM Listing Committee
HKCC, HKFE, HKSCC, SEHK and SEOCH – chairman
HKEx's subsidiaries – director

Other major office

China Entrepreneurs Forum – director (2005~)

Past offices

Brown & Wood, New York – associate (1993-1994)
China Vanke Co Ltd (listed on the Shenzhen Stock Exchange) – non-executive director (2008-2010)
Davis Polk & Wardwell, New York – associate (1991-1993)
J.P. Morgan China – chairman (2003-2009)
Merrill Lynch China (1994-2003; president (1999-2003))
Shanghai Pudong Development Bank Co Ltd (listed on the Shanghai Stock Exchange) – non-executive director (2008-2010)¹

Qualifications

Bachelor of Arts in English Literature (Xiamen University, China)
Master of Arts in Journalism (University of Alabama, US)
Juris Doctor (Columbia University, US)

1 Appointment ceased effective 20 September 2010.



CHA May-Lung, Laura
GBS, JP

INED
Aged 61

Director since 26 April 2006
Term of office: 22 April 2010
(re-appointed) to 2012 AGM

Other positions held within the Group

HKEx – chairman of Panel Member Nomination Committee and member of Remuneration Committee
SEHK – member of Listing Nominating Committee

Other major offices

China Telecom Corporation Limited * – non-executive director (2008~)
HSBC Holdings plc * – non-executive director (2011~)¹
Tata Consultancy Services Limited (listed on the National Stock Exchange of India and the Bombay Stock Exchange) – non-executive director (2006~)
The Hongkong and Shanghai Banking Corporation Limited – non-executive director (2004~) and non-executive deputy chairman (2007~)

Past offices

Bank of Communications Co Ltd * – non-executive director (2006-2010)²
Baoshan Iron & Steel Co Ltd (listed on the Shanghai Stock Exchange) – non-executive director (2006-2009)
Johnson Electric Holdings Limited * – non-executive director (2004-2009)
SFC – deputy chairman (1998-2001), executive director (1994-2001), senior director (1993-1994) and assistant director (1991-1993)

Public service

CSRC – vice-chairman of International Advisory Council (2004~)
Executive Council of the Hong Kong Government – non-official member (2004~)
ICAC – chairman of Advisory Committee on Corruption (2007~)
Non-official Justices of the Peace Selection Committee – member (2008~)
The 11th National People's Congress of the People's Republic of China – HKSAR deputy (2008~)
The Chinese People's Political Consultative Conference Shanghai Committee – member of Standing Committee (2008~)
University Grants Committee – chairman (2007~)

Qualifications

Bachelor of Arts (University of Wisconsin, US)
Juris Doctor (Santa Clara University, US)
State Bar of California (US)

* Currently listed on the Stock Exchange.

1 Appointment effective 1 March 2011.

2 Appointment ceased effective 19 August 2010.



CHAN Tze Ching, Ignatius
BBS, JP

INED
Aged 54

Director since 23 April 2009
Term of office: 23 April 2009
(elected) to 2012 AGM

Other positions held within the Group	HKEx – member of Audit Committee and Nomination Committee, and deputy chairman of Clearing Consultative Panel HKSCC – member of Disciplinary Appeals Committee
Other major offices	CVC Capital Partners Limited – senior adviser (2010~) ¹ Mongolian Mining Corporation * – non-executive director (2010~) ² The Bank of East Asia, Limited * – senior adviser (2009~)
Past offices	Bank of China (Hong Kong) Limited – deputy chief executive (2008) Citigroup (1980-2007: Citigroup country officer for Hong Kong and head of corporate and investment banking business for Greater China (2005-2007), chief operating officer for Greater China (2004-2005), and Citigroup country officer for Taiwan (2003-2005))
Public service	Advisory Committee on Bond Market Development – member (2010~) Advisory Committee on Human Resources Development in the Financial Services Sector – chairman (2005~) Greater Pearl River Delta Business Council – member (2008~) Travel Industry Compensation Fund Management Board – chairman (2007~)
Qualifications	Bachelor of Business Administration and Master of Business Administration (University of Hawaii, US) Certified Public Accountant (American Institute of Certified Public Accountants)

* Currently listed on the Stock Exchange.

1 Appointment effective 1 November 2010.

2 Appointment effective 16 September 2010.



CHENG Mo Chi, Moses
GBS, JP

INED
Aged 60

Director since 26 April 2006
Term of office: 22 April 2010
(re-appointed) to 2012 AGM

Other positions held within the Group

HKEx – member of Nomination Committee and Remuneration Committee

Other major offices

ARA Asset Management Limited (listed on the Singapore Exchange) – non-executive director (2007~)
China COSCO Holdings Company Limited * – non-executive director (2005~)
China Mobile Limited * – non-executive director (2003~)
China Resources Enterprise, Limited * – non-executive director (2005~)
City Telecom (H.K.) Limited * – non-executive director (1997~)
Guangdong Investment Limited * – non-executive director (1999~)
K. Wah International Holdings Limited * – non-executive director (2009~)
Kader Holdings Company Limited * – non-executive director (1999~)
Liu Chong Hing Investment Limited * – non-executive director (1999~)
P. C. Woo & Co – senior partner (1994~)
Tian An China Investments Company Limited * – non-executive director (1997~)
Towngas China Company Limited * – non-executive director (2007~)

Past offices

ARA Asset Management (Fortune) Limited (the manager of Fortune Real Estate Investment Trust* which is dually listed in Hong Kong and Singapore) – non-executive director (2003-2010)¹
Beijing Capital International Airport Company Limited * – non-executive director (1999-2008)
Galaxy Entertainment Group Limited * – non-executive director (1996-2009)
SEHK – chairman (2005-2006) and deputy chairman (2003-2005) of Listing Committee and GEM Listing Committee, member of Council (1997-2000) and convener of Disciplinary Committee (1997-2000)
Shui On Construction and Materials Limited * – non-executive director (2004-2008)

Public service

Advisory Committee on Post-office Employment for Former Chief Executives and Politically Appointed Officials – chairman (2009~)
Advisory Committee on Post-service Employment of Civil Servants – chairman (2009~)
Education Commission – chairman (2009~)
Financial Reporting Council – member (2006~)

Qualifications

Solicitor (Hong Kong, England, Victoria of Australia, and Singapore)
Notary Public
China-Appointed Attesting Officer
Fellow (CPA Australia, and HKIoD)

* Currently listed on the Stock Exchange.

¹ Appointment ceased effective 1 September 2010.



CHEUNG Kin Tung, Marvin
GBS, JP

INED
Aged 63

Director since 12 April 2005
Term of office: 23 April 2009
(re-appointed) to 2011 AGM

Other positions held within the Group	HKEx – chairman of Audit Committee and member of Risk Management Committee
Other major offices	Hang Seng Bank Limited * – non-executive director (2004~) HKR International Limited * – non-executive director (2004~) HSBC Holdings plc * – non-executive director (2009~) Tracker Fund of Hong Kong * – chairman of Supervisory Committee (2000~)
Past offices	KPMG Hong Kong (1969-2003: chairman and chief executive officer (1996-2003), and partner (1974-2003)) SEHK – chairman of Listing Committee and GEM Listing Committee (2003-2005) Sun Hung Kai Properties Limited * – non-executive director (2007-2009)
Public service	Airport Authority Hong Kong – board member (2003~) and chairman (2008~) Barristers Disciplinary Tribunal Panel – member (1998~) Executive Council of the Hong Kong Government – non-official member (2005~) Honours Committee – member (2008~)
Qualifications	Honorary Doctorate in Business Administration (Hong Kong Baptist University) Fellow (HKICPA, and Institute of Chartered Accountants in England & Wales)

* Currently listed on the Stock Exchange.



HUI Chiu Chung, Stephen
JP

INED
Aged 63

Director since 23 April 2009
Term of office: 23 April 2009
(appointed) to 2011 AGM

Other positions held within the Group	HKEx – member of Investment Advisory Committee and deputy chairman of Cash Market Consultative Panel SEHK – member of Disciplinary Appeals Committee
Other major offices	Chun Wo Development Holdings Limited * – non-executive director (2006~) Fraser's Property (China) Limited * – non-executive director (2004~) Jiuzhou Development Company Limited * – non-executive director (1998~) Lifestyle International Holdings Limited * – non-executive director (2005~) Luk Fook Holdings (International) Limited * – non-executive director (1997~) OSK Holdings Hong Kong Limited – chief executive officer (2005~)
Past offices	HKSCC – director (1992-1996 and 1997-2000) SEHK – member of Listing Committee and GEM Listing Committee (2003-2009), and second vice-chairman (1995-1996 and 1997-2000) and member (1991-1996) of Council UOB Kay Hian (Asia) Limited – managing director (2002-2005)
Public service	SFC – member of Committee on Real Estate Investment Trusts (2005~) Travel Industry Council of Hong Kong – member of Appeal Board (2007~) Zhuhai Municipal Committee of the Chinese People's Political Consultative Conference – member (2006~)
Qualifications	Fellow (HKIoD) Ordinary member (HKSI)

* Currently listed on the Stock Exchange.



KWOK Chi Piu, Bill
JP

INED
Aged 58

Director since 3 April 2000
Term of office: 24 April 2008
(re-elected) to 2011 AGM

* Currently listed on the Stock Exchange.

¹ Appointment ceased effective 1 January 2011.

Other positions held within the Group

HKEx – member of Audit Committee, Executive Committee, Panel Member Nomination Committee and Risk Management Committee, and chairman of Derivatives Market Consultative Panel
HKFE – chairman of Disciplinary Appeals Committee

Other major offices

HSBC Private Bank (Suisse) SA – non-executive director (2006~)
Wing On Company International Limited * – non-executive director (1992~)
Wing On International Holdings Limited – executive director (1991~)
Wocom Holdings Limited – managing director (1992~)

Past offices

Bloomberg L.P. – member of Asia Pacific Advisory Board (2006-2010) ¹
HKFE – director (1991-2000) and vice-chairman (1997-2000)

Qualifications

Bachelor of Science (Chemistry) and **Bachelor of Arts (Economics)** (Stanford University, US)
Doctor of Philosophy (Biochemistry) (University of Chicago, US)
Fellow (HKSI)



LEE Kwan Ho, Vincent Marshall
Officer of the Order of the Crown
(Belgium)

INED
Aged 55

Director since 3 April 2000
Term of office: 24 April 2008
(re-elected) to 2011 AGM

* Currently listed on the Stock Exchange.

¹ Appointment as the chairman effective 18 October 2010, prior to that, Mr Lee was the managing director of Tung Tai Group of Companies.

² Appointment as a member of the Correctional Services Children's Education Trust Investment Advisory Board ceased effective 1 January 2011.

³ Appointment effective 1 January 2011.

Other positions held within the Group

HKEx – deputy chairman of Audit Committee, member of Executive Committee, Panel Member Nomination Committee and Remuneration Committee, and chairman of Cash Market Consultative Panel
SEHK – chairman of Disciplinary Appeals Committee

Other major offices

Kingway Brewery Holdings Limited * – non-executive director (2009~)
Tung Tai Group of Companies – chairman (2010~) ¹

Past offices

Coopers and Lybrand, Los Angeles & Boston – certified public accountant (1978-1981)
HSBC group, Hong Kong & Vancouver – senior banker (1981-1990)
Tung Tai Group of Companies – managing director (1990-2010) ¹

Public service ²

Brewin Trust Fund Committee – member (2006~)
Correctional Services Children's Education Trust Committee – member (2011~) ³

Qualifications

Graduated Magna Cum Laude in Accounting and International Finance (University of Southern California, US)
Master of Economics (London School of Economics and Political Science, UK)
Certified Public Accountant (State of California, US)
Fellow (HKICPA, and HKIoD)



LEE Tze Hau, Michael

INED
Aged 49

Director since 23 April 2009
Term of office: 23 April 2009
(appointed) to 2011 AGM

Other positions held within the Group

HKEx – member of Investment Advisory Committee and Panel Member Nomination Committee, and deputy chairman of Derivatives Market Consultative Panel
HKFE – member of Disciplinary Appeals Committee

Other major offices

Chen Hsong Holdings Limited * – non-executive director (2008~)
Hysan Development Company Limited * – non-executive director (2010~)
MAP Capital Limited – managing director (2007~)
The Hong Kong Jockey Club – steward (2006~)
Trinity Limited * – non-executive director (2008~)

Past offices

Asia Strategic Investment Management Limited – managing director (1995-2002)
Hysan Development Company Limited * – managing director (2003-2007), chief operating officer (2002-2003) and non-executive director (1990-2002)
Lloyd George Management – executive director (1992-1995)
SEHK – member of Listing Committee (2004-2007) and GEM Listing Committee (2006-2007)
Tai Ping Carpets International Limited * – non-executive director (1998-2010)

Public service

Beat Drugs Fund Association – member of Investment Sub-committee (2008~)
Council of the Queen Elizabeth Foundation for the Mentally Handicapped – member (2009~)
Hong Kong Committee for Pacific Economic Cooperation – member (2008~)
Police Children's Education Trust Management Committee – member (2008~)
Police Education and Welfare Trust Management Committee – member (2008~)
Standing Committee on Disciplined Services Salaries and Conditions of Service – member (2007~)

Qualifications

Bachelor of Arts (Bowdoin College, US)
Master of Business Administration (Boston University, US)

* Currently listed on the Stock Exchange.



John Estmond STRICKLAND
GBS, JP

INED
Aged 71

Director since 3 April 2000 **
Term of office: 22 April 2010
(re-elected) to 2013 AGM

Other positions held within the Group	<p>HKEx – chairman of Investment Advisory Committee and member of Nomination Committee</p> <p>SEHK – deputy chairman of Listing Appeals Committee and member of Listing Nominating Committee</p>
Other major offices	<p>Esquel Holdings Inc – non-executive director (2001~)</p> <p>Octopus Holdings Limited – non-executive chairman (2011~) ¹</p>
Past offices	<p>HSBC, Hong Kong & London (1971-1998 and 1966-1969)</p> <p>Integrated Distribution Services Group Limited – non-executive director (2004-2010) ²</p> <p>The Hongkong and Shanghai Banking Corporation Limited – chairman (1996-1998)</p> <p>Yoma Strategic Holdings Ltd (listed on the Singapore Exchange) – non-executive director (2006-2009)</p>
Public service	<p>Hong Kong Internet Registration Corporation Limited – non-executive director (2008~) and non-executive chairman (2009~)</p>
Qualifications	<p>Degree in Physics (Jesus College, University of Cambridge, UK)</p> <p>Honorary Doctorate in Business Administration (City University of Hong Kong)</p> <p>Honorary Doctorate in Technology (The Hong Kong Polytechnic University)</p> <p>Distinguished fellow (Hong Kong Computer Society)</p> <p>Honorary fellow (The Hong Kong Institute of Bankers)</p> <p>Honorary university fellowship (The University of Hong Kong)</p> <p>Fellow (HKMA)</p>

** Prior to his appointment as Director on 3 April 2000 by the Financial Secretary under the Exchanges and Clearing Houses (Merger) Ordinance (repealed), Mr Strickland was also a member of the Preparatory Board from 8 July 1999. Mr Strickland is currently an Elected Director.

- 1 Appointment effective 1 January 2011.
2 Appointment ceased effective 1 November 2010.



**John Mackay McCulloch
WILLIAMSON**

INED
Aged 52

Director since 18 June 2008
Term of office: 23 April 2009
(elected) to 2012 AGM

Other positions held within the Group

HKEx – member of Audit Committee, Executive Committee and Remuneration Committee

Other major offices

Search Investment Group Limited – managing director and chief financial officer (2007~)

Past offices

HKEx – member of Clearing Consultative Panel (2000-2007)
Morgan Stanley Dean Witter Asia Limited – managing director, and head of infrastructure and operational risk (1998-2007)
NatWest Investment Services, London – managing director (1992-1994)
NatWest Securities Asia Holdings Limited – chief operating officer (1994-1998)

Qualifications

Bachelor of Arts (Accountancy & Computer Science) (Heriot-Watt University, UK)
Chartered Accountant (The Institute of Chartered Accountants of Scotland)
Fellow (HKSI, and Chartered Institute for Securities and Investment, UK)



WONG Sai Hung, Oscar

INED
Aged 55

Director since 15 April 2003
Term of office: 22 April 2010
(re-elected) to 2013 AGM

Other positions held within the Group

HKEx – deputy chairman of Investment Advisory Committee, member of Nomination Committee and Panel Member Nomination Committee, and chairman of Clearing Consultative Panel
HKSCC – chairman of Disciplinary Appeals Committee

Other major offices

ARN Asian Enterprise Fund Limited (listed on the Irish Stock Exchange) – non-executive director (2006~)
ARN Investment Sicav (listed on the Luxembourg Stock Exchange) – non-executive director (2010~)
China Bio-Med Regeneration Technology Limited * – non-executive director (2008~) and non-executive vice-chairman (2009~)
ICBC (Asia) Investment Management Company Limited – chief executive and executive director (2008~)

Past offices

BOCI-Prudential Asset Management Limited – chief executive officer (2001-2005)
INVESCO Asia Limited – deputy chief executive (1998)
Prudential Portfolio Managers Asia – regional managing director (1999-2000)

Public service

Hong Kong Housing Authority – member of Finance Committee (2008~)

Qualifications

Higher Diploma in Business Studies (Marketing) (The Hong Kong Polytechnic University)

* Currently listed on the Stock Exchange.

Senior Management



Gerald Dale GREINER

Chief Operating Officer
Aged 54

Joined in May 2004

Other positions held within the Group	SEHK – chief executive, and member of Compensation Committee HKFE – chief executive HKSCC – chief executive, and member of Risk Management Committee
Past offices	HKEx – Deputy Chief Operating Officer and Head of Exchange Division (2004-2007) SFC – senior director of supervision of markets division (1989-2004) US Securities and Exchange Commission – various senior executive positions (1984-1989)
Public service	SFC – member of Securities Compensation Fund Committee (2005~)
Qualifications	Bachelor of Science in Economics (Allegheny College, US) Juris Doctor (University of Toledo College of Law, US)



Mark Francis DICKENS
JP

Head of Listing
(Effective 1 March 2009)
Aged 58

Joined in January 2009

Past offices	Value Partners Limited – chief risk officer (2007-2008) HT Capital Management Limited – adviser (2007) HKEx – member of Risk Management Committee (2003-2005) SFC – executive director of supervision of markets division (1999-2005), executive director of enforcement division (1997-1999), and senior director, assistant director and member of panel on takeovers and mergers of corporate finance division (1991-1996) Australian Securities Commission and its predecessor, National Companies and Securities Commission – several senior positions including national managing director, and senior director of market supervision division (1987-1991)
Public service	SFC – member of advisory committee (2009~) Standing Committee on Company Law Reform – member (2010~)
Qualifications	Bachelor of Economics and Bachelor of Laws (The Australian National University) Solicitor Attorney and Proctor (Supreme Court of New South Wales, Australia) Barrister and Solicitor (Supreme Court of the Australian Capital Territory, the High Court of Australia and the Supreme Court of Victoria, Australia)



FOK Kwong Man, Lawrence

Chief Marketing Officer
Aged 61

Joined in February 1992

Other major office	Tracker Fund of Hong Kong * – member of Supervisory Committee (2000~)
Past offices	HKEx – Head of Issuer Marketing Division (2007-2010); Head of Business Development Division (2005-2007); Head of Business Development and Investor Services Division (2004-2005); Deputy Chief Operating Officer (2000-2004); and Head of Listing, Regulation and Risk Management (2000) SEHK – chief executive (2000-2004), senior executive director of regulatory affairs group (1998-2000), executive director of the listing division (1997), director of the listing division (1994-1997), assistant director of the listing division (1992-1994) SFC – assistant director of corporate finance (1989-1992)
Qualifications	Bachelor of Science in Engineering (The University of Hong Kong) Master of Business Administration (Columbia University, US) Master of Arts (Economics) and Master of Science (Statistics) (Stanford University, US)

* Currently listed on the Stock Exchange.



Kevin Thomas KING

Head of Risk Management
Aged 56

Joined in March 2008

Other position held within the Group

HKSCC – member of Risk Management Committee

Past offices

OMX Nordic Exchange (Stockholm) – vice president risk management (2000-2008)
Rabobank International – vice president team leader, risk management area – North America (1996-2000)
Roundhill Group Limited – executive consultant (1995-1996)

Qualifications

Masters of Business Administration (Finance) (Graduate School of Business, Fordham University, US)
Bachelor of Arts in Economics (St Lawrence University, US)
Member (Global Association of Risk Professionals, and Professional Risk Managers' International Association)



Romnesh LAMBA

Head of Market Development
Aged 47

Joined in February 2010

Past offices

J.P. Morgan (Hong Kong) – senior adviser, Asia ex-Japan corporate finance and capital markets business (2008-2010)
Merrill Lynch (Asia Pacific) (2000-2008: managing director, investment banking, and chief operating officer of China origination business (2006-2008), and head of Asia energy and power team (2003-2006))
Indosuez W.I. Carr Securities (Hong Kong) – head of equity capital markets and director, investment banking (1997-2000)

Qualifications

Bachelor of Science in Economics (Magna Cum Laude) and **Master of Business Administration (Distinction)** (The Wharton School, University of Pennsylvania, US)



LAW Man Wai, Henry

Head of Corporate Communications
Aged 56

Joined in January 1988

Past offices

Ogilvy and Mather Public Relations (Hong Kong) Limited – senior consultant and group head of the public relations section for financial institutions and listed companies (1982-1988)
Michael Stevenson Limited – advertising and public relations executive (1974-1982)



WONG Oi Ming, Christine

Chief Counsel and
Head of Legal Services
(Effective 1 August 2010)
Aged 48

Joined in June 2010

Past offices	Linklaters – consultant (2001-2010) SFC (1995-2001: senior director (2000-2001) and director (1997-2000) of corporate finance) Freshfields Bruckhaus Deringer LLP – associate (1992-1995)
Qualifications	Bachelor of Laws (The University of Hong Kong) Solicitor (Hong Kong and England & Wales)



WONG Sum Fai, Samuel

Chief Financial Officer and
Head of Finance and Administration
Aged 49

Joined in July 2010

Past offices	Hutchison Port Holdings Limited – finance director (2006-2010) i-CABLE Communications Limited – chief financial officer and director (1993-2005) The Bank of Nova Scotia (Toronto) – senior manager, investment and corporate banking (1987-1993)
Qualifications	Bachelor of Commerce degree in Accounting and Economics (University of Toronto, Canada) Master of Business Administration degree in Finance (University of British Columbia, Canada) Member (The Canadian Institute of Chartered Accountants)

Company Secretary



MAU Kam Shing, Joseph

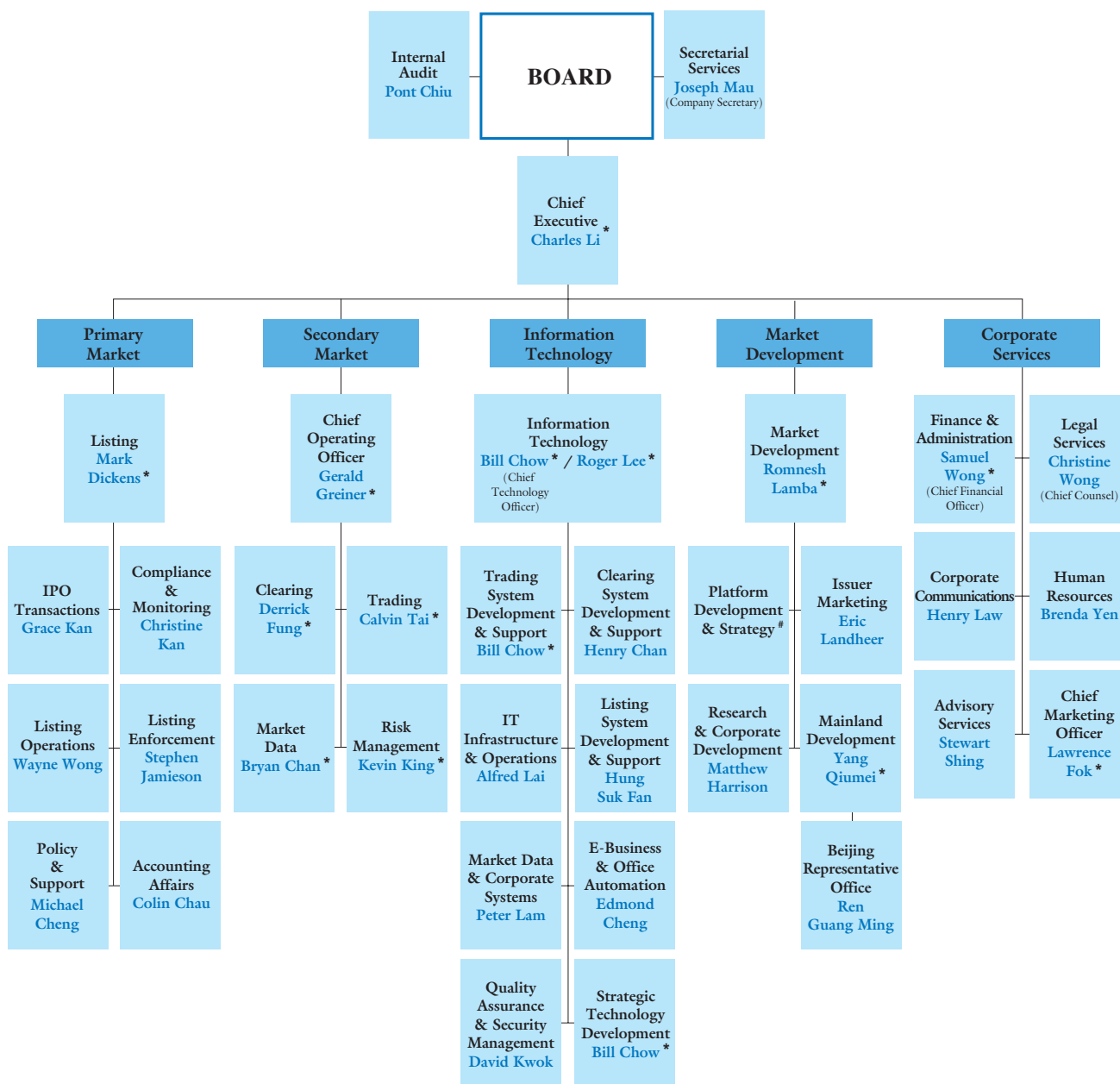
Company Secretary and
Head of Secretarial Services
Aged 52

Joined in June 2000

Other position held within the Group	HKEx – member of Corporate Social Responsibility Committee
Past offices	Hysan Development Company Limited – company secretary (1988-2000) Impala Pacific Corporation Limited – financial controller and company secretary (1986-1988) Deloitte Haskins & Sells – audit senior (1981-1984)
Qualifications	Master of Science (Business Administration) (University of Bath, UK) Master of Laws in Corporate and Financial Laws (The University of Hong Kong) Fellow (HKICS, The Institute of Chartered Secretaries and Administrators, and Association of Chartered Certified Accountants) Associate (HKICPA, and Institute of Chartered Accountants in England & Wales)

Messrs Gerald Greiner, Lawrence Fok and Samuel Wong also hold position as a director in certain Group's subsidiaries.

ORGANISATION CHART



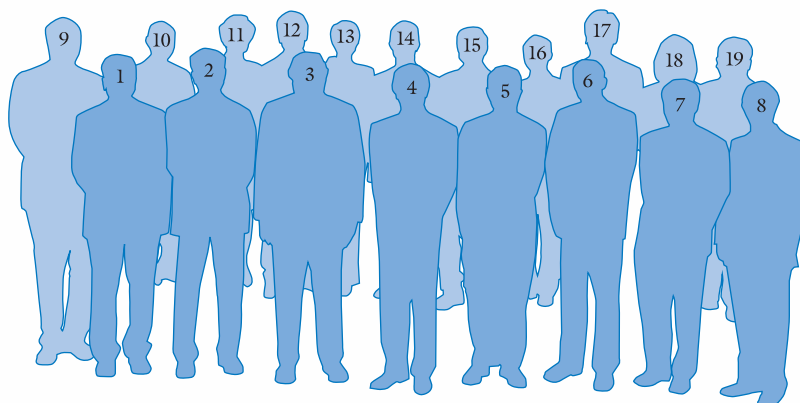
* Members of HKEx Senior Management Committee

The Department Head to be appointed

Note: Mr Eric Yip, Deputy Chief Operating Officer, will leave HKEx by the end of March 2011.



1. Roger Lee
2. Calvin Tai
3. Gerald Greiner
4. Charles Li
5. Mark Dickens
6. Romnesh Lamba
7. Samuel Wong
8. Bill Chow
9. Kevin King
10. Pont Chiu



11. Brenda Yen
12. Derrick Fung
13. Yang Qiumei
14. Bryan Chan
15. Lawrence Fok
16. Eric Yip
17. Joseph Mau
18. Christine Wong
19. Henry Law

BUSINESS REVIEW

Listing

Review of Listing Rules

HKEx is committed to providing a quality market for issuers and investors. The Exchange reviews the Listing Rules from time to time to ensure that they address developments in the market and international best practice, and also represent acceptable standards which help promote investor confidence.

List of consultation papers issued in 2010

	Issue date
• Proposed Change to Minimum Number of Shareholders for the Market Capitalisation/ Revenue Test	Sep
• Proposed Changes to Requirements for Qualified Property Acquisitions and Formation of Joint Ventures	Sep
• Proposed Changes to Property Valuation Requirements (joint consultation with the SFC)	Dec
• Proposed Changes to Requirements for the Listing of Debt Issues to Professional Investors only (currently referred to in the Listing Rules as listing by selective marketing)	Dec
• Ex-entitlement Trading and Shareholder Approval	Dec
• Review of the Code on Corporate Governance Practices and Associated Listing Rules	Dec

List of consultation conclusions issued in 2010	Issue date	Effective date of new/ revised Listing Rules
• New Listing Rules for Mineral Companies	May	3 Jun 2010
• Proposed Changes to Connected Transaction Rules	May	3 Jun 2010
• Proposed Changes to Requirements for Circulars and Listing Documents of Listed Issuers	May	3 Jun 2010
• Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong	Dec	15 Dec 2010
• Issue of Paper Application Forms with Electronic Prospectuses	Nov	1 Feb 2011

List of proposals under review in 2011

- Possible changes to the Listing Rules arising from the SFC's consultations on structured products and selling practices, and reforms to the prospectus regime
- Potential consequential amendments to the Listing Rules from the proposed statutory backing on continuing disclosure obligations
- Further review of the Connected Transaction Rules that will take into account respondents' views and comments in the consultation conducted in October 2009, the corporate structures of Hong Kong-listed issuers, and the developments of regulations in overseas jurisdictions
- Prospectus simplification

All the consultation papers and conclusions are available on the HKEx website to ensure transparency and accessibility.

Pending consideration of possible amendments to the Listing Rules, the Exchange will, as appropriate, issue guidance to provide the market with more clarity on the Exchange's practice, such as the interim guidance on pre-IPO investments issued in October 2010.

Accepting More Overseas Jurisdictions

During 2010, the Exchange increased the number of jurisdictions it considered acceptable for an issuer's incorporation to 15, in addition to Hong Kong, the PRC, Bermuda and the Cayman Islands. The year also witnessed the listing of Brazil's Vale S.A., under the depositary receipt programme, which was the first one launched after a chapter was added to the Main Board Listing Rules in 2008 to provide alternative listing facilities to overseas companies. The listing of Vale S.A. is a pilot which may point to a possible model for an increased-disclosure approach to the listing of overseas companies in appropriate cases.

Enhanced Service for Structured Product Issuers

HKEx is developing a web-based Structured Product Integrated Transaction System (SPRINTS) that allows structured product issuers to submit term sheet data electronically to the Exchange in a standardised format (Extensible Markup Language, or XML). A briefing session was held in August 2010 to help structured product issuers prepare for the launch of SPRINTS. Details of the term sheet data requirements as set out in the Term Sheet Data File Specifications were sent to issuers in September 2010; user acceptance testing is in progress. HKEx will continue to work closely with issuers towards successful implementation of SPRINTS in the second quarter of 2011.

IPO Processing

The Exchange has continued to process applications for new equity listings, including transactions by listed companies deemed to be new listings, and handled pre-IPO enquiries. The relevant statistics relating to its IPO work in 2010 are set out in the following table.

Record of IPO work

	2010	2009
Number of listing applications vetted	235 ¹	150
Number of first comment letters issued to new listing applicants	156 ²	91
Average time (in calendar days) between receipt of application and issuance of first comment letter	20	19
Number of applications brought to the Listing Committees (or their delegates) for decisions	135	98
Number of applications reviewed by Listing Committees (or their delegates) within 120 calendar days	107	86
Number of applications reviewed by Listing Committees (or their delegates) within more than 180 calendar days	9	7
Number of applications to which approval was granted in principle	164 ³	99
Number of requests for guidance from listing applicants or their advisers seeking clarifications of Listing Rules relevant to new listing applications to which responses were made	110	92
Average response time (in calendar days)	6	6
Number of listing applications for transfer of listing from GEM to Main Board accepted	15	4

Notes:

- 1 204 were new applications and 31 applications were brought forward from 2009.
- 2 The number was less than the total number of new applications accepted because a number of cases (eg, investment vehicles seeking for listing under Chapter 20 and transfer of listing from GEM to the Main Board) required no comments from the Listing Division and proceeded to the approval process directly.
- 3 As at the end of 2010, 23 approved applications had not yet been listed, and 6 of them lapsed during the year.

Number of IPO transactions

	2010	2009	2008	2007	2006
New listing applications accepted	204	123	137	125	88
Applications listed	141	93	57	96	65
Companies listed on Main Board under Chapter 8	94	64	29	78	54
Investment vehicles listed on Main Board	27	19	7	11	3
Transfer of listing from GEM to Main Board	12	4	18	4	2
Companies listed on GEM	7	5	2	2	6
Deemed new listings	1	1	1	1	0
New listing applications rejected	2	0	1	0	7
New listing applications withdrawn	9	3	8	3	4
Applications in process as at year-end	39	31	27	42	29
Active applications with approval granted but not yet listed at year-end	23	12	24	9	6

Number of listed companies (as at year-end)

	2010	2009	2008	2007	2006
Main Board	1,244	1,145	1,087	1,048	975
GEM	169	174	174	193	198
Total	1,413	1,319	1,261	1,241	1,173

Number of listed companies by industry classification* – Main Board and GEM (as at year-end)

	2010	2009	2008	2007	2006
Energy	52	44	34	28	21
Materials	123	105	93	81	69
Industrial Goods	120	111	113	114	103
Consumer Goods	359	330	327	336	327
Services	212	209	198	188	168
Telecommunications	18	18	17	18	16
Utilities	39	32	24	20	22
Financials	109	102	100	103	103
Properties & Construction	198	191	174	166	158
IT	160	154	158	161	161
Conglomerates	23	23	23	26	25
Total	1,413	1,319	1,261	1,241	1,173

* According to the Hang Seng Indexes Company Limited

Compliance and Monitoring

The Exchange has continued to monitor listed issuers' compliance with the Listing Rules focusing on areas which pose the greatest risk to the market. It conducted a range of activities, including vetting issuers' documents, monitoring market activities, and providing guidance and interpretation of the Listing Rules.

Number of compliance and monitoring actions (as at year-end)

	2010	2009	2008	2007	2006
Announcements of listed issuers vetted	32,099	27,588	20,784	19,025	11,579
Pre-vetted	188	1,589	4,266	5,215	3,915
Post-vetted ¹	31,911	25,999	16,518	13,810	7,664
Circulars of listed issuers vetted	1,782	1,731	2,849	3,048	2,488
Pre-vetted	1,344	1,275	2,761	3,023	2,488
Post-vetted	438	456	88	25	0
Share price and trading volume monitoring actions undertaken	5,091	8,112	8,439	10,083	7,716
Clarification announcements published by listed issuers in response to share price and trading volume monitoring actions undertaken ²	328 ³	840 ⁴	2,627	5,597	3,556
Press enquiries raised	221	311	536	495	587
Clarification announcements published by listed issuers in response to press enquiries raised	55	81	43	50	101
Complaints handled	630	599	516	512	252
Cases (including complaints) referred to Listing Enforcement Department for investigation	59	54	86	90	141

Notes:

- 1 Included clarification announcements published by listed issuers in response to share price and/or trading volume movements in their securities
- 2 In 2010, there were 802 enquiries (2009: 1,755) on unusual share price and trading volume and 104 resumption announcements (2009: 110).
- 3 Being 186 qualified announcements and 142 standard negative announcements
- 4 Being 220 qualified announcements and 620 standard negative announcements

Starting from 1 January 2009, the Exchange ceased to pre-vet certain categories of issuers' announcements as it shifted its regulatory focus from pre-clearance of announcements to post-vetting and monitoring of issuers' compliance with the Listing Rules. Under Phase two of the post-vetting regime, which commenced on 1 January 2010, pre-vetted announcements accounted for only 1 per cent of all the announcements vetted in 2010, a noticeable decrease from 2009 (5 per cent). The Exchange's experience with the post-vetting regime continued to be positive as issuers' compliance with the Listing Rules improved. In 2010, 4 per cent of the post-vetted announcements required follow-up actions by the Exchange (2009: 5 per cent).

During 2010, the Exchange continued to fine-tune its post-vetting process. It continued to conduct a high-level review of all announcements and notices before the commencement of each trading session, and conducted detailed reviews of those announcements which related to more significant transactions, or which posed a higher risk of non-compliance. Certain categories of announcements with a good record of issuer compliance were shifted from detailed vetting to high-level review only. The Exchange will further refine the scope of detailed post-vetting as issuers' compliance improves.

Post-vetted announcements

	2010	2009
Subject to detailed post-vetting *	11,615	11,521
Required follow-up actions by issuers #	22%	22%
Involved Rule non-compliance #	14%	11%

* Being 36 and 44 per cent of all post-vetted announcements in 2010 and 2009 respectively

Representing the percentage of the post-vetted announcements which required follow-up enquiries

When launching the post-vetting regime, it was the Exchange's intention in 2008 to post-vet all announcements by phases, with the final phase covering the transactions involving reverse takeovers, cash companies and sufficiency of operations or assets to commence on 1 January 2011. However, in light of current diverse market views on Rule interpretations for these transactions, the Exchange will continue monitoring the market situation before implementing the final phase of the post-vetting regime.

While issuers have an obligation to disclose price-sensitive information to the market in a timely manner, the Exchange monitors issuers' compliance with their continuing obligations to ensure that the trading of their securities is in an orderly, informed and fair market. As a result of (i) a general decrease in the volatility of individual stock price and volume movements against market movements during 2010; and (ii) the Exchange adopting, since the third quarter of 2009, a more sophisticated share price and volume movement tracking system where prices and trading volume fluctuations are now also measured against market and sector indices movements, 2010 witnessed a reduction in the volume of the monitoring actions and enquiries made by the Exchange.

During 2010, 59 cases (2009: 54) of suspected breaches of the Listing Rules were subject to the Exchange's enforcement investigation. Cases involving suspected violations of laws and other rules and regulations were referred to the appropriate law enforcement agencies for their consideration. Specific written or verbal guidance was issued to resolve minor non-compliance cases.

To promote issuers' self-compliance with the Listing Rules, the Exchange encourages issuers to seek individual guidance on Rule interpretations. In 2010, the Exchange handled 430 written enquiries (2009: 502) on Rule interpretation and related matters, and processed 622 waiver applications (2009: 741) for particular part of the Listing Rules. Taking into account the nature of guidance sought by issuers, the Exchange regularly issued listing decisions and frequently asked questions with answers provided on Rule amendments to promote transparency in interpretation of the Listing Rules. Following two thematic reviews of issuers' compliance with publication requirements and directors' dealing during blackout periods, the Exchange also issued general guidance to all issuers and their directors highlighting potential areas of non-compliance.

In 2010, the Exchange continued its education programme and market outreach to issuers and other stakeholders, with a view to promoting issuers' self-compliance with the Listing Rules and facilitating mutual understanding of regulatory issues through dialogue. We organised a series of 9 seminars in Hong Kong which attracted over 1,500 participants and 2 seminars in Beijing which attracted over 350 participants. The Exchange also conducted 9 meet-and-greet sessions for our Listing staff to meet 148 issuers' representatives and market practitioners at breakfast or lunch meetings to promote better communication.

To improve transparency, quality and predictability of service, we have progressively established, reviewed and refined service standards to measure the timeliness of our monitoring and guidance actions as well as our subsequent responses to issuers' actions. We also track the overall response time and efficiency in resolving problem cases.

Service standard set for initial responses in 2010

	Service standard	% of cases meeting the service standard	
		2010	2009
Pre-vetting Activities			
Initial response to pre-vetted announcements	Same day	66%	90%
Initial response to pre-vetted circulars	5 business days	96%	99%
Issuer Enquiries			
Initial response to issuer's enquiries	5 business days	91%	85%
Waiver Applications			
Initial response to waiver applications (other than application for delay in despatch of circulars)	5 business days	89%	89%
Post-vetting Activities			
Initial response to post-vetted results announcements	5 business days	94%	92%
Initial response to post-vetted announcements (other than results announcements)	1 business day	93%	92%

In 2010, the response rate of pre-vetted announcements decreased when compared to 2009 because under Phase two of the post-vetting regime, only complex transactions were pre-vetted. These transactions, which include very substantial acquisitions, potential reverse takeovers, cash companies and sufficiency of operations or assets issues, typically raised more issues on Rule interpretation. We heightened our level of scrutiny on these transactions and require better quality of disclosure in issuers' circulars.

Status of long suspended companies (as at year-end)

	Main Board		GEM	
	2010	2009	2010	2009
Resumption of trading of securities during the year	5	16	6	2
Cancellation of listing during the year	0	1	0	0
Companies in the third stage of delisting	12	2	N/A	N/A
Companies notified of Exchange's intention to cancel their listing	0	1	2	1
Companies suspended for 3 months or more	39	28	9	11

Listing Enforcement

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

Where the SFC commences an investigation of a case, the Exchange will normally suspend its investigation and give its support to the SFC. Under this arrangement, the Exchange is currently suspending the investigation of 11 cases. After the SFC completes an investigation into an individual case, the Exchange will consider if a reactivation of its investigation is required for possible disciplinary action.

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

During the year, a number of investigations arising from breaches of the Listing Rules were completed, leading to the imposition of public and private sanctions by the Listing Committees. The relevant information is available on the HKExnews website. There are currently 4 ongoing disciplinary actions at various stages of the disciplinary process.

Number of disciplinary actions (as at year-end)

	2010	2009	2008	2007	2006
Investigations ¹	133	147	171	167	216
Public censures ²	7	4	10	9	9
Public statements/criticisms ²	1	4	5	7	11
Private reprimands	1	1	0	0	2
Warning/caution letters ³	27	28	68	63	96

Notes:

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

In 2010, 4 cases originating from a complaint were subject to enforcement investigation and which might give rise, after investigation, to disciplinary proceedings.

To further improve the efficiency of investigations, training on investigation techniques was offered to our staff. Improvements were made to the internal decision-making structures to enable earlier identification of serious misconduct and breaches of the Listing Rules. This helps facilitate the delivery of regulatory outcomes as quickly as possible while observing the principles of natural justice and due process. The average time for completion of an investigation (at which point in time a decision as to the level of regulatory action (if any) is taken) was 7.7 months for cases in which the investigation commenced in 2009 and 2010. As at 31 December 2010, 90 per cent of the 51 investigation cases commenced in 2010.

Continued improvements have been made to enhance transparency of the disciplinary process by providing more details in announcements when disciplinary actions are concluded.

Compliance with the Listing Rules is the collective and individual responsibility of directors whether they hold executive or non-executive roles therein; for example, when they are in possession of specific information of certain events or developments that might materially affect the business affairs of a listed issuer. Compliance shall be achieved through the creation of compliance systems and with sufficient controls to ensure that the directors as a body can discharge that responsibility. Directors may be subject to disciplinary sanctions should they be held liable for breaches of Listing Rules.

Number of directors subject to disciplinary sanctions as a result of contested or settlement cases

	2010	2009	2008	2007
Executive directors	30	20	67	48
Non-executive directors	4	10	17	20
INEDs	18	16	26	18
Total	52	46	110	86

As at 31 December 2010, 27 executive directors, non-executive directors and INEDs were subject to ongoing disciplinary action, whose cases are at various stages of the process or subject to settlement negotiations.

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

Number of contested or settlement cases

	2010	2009	2008	2007
Involving "Internal Control Review" direction	1	6	4	3
Involving "Retention of Compliance Adviser" direction	5	5	5	4
Involving "Training of Directors" direction	6	7	4	7

In terms of policy development, the Exchange has been providing input to the Hong Kong Government in formulating its proposals to impose a statutory obligation on listed issuers to disclose price-sensitive information.

Listing Operations

During the year, a total of 8,236 DW listing applications (2009: 4,434) were processed, of which 7,826 were new issues (2009: 4,230) and 410 further issues (2009: 204). Moreover, 6,634 CBBC listing applications (2009: 8,121) were processed, of which 6,541 were new issues (2009: 8,072) and 93 further issues (2009: 49). A total of 38 new debt securities (2009: 23), including Exchange Fund Notes and Hong Kong Government Bonds, were listed in 2010.

Number of DWs

	2010	2009	2008	2007	2006
Newly listed DWs	7,826	4,230	4,822	6,312	2,823
Delisted DWs	6,045	3,874	6,294	3,788	2,168
DWs listed as at year-end	5,148	3,367	3,011	4,483	1,959
Percentage change in number of listed DWs	53%	12%	(33%)	129%	50%

Number of CBBCs *

	2010	2009	2008	2007
Newly listed CBBCs	6,541	8,072	4,231	391
CBBC knockouts	4,835	5,899	2,837	250
Delisted CBBCs	2,334	1,795	211	34
CBBCs listed as at year-end	1,064	1,692	1,314	131
Percentage change in number of listed CBBCs	(37%)	29%	903%	446%

* The first CBBC was listed on 12 June 2006.

During the year, the Latest Listed Company Information section remained one of the most popular sections on the HKExnews and GEM websites. The majority of issuers' submissions were uploaded within 2 seconds (excluding the Internet transmission time which is beyond HKEx's control). Up to the end of 2010, the HKExnews website housed a total of 1,097,658 archived issuer documents for public access free of charge. During the year, it recorded over 33 million searches for these issuer documents and 80 per cent of searches were responded to within 0.1 second (excluding the Internet transmission time which is beyond HKEx's control). SEHK also administers the filing and publication of DI notices through the HKExnews website in accordance with the SFC's requirements and specifications under Part XV of the SFO. Some statistics relating to issuer news and DI are set out in the following table.

Primary market information *

	2010	2009	2008	2007	2006
Number of issuer news filings processed	202,492	191,266	143,410	120,622	94,666
Hit rates for issuer news website (in million)	235	176	121	151	94
Number of DI filings processed by the Exchange	49,958	46,574	54,965	62,211	38,809
Hit rates for DI filings (in million)	38	27	28	31	13

* Primary Market Information statistics cover Main Board and GEM issuers.

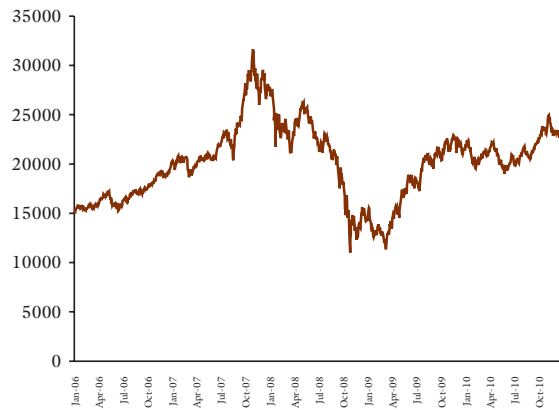
Cash Market**Market Performance**

In 2010, 106 companies (including 12 transfers from GEM) were newly listed on the Main Board (7 on GEM), and 7 Main Board and 12 GEM companies were delisted. Total capital raised, including post-listing funds, reached \$859 billion. As at 31 December 2010, 1,244 and 169 companies were listed on the Main Board and GEM respectively with a total market capitalisation of \$21,077 billion. In addition, there were 5,148 DWs, 1,064 CBBCs, 8 REITs, 69 ETFs and 169 debt securities listed as at 31 December 2010. The average daily turnover in 2010 was \$68.6 billion on the Main Board and \$536.8 million on GEM.

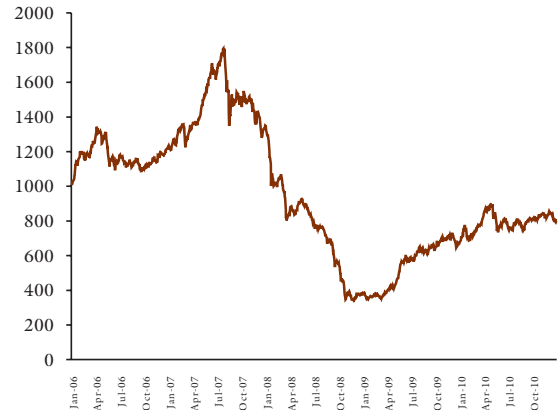
Closing indices (as at year-end)

	2010	2009	Change
HSI	23035	21872	5%
HSCEI	12692	12794	(1%)
Hang Seng China-affiliated Corporations Index	4170	4059	3%
S&P/HKEx LargeCap Index	27392	25564	7%
S&P/HKEx GEM Index	810	677	20%

HSI (01/2006 – 12/2010)



S&P/HKEx GEM Index (01/2006 – 12/2010)

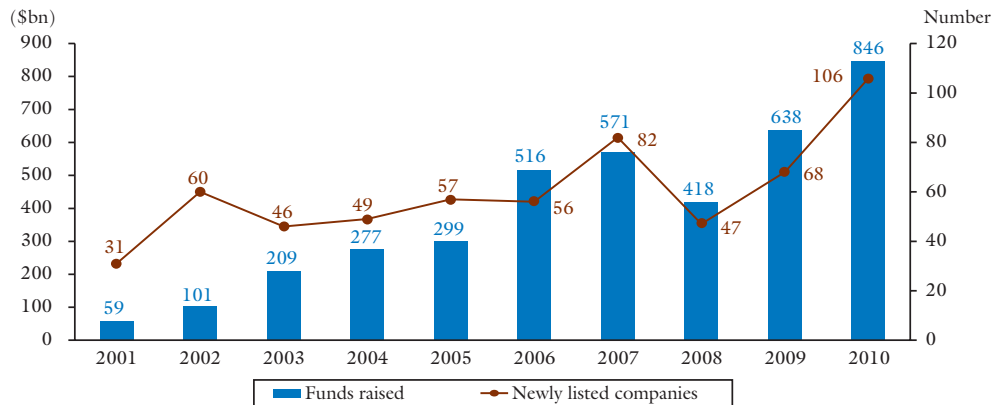


Market performance of Main Board and GEM

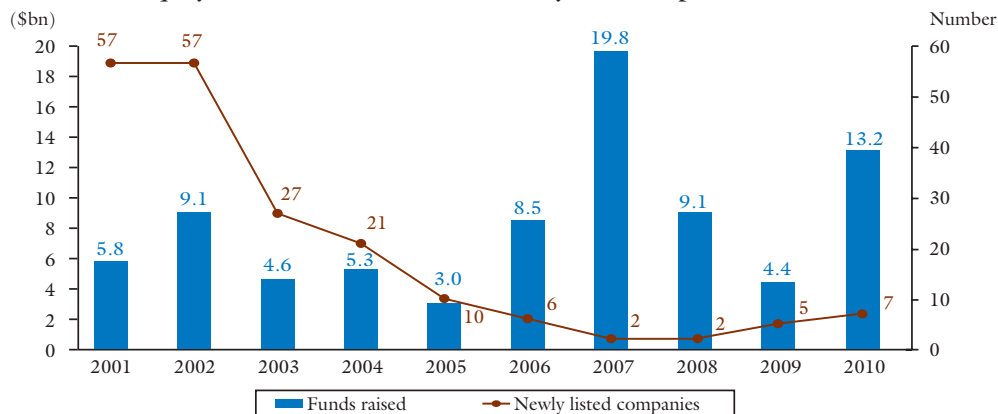
	Main Board			GEM		
	2010	2009	Change	2010	2009	Change
IPO funds raised (\$bn)	449	248	81%	0.7	0.4	75%
Market capitalisation as at year-end (\$bn)	20,942	17,769	18%	135	105	29%
Number of listed companies as at year-end	1,244	1,145	9%	169	174	(3%)
Number of listed securities as at year-end	7,730	6,441	20%	170	175	(3%)
Total turnover (\$bn)	17,076	15,439	11%	134	76	76%
Average daily turnover (\$m)	68,580	62,006	11%	537	304	77%

Note: Figures have been rounded.

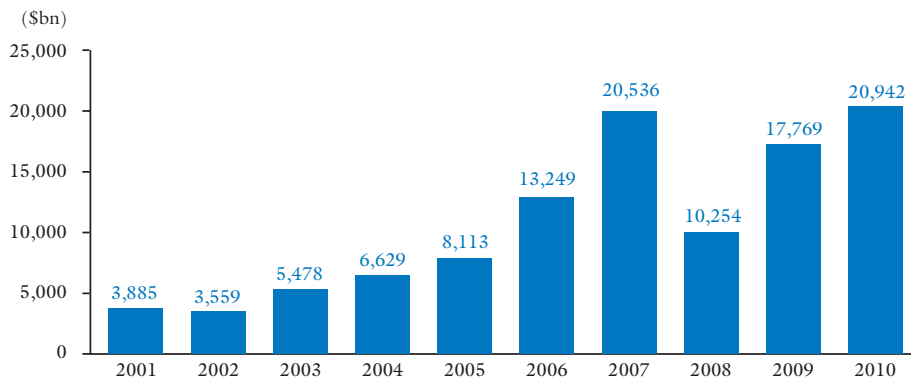
Main Board – Total equity funds raised and number of newly listed companies



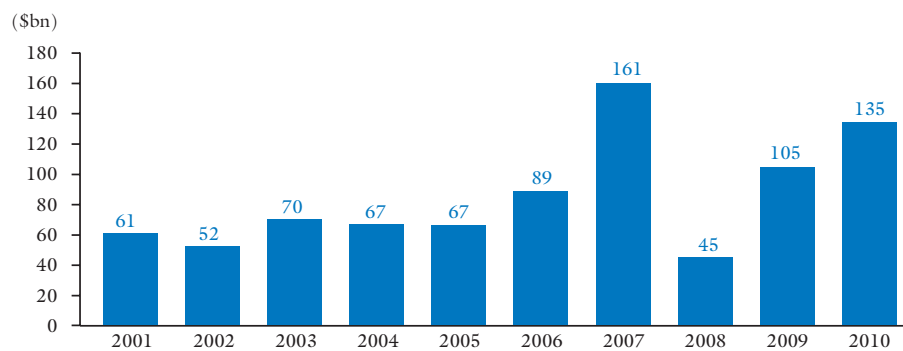
GEM – Total equity funds raised and number of newly listed companies



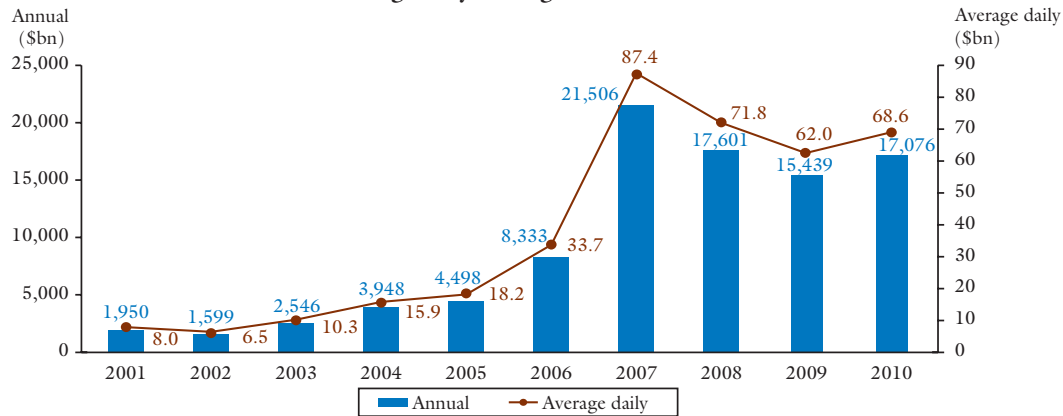
Main Board – Market capitalisation (as at year-end)



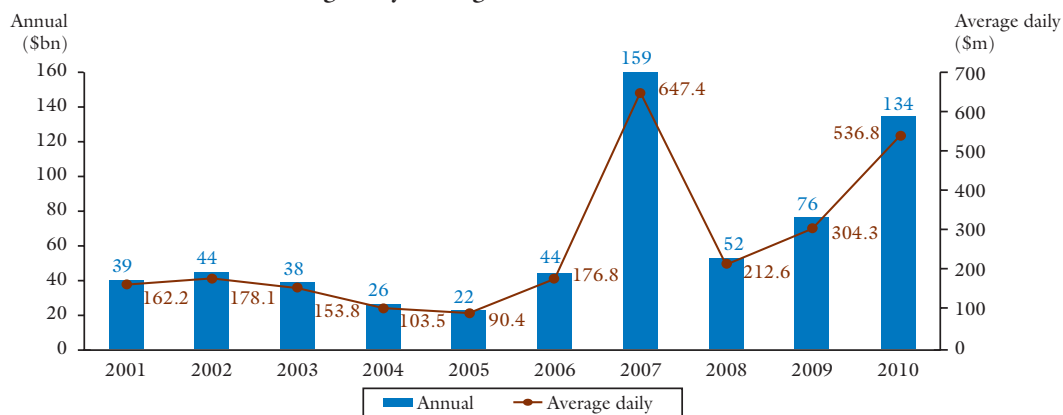
GEM – Market capitalisation (as at year-end)



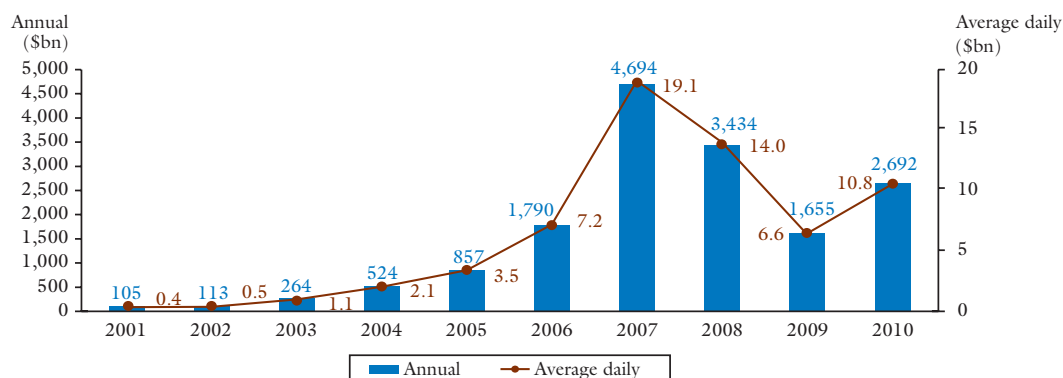
Main Board – Total annual and average daily trading value



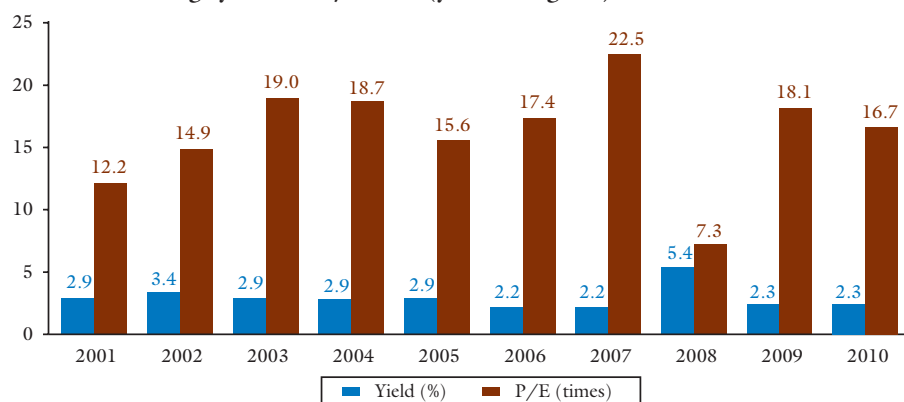
GEM – Total annual and average daily trading value



Main Board – Total annual and average daily trading value of DWs



Main Board – Average yield and P/E ratio (year-end figures)



Main Board – New listings

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Listed Companies ¹	106	68	47	82	56	57	49	46	60	31
Preference Shares	1	0	0	0	1	0	0	0	0	0
Warrants	7,838	4,241	4,840	6,329	2,835	1,694	1,273	688	671	212
Equity Warrants	12	11	18	17	12	12	14	10	27	31
DWs	7,826	4,230	4,822	6,312	2,823	1,682	1,259	678	644	181
CBBCs ²	6,541	8,072	4,231	391	83	–	–	–	–	–
ELIs ³	0	0	0	0	0	0	46	16	25	–
Debt Securities	38	23	20	26	46	32	49	20	18	21
Unit Trusts and Mutual Funds	27	19	7	11	3	6	2	1	1	1

Notes:

- 1 Included the number of companies transferred from GEM
- 2 Launched on 12 June 2006
- 3 Launched on 5 August 2002

Automation of Stamp Duty Reporting and Payment

On 20 September 2010, HKEx rolled out its Electronic Communication Platform (ECP) to enable automation of stamp duty reporting and payment. Daily stamp duty returns can now be submitted through the ECP and the reported stamp duty amounts are directly debited from the EP's Designated Bank Account. HKEx estimates over 120,000 paper stamp duty submissions and 100,000 paper cheques will thereby be eliminated annually.

Changes to Trading Hours

HKEx published a consultation paper on proposed changes to the trading hours of its securities and derivatives markets on 17 September 2010 and the consultation closed on 29 October 2010. Having carefully considered the market responses, HKEx announced on 23 November 2010 to extend the trading hours of the securities and derivatives markets in 2 phases as follows:

	<u>Phase 1</u>		<u>Phase 2</u>
	Effective 7 Mar 2011		Effective 5 Mar 2012
Continuous trading session of the securities market and the stock futures and options markets	9:30 am to 12:00 noon 1:30 pm to 4:00 pm	→ →	Same 1:00 pm to 4:00 pm
Continuous trading session of the stock index futures and options markets	9:15 am to 12:00 noon 1:30 pm to 4:15 pm	→ →	Same 1:00 pm to 4:15 pm

We believe that extending our trading hours to increase our overlap of trading hours with the Mainland's will enhance the price discovery function for Mainland-related securities and strengthen our competitiveness in the region.

Listing of RMB Products

Apart from the system enhancements for the trading and clearing of RMB products in our markets, HKEx has undertaken a series of initiatives to help EPs prepare for the trading in RMB denominated products on the Exchange, such as establishing a designated corner on the HKEx website with frequently asked questions and checklists for EPs' reference. In the last quarter of 2010, 2 debt securities in RMB were first listed and traded. HKEx will continue to work with EPs and other market participants to assist them in their preparation for RMB business.

ETF Market Development

In 2010, a total of 26 ETFs were newly listed. Since the end of last year, the total number of ETFs listed on the Stock Exchange has increased by 60 per cent from 43 to 69, including 24 ETFs on Mainland A-share indexes. With the entry of 3 new ETF managers from the Mainland in 2010, there are now 13 managers.

ETFs newly listed in 2010	Number
• Tracking Hong Kong stocks	2
• Tracking Mainland A-shares	16
• Tracking gold	1
• Tracking Greater China Region	1
• Tracking overseas stocks	6

In November 2010, HKEx and the SFC introduced new measures to raise investors' awareness of ETFs that primarily adopt synthetic replication strategy (Synthetic ETFs) by adding a marker "X" at the beginning of the stock short names of Synthetic ETFs. Unlike a traditional ETF that invests in underlying assets that replicate or represent the composition of the index it tracks, a Synthetic ETF uses financial derivative instruments to track index performance. The HKEx website has been enhanced to highlight the ETF product features as well as separate the Synthetic ETFs from traditional physical ETFs. A new ETF product leaflet which explains the product features and risks of Synthetic ETFs is available on the HKEx website.

Derivatives Market

Market Performance

The Derivatives Market turnover reached an all-time high of 116,054,377 contracts in 2010, surpassing the previous high of 105,006,736 contracts in 2008. In 2010, the turnover in the Derivatives Market was up about 18 per cent from last year. The growth was mainly driven by increases in trading of HSI options (up about 59 per cent), H-shares Index options (up 48 per cent) and stock options (up about 29 per cent). Record high daily volume and open interest were achieved for the following products:

Record high daily volume and open interest achieved in 2010

Products	Daily volume		Open interest	
	Date	Number of contracts	Date	Number of contracts
HSI Futures	26 Oct	228,392	–	–
H-shares Index Futures	–	–	27 Oct	162,527
Mini H-shares Index Futures	12 Nov	8,747	28 Dec	2,728
HSI Dividend Point Index Futures ¹	3 Nov	700	30 Dec	1,371
HSCEI Dividend Point Index Futures ¹	4 Nov	950	3 Dec	2,481
HSI Options	–	–	29 Dec	477,129
Mini-HSI Options	21 Oct	4,635	27 Oct	15,016
Flexible HSI Options ²	2 Dec	3,210	29 Dec	3,710
Flexible H-shares Index Options ²	5 Aug	1,032	25 Aug	1,032
Stock Options	–	–	26 Nov	8,825,259
Gold Futures	–	–	26 Nov	403

Notes:

- 1 Launched on 1 November 2010
- 2 Launched on 8 February 2010

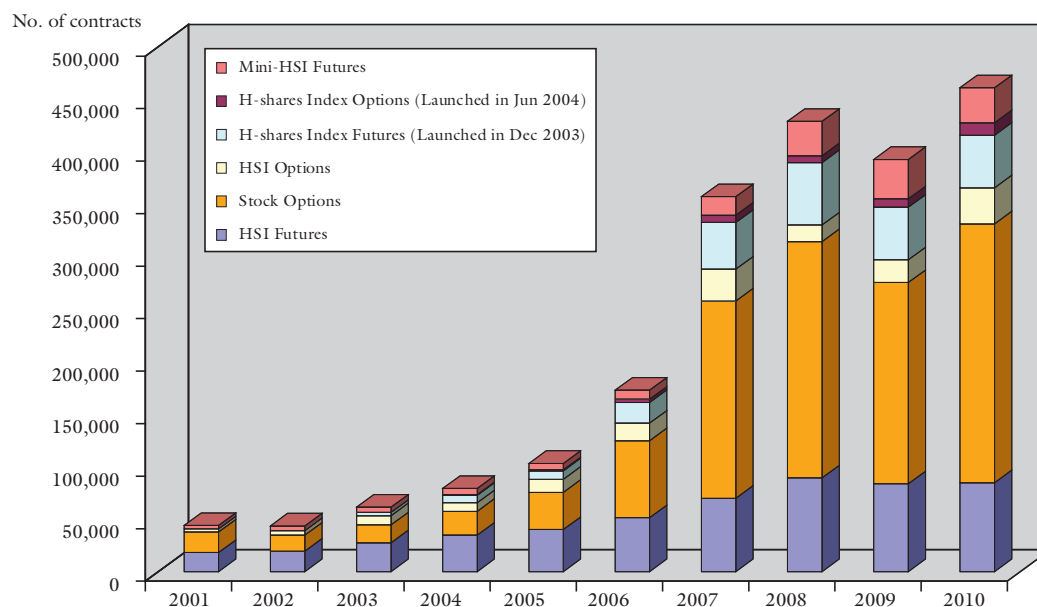
Derivatives Market statistics

	2010		2009	
	Volume (Contracts)	Period-end open interest (Contracts)	Volume (Contracts)	Period-end open interest (Contracts)
Futures				
HSI Futures	21,031,085	88,816	20,728,034	68,456
Mini-HSI Futures	8,300,654	7,359	9,279,877	4,447
H-shares Index Futures	12,429,800	94,734	12,394,116	74,324
Mini H-shares Index Futures	992,224	1,867	799,894	741
HSI Dividend Point Index Futures ¹	2,123	1,270	N/A	N/A
HSCEI Dividend Point Index Futures ¹	4,667	1,138	N/A	N/A
Stock Futures	239,259	11,514	271,766	4,407
1-Month HIBOR Futures	14	0	204	0
3-Month HIBOR Futures	1,055	267	2,573	103
3-Year Exchange Fund Note Futures	0	0	0	0
Gold Futures	5,642	85	6,773	119
Total	43,006,523	207,050	43,483,237	152,597
Options				
HSI Options	8,515,049	187,784	5,367,403	175,720
Mini-HSI Options	482,691	4,859	286,591	3,551
H-shares Index Options	2,910,713	104,994	1,961,131	124,030
Flexible HSI Options ²	11,222	500	N/A	N/A
Flexible H-shares Index Options ²	2,532	0	N/A	N/A
Stock Options	61,125,647	5,381,215	47,439,896	3,848,117
Total	73,047,854	5,679,352	55,055,021	4,151,418
Total Futures and Options	116,054,377	5,886,402	98,538,258	4,304,015

Notes:

- 1 Launched on 1 November 2010
- 2 Launched on 8 February 2010

Average daily turnover of major derivatives products (2001 – 2010)



Enhancements to the Options Market

Flexible Index Options were launched on 8 February 2010, which allows EPs to request HKEx to introduce bilaterally customised strike prices and expiry months in HSI and H-shares Index options for block trading subject to a minimum volume threshold of 100 contracts. The advantage of mitigating counterparty risk through central clearing and clearing house guarantee allows HKEx to expand its services to the OTC market.

Starting from 1 June 2010, the Strike Interval Group B, which features a narrower strike interval setting than the Strike Interval Group A, has been applied to all stock options classes. This allows investors to trade stock options with strike prices that are closer to the underlying stock prices. Furthermore, a third calendar quarter expiry month is added to all stock options classes in order to provide market participants the flexibility to trade longer dated options.

In response to market demand and to complement the DW market, a total of 6 new options classes were introduced for trading in 2010. We have amended the rules to facilitate introduction of new stock options classes with contract sizes of more than 1 board lot of the underlying shares in order to improve trading efficiency and lower trading costs for stock options market participants.

Stock options class introduced in 2010

- iShares FTSE/Xinhua A50 China Index ETF *
- W.I.S.E. – CSI 300 China Tracker *
- Agricultural Bank of China Limited *
- AIA Group Limited *
- China Pacific Insurance (Group) Co., Ltd. *
- Yanzhou Coal Mining Company Limited #

* with contract size of more than 1 board lot of the underlying stock

with contract size of 1 board lot of the underlying stock

Greater Flexibility for Block Trade Executions

Effective 24 May 2010, the pre-defined permissible price range for block trades was relaxed to provide greater flexibility for block trade execution. The Block Trade Facility enables institutional investors to book privately negotiated large-sized trades in futures and options contracts to the HKEx platform and to make use of our centralised clearing services to mitigate counterparty risk.

Rollout of Dividend Futures

The HSI Dividend Point Index (DPI) Futures and HSCEI DPI Futures Contracts commenced trading on HKEx on 1 November 2010. Their introduction aims to provide investors with an exchange-listed instrument to trade or hedge their dividend exposure in the Hong Kong market. Up to 31 December 2010, 6,790 contracts were traded, and the total open interest in notional amount was about \$63 million.

Proposal for After-hours Derivatives Trading

HKEx has been conducting a study and soft consultation with market participants on the trading of futures and options after their current market close. Initial feedback has been encouraging. There is a general belief that after-hours futures and options trading would help improve executive efficiency and trading arrangements. We therefore plan to publish a consultation paper to seek market views on the proposal in the middle of this year.

Clearing

CCASS statistics (up to year-end)

	2010	2009	Change
Average daily Exchange Trades handled by CCASS			
Number of trades	778,854	713,412	9%
Value of trades (\$bn)	69.1	62.3	11%
Share quantity involved (bn)	140.5	99.6	41%
Average daily SIs settled by CCASS			
Number of SIs	80,149	69,658	15%
Value of SIs (\$bn)	187.9	164.0	15%
Share quantity involved (bn)	47.2	40.6	16%
Average daily ISIs settled by CCASS			
Number of ISIs	574	560	3%
Value of ISIs (\$m)	271.4	291.8	(7%)
Share quantity involved (m)	117.3	111.7	5%
Average daily settlement efficiency of CNS stock positions on due day (T+2)	99.88%	99.85%	N/A
Average daily settlement efficiency of CNS stock positions on the day following the due day (T+3)	99.99%	99.99%	N/A
Average daily buy-ins executed on T+3			
Number of brokers involved	8	8	0%
Number of buy-ins	9	9	0%
Value of buy-ins (\$m)	3.1	3.4	(9%)
Shares deposited in the CCASS depository			
Number of shares (bn)	3,834.1	3,286.6	17%
Percentage of total issued share capital of the admitted securities	71.8%	70.9%	N/A
Value of shares (\$bn)	11,294.5	9,245.1	22%
Percentage of the total market capitalisation of the admitted securities	49.6%	49.2%	N/A

CCASS Service Enhancements

Effective 4 January 2010, listed issuers can send to their non-registered shareholders, whose shares are held in CCASS, a notification of the publication of corporate communications on their websites together with a request form for a hard copy instead of automatically sending them the printed corporate communications.

In order to provide a lower cost option to issuers of structured products from the OTC market and to facilitate more efficient settlement of the underlying Hong Kong-listed securities upon expiry, HKSCC will admit OTC structured products (including but not limited to ELIs, and equity linked notes, or ELNs) that are authorised by the SFC and meet the CCASS admission criteria with effect from 26 April 2010.

DCASS Service Enhancements

DCASS was enhanced to allow Clearing Participants to use the Microsoft SQL Server software as an additional option to improve the data storage capacity from 22 March 2010 onwards. Moreover, HKCC and SEOCH have extended the DCASS service hours for processing participants' requests of external position transfer and position reopening by 1 hour from 5:45 pm to 6:45 pm since 22 November 2010.

T+2 Finality for Stock Exchange Trades

The conclusions of the consultation on T+2 Finality were published on 13 August 2010. The 29 responses received were in general supportive of the proposal. Minor modifications were made to the proposed arrangement to address the respondents' concerns and comments. HKEx is working with HKICL to introduce a new interbank bulk settlement run to the Clearing House Automated Transfer System in the evening of every business day to settle CCASS money transactions. Implementation of the modified T+2 Finality arrangement is scheduled to take place in July 2011, subject to regulatory approval.

Scripless Securities Market

On 21 September 2010, the Working Group, which comprises representatives of the SFC, HKEx and the Federation of Share Registrars Limited, issued its consultation conclusions after seeking views on the proposed operational model for implementing a scripless securities market in Hong Kong. A total of 44 responses to the consultation paper were received, and they generally supported the scripless initiative. The Working Group is now discussing the details of the proposed operational model to facilitate the drafting of the new legislation under the scripless environment. The first pilot run of the scripless regime is expected to commence in late 2013.

Third Party Clearing Improvements

Effective 22 November 2010, improvements were made to Third Party Clearing services in both Cash and Derivatives Markets whereby requirements on the clearing agreement between General Clearing Participants and Non Clearing Participants were harmonized; in particular, the advance notice period to terminate a clearing agreement has been shortened.

Participant Services

Non-transferability of Trading Rights (TRs)

Pursuant to the Scheme Document of the merger of the Stock Exchange and Futures Exchange and their clearing houses on 6 March 2000, all TRs conferred on the then shareholders of the two exchanges became non-transferable after 5 March 2010. New TRs issued after the merger are non-transferable at all times, and each TR is now issued at a fee of \$500,000. To fulfil the participantship requirement, every SEHK Participant or HKFE Participant is required to hold at least 1 TR of the respective Exchanges.

Participant Training and Market Education

In 2010, HKEx organised 6 Continuous Professional Training (CPT) courses jointly with HKSI on HKEx's services and products for about 220 market participants. A total of 20 training courses on AMS/3 and HKATS, and 32 courses on CCASS and DCASS were also held to familiarise EPs with the operation of the trading and clearing devices, and the relevant rules and procedures.

For the Cash Market, an MDS/3.8 vendor seminar for IVs responsible for business development, product development and IT, and 3 AMS/3.8 technical seminars for EPs' IT development staff and system vendors were held in 2010, altogether attracting more than 500 attendees.

For the Derivatives Market, we held 63 briefing sessions and seminars on our derivatives products for over 3,400 representatives from EPs in 2010. We also organised 28 interactive training courses on Stock Options to EPs' frontline sales teams and attracted about 600 attendees.

Furthermore, we participated in various seminars organised by different professional organisations to update and engage market participants on the preparations for the trading and clearing of RMB products.

EP Recruitment

In 2010, 26 SEHK Participants and 16 HKFE Participants were newly admitted, including those from Australia, France, Japan, the Mainland, Russia, Taiwan, the UK and the US.

Number of Trading Right Holders (as at the end of December 2010)

	SEHK		HKFE	
	Trading Right Holders	Trading Rights Held	Trading Right Holders	Trading Rights Held
EPs	516	938	179	202
Trading	485	904	179	202
Non-trading	31	34	N/A	N/A
Non-EPs	22	22	42	44
Total	538	960	221	246

Number of CCASS Participants (as at the end of December 2010)

	HKSCC
Clearing Agency Participant	1
Custodian Participants	38
Direct Clearing Participants	468
General Clearing Participants	7
IPs	22,722
Stock Lender Participant	0
Stock Pledgee Participants	5
Total	23,241

Market Data

Market Performance

As at the end of 2010, there were 129 and 59 real-time IV licences (2009: 124 and 49) for the Cash Market data and the Derivatives Market data respectively. The licensed IVs altogether offered a total of 909 types (2009: 777) of real-time market data services to the market. The number of delayed market data vendors increased 14 per cent from 85 last year to 97 as at the end of 2010.

Introduction of Mainland TV Programme

To promote Hong Kong's financial markets, HKEx introduced a programme on 1 April 2010 to televise its real-time securities market data on the Mainland (Mainland TV Programme). In lieu of adopting the current charging scale (under which subscribers in densely populated markets such as the Mainland will be subject to a higher cost), the subscriber fee under the Mainland TV Programme is set at a flat rate of \$10,000 per month. The Mainland TV Programme will last until the end of December 2012.

Mainland Market Data Collaboration Programme

Following the Mainland Market Data Collaboration Programme with the Shanghai Stock Exchange (SHSE) in 2009, HKEx extended the programme to the Shenzhen Stock Exchange (SZSE) effective 1 May 2010, which will end on 31 December 2011. The programme with SHSE, which was originally due to expire by the end of 2010, has also been extended to end concurrently with that of the SZSE.

Similar to the programme with SHSE, HKEx and SZSE may now redistribute the other party's basic real-time market data of companies dually listed on the two markets to their own authorised IVs for onward transmission to their subscribers for internal display purposes.

As at the end of December 2010, 18 HKEx IVs participated in the programme with SHSE while 9 participated with SZSE.

Dissemination of 3 China Securities Index Company Limited (CSIC) Indexes

After signing the Index Distribution Agreement with CSIC, a joint venture between SHSE and SZSE, on 24 May 2010 for the distribution of the CSIC Indexes via the HKEx market data platform, 3 CSIC Indexes, namely CSI 300 Index (CSI 300), CSI Hong Kong 100 Index (CSI HK 100) and CSI Cross-Straits 500 Index (CSI Cross-Straits 500), have been disseminating through the HKEx MDF since 5 July 2010.

HKEx-licensed real-time Market Datafeed IVs may redistribute the CSI HK 100 and CSI Cross-Straits 500 to their customers free of charge. The redistribution of CSI 300 will be subject to prior written approval from CSIC or its designated agent, China Investment Information Services Limited. The CSI 300 is also displayed on the HKEx website together with the HSI, H-shares Index, S&P/HKEx LargeCap Index and S&P/HKEx GEM Index.

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

Following the review of the discount programme for Mainland users of HKEx's real-time securities market data (which was originally due to expire at the end of 2010), the discounted monthly fees of \$80 for retail clients and \$120 for corporate clients will continue until the end of 2011. A derivatives data package without price depth will continue to be offered together with the securities data package free of charge under the discount programme.

New Single Licence Regime

On 20 December 2010, HKEx introduced a Single Licence regime for IVs to simplify its dealings with the IVs distributing information from its securities and derivatives markets.

Under the new regime, the existing four separate market data license agreements for HKEx's securities market data, stock options market data, HKFE's market data and Issuer Information Feed Service are consolidated into a single agreement which also accommodates new datafeed products. Likewise, a new derivatives market data package including stock options market data as well as futures and stock index options market data has also been introduced under the Single Licence regime.

It is anticipated that most of the direct connection IVs will pay less in fees under the new regime. In addition, special discounts will be offered until the end of 2011 to IVs which join the new regime and redistribute both securities and derivatives market data.

Introduction of Basic Market Prices Service

Since October 2009, 6 designated websites have been allowed to provide free real-time basic market prices from HKEx's securities market to the public under the Pilot Programme for the Free Prices Website Service which is set to expire at the end of 2011.

Noting the overwhelming interest in the service from a review of the Pilot Programme and in order to broaden access to real-time market prices for the investing public, HKEx has decided to re-package the Free Prices Website Service as the Basic Market Prices Service (BMP Service), a standard market data service under the vendor licensing regime for all interested IVs beginning 1 April 2011. To help enhance transparency of the Derivatives Market, a similar BMP Service in relation to the Derivatives Market data will also be introduced at the same time for subscription separately.

The service scope and delivery channels of the BMP Service will be more investor-friendly. IVs may provide the BMP Service not only on their websites, but also on other service platforms such as the mobile web, mobile phones, PDAs (personal digital assistant), smart phone applications, interactive televisions and pagers.

Enhancement of Derivatives Market Data Services

HKEx has improved its Derivatives Market data services in various ways including enrichment of the data contents of PRS, which is the derivatives market datafeed, and provision of a newly developed testing tool, the PRS Simulator, to the PRS IVs free of charge. In addition to PRS, HKEx will introduce another data option, PRS Plus, in the second quarter of 2011. The current PRS and the PRS Plus are identical in terms of data contents and market depth, but the update interval of the PRS Plus will be only one-fifth of the current PRS.

Compliance and Unauthorised Dissemination

With the objectives of maintaining a level playing field and promoting fair competition, HKEx delivers presentations on vendor management and selects vendors for annual inspection to ensure compliance with the contractual requirements (Vendor Inspection Programme). In 2010, a total of 72 IVs (2009: 55) were included in the Vendor Inspection Programme, representing 65 per cent (2009: 65 per cent) of our total information income. A total of 20 unauthorised dissemination cases (2009: 17) were resolved in 2010.

Risk Management

Enhancements to Holiday Margin Arrangements

The holiday margin is designed to help mitigate the potential cumulative market risks arising from movements of overseas markets which are open when Hong Kong markets are closed. The holiday margin arrangements of HKCC and SEOCH were revised effective 29 March 2010 to deliver margining-related benefits to the market without compromising the risk management of the derivatives clearing houses.

Enhanced Process for Provision of Financial Return Information

In April 2010, an enhanced process which shortens the time required for the provision of market participants' financial return information by the SFC to HKEx was implemented. This enables timely assessment of market participants' financial information for risk management and compliance purposes.

Market Contingency Rehearsal

On 8 May 2010, HKEx participated in the Market Contingency Rehearsal Exercise 2010, a cross-financial sector activity led by the FSTB. The exercise gave participating organisations an opportunity to test their responses to selected high impact scenarios that could potentially undermine the financial stability of Hong Kong. The participating parties were satisfied with the rehearsal results.

Recovering Loss from Default of Yicko Futures Limited (Yicko)

Regarding Yicko's failure to meet its obligations to HKCC in 2003, over 90 per cent of the loss arising from Yicko's default was recovered upon the conclusion of Yicko's liquidation proceedings in October 2010.

Implementation of Enterprise Risk Management (ERM) Framework

The ERM framework and related ERM software application were implemented in 2010. The ERM framework provides a common platform with supporting processes for the identification, assessment, scoring, reporting and review of significant risks across the organisation. The framework provides assurance that risks within HKEx are systematically identified and managed at acceptable levels.

Market Surveillance

Under the MOU between the SFC and HKEx on matters relating to market surveillance, HKEx referred a total of 28 cases (2009: 112) involving possible violations of Hong Kong laws, SFC codes and/or rules and regulations relating to its markets to the SFC for its investigation during 2010.

Information Technology

Production Systems' Stability and Reliability

During 2010, all major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets operated by HKEx continued to perform robustly and reliably. HKEx remains committed to upholding system reliability, availability and stability.

System Capacity Planning and Technology Upgrades

HKEx has proactively completed a number of capacity upgrades for business expansion including, (i) the AMS/3 capacity increase by 100 per cent to 3,000 orders per second in January 2010 and corresponding capacity alignment for CCASS/3 and MDS; (ii) the HKATS capacity upgrade by 250 per cent to 21,000 orders per second in October 2010; and (iii) the AMS and MDS increase in stock page broadcast rate from 700 to 1,000 per second in November 2010.

In July 2010, HKEx completed the replacement and upgrade of the soon-to-be-obsolete CCASS IP Internet and CCASS middle-tier servers to ensure the system's continued reliability, availability and serviceability.

In 2011, there will be additional capacity upgrades to prepare for HKEx's new business opportunities, namely, (i) the AMS/3 capacity increase by 10 times to 30,000 orders per second and order processing latency reduction by 16 times to 9 milliseconds by the end of 2011 (referred to as AMS/3.8); (ii) the further upgrade of MDS to MDS/3.8 for capacity alignment with AMS/3.8; and (iii) the DCASS capacity increase by about 60 per cent to handle 475,000 account positions by mid-2011.

System Enhancements for RMB Products

In September 2010, CCASS/3 was enhanced to support RMB money settlement with HKICL and the Bank of China. Later in November 2010, AMS/3 was modified to include RMB stocks in the market turnover. To ensure EPs' readiness for the enhancements, EPs were provided with AMS/3 rehearsals and CCASS/3 test kits. As at the end of December 2010, there were 25 banks admitted as CCASS Designated Banks to provide RMB settlement services to CCASS Participants.

Independent Review of Market Systems

The independent review of the core application systems (including trading, clearing and settlement, and market data dissemination systems) serving the Derivatives Market completed in April 2010 affirmed that the core Derivatives Market systems are well managed and operated with a high standard of compliance with the international best practices. The review of CCASS clearing and settlement system for the Cash Market, completed in January 2011, confirmed that the controls are in line with the industry best practices.

Operational Efficiency

For internal operational efficiency and environmental protection, HKEx rolled out an e-salary record system to automate salary-related payment records and workflow. HKEx also upgraded its corporate email platform in late 2010 for alignment with the vendor's product roadmap.

Apart from working on the ERM framework and the SPRINTS, we are developing the Enterprise Content Management (ECM) system for launch in mid-2011.

HKEx Website Revamp

The revamped HKEx website was smoothly launched on 14 March 2010 with a new look, enhanced user interface design and streamlined navigation. This project is part of HKEx's continuous efforts for service excellence.

NGDC and IT Office Consolidation

In February 2010, HKEx accepted the offer of a land site in Tseung Kwan O Industrial Estate to build the NGDC. Planning and development works began immediately after taking possession of the land site on 1 June 2010. To make maximum use of the allowable plot ratio of the land site, we decided in September 2010 to increase the total floor area of the NGDC from the original plan of 13,300 square metres to about 31,400 square metres with an estimated construction and other related cost of about \$1 billion.

The NGDC will be equipped with modernised facilities and infrastructure to consolidate the primary data centres for all HKEx's markets and clearing houses systems, and the IT development and support staff, and to accommodate equipment to support our hosting services which serves to offer low-latency co-location with HKEx's markets. The hosting services will be available to brokers, technology vendors, IVs and other suitable customers.

The NGDC will be built to meet the highest level of resilience, targeting at top-level Tier 4 data centre requirements, and the LEED Gold standard for environmental friendliness.

We will roll out the NGDC in phases. For the first phase, HKEx aims to relocate the primary data centre for the securities market to the NGDC in the fourth quarter of 2012. We then plan to relocate other HKEx systems to the NGDC in phases by the fourth quarter of 2013. The mechanical and electrical facilities required for the hosting services will be built in phases commencing in 2011 to meet the launch of the hosting services by the end of 2012.

Market Development

Platform Development and Strategy

In 2010, HKEx established a Platform Development and Strategy Department to execute key initiatives in the HKEx Strategic Plan 2010-2012 as well as to drive HKEx's overall corporate strategy across divisions.

In addition to the planned launch of a hosting services business, HKEx has decided to establish an OTC clearing house by the end of 2012 to support global regulatory initiatives and take advantage of business opportunities in OTC derivatives clearing. The new clearing house will clear derivatives traded in Hong Kong and complements the plan of the Hong Kong Monetary Authority to set up a trade repository to serve as a central registry and electronic database for transaction records from Hong Kong's OTC derivatives market. Interest rate derivatives and non-deliverable forwards will be the initial products handled by the new clearing house. The initial required investment is approximately \$180 million, which will be funded internally. We are also considering different operating models and shareholder structures for the clearing house, which will be run independently of HKEx's other clearing houses. We will work with the Government, SFC, and the Hong Kong Monetary Authority on the regulatory regime for OTC derivatives markets, and a market consultation which will be conducted in the third quarter of 2011.

Meanwhile, we are also developing a proposal for the introduction of next generation IT platforms for future expansion.

Mainland Development

In 2010, the Mainland Development Department was also established to build greater collaboration and partnership with HKEx's Mainland counterparts and to steer our Mainland strategy. Since its establishment, the Department has focused on developing HKEx's Mainland strategy and leading its implementation, promoting HKEx as the exchange of choice for Mainland issuers, investors and other stakeholders; and coordinating with the Central Government, issuers, financial institutions, market participants and other entities in promoting the development of the Mainland financial markets. This year, more effort will be placed on facilitating access to Hong Kong market data by Mainland investors and IVs through an expansion of services and product offerings, coordinating with Mainland and Hong Kong regulators and authorities to support and facilitate cross-border RMB-related initiatives, and evaluating platforms and systems to improve Mainland connectivity.

Issuer Marketing

In line with our core strategy to generate organic growth, more promotional activities were held in 2010 to attract new listings. Our focus remains on promoting HKEx's pre-eminence as a listing venue for Mainland as well as foreign companies seeking capital, profile and a liquid secondary market.

Throughout 2010, we maintained a high level of marketing activity including roadshows in the Mainland and many other countries around the world to identify potential issuers, all of which we expect to yield listings in the future.

HKEx's global reach in 2010



Riding on the strong economic growth in the Mainland and robust fund-raising activities on the Exchange, we expect more Mainland enterprises including SMEs (small and medium sized enterprises) and overseas companies with an Asian business nexus to continue to view Hong Kong as the ideal platform for securing investment funds or extending their international reach.

To attract Mainland enterprises, we have collaborated closely with the Mainland and Hong Kong governments to organise promotional activities in strategically important Mainland cities and regions. In 2010, we hosted 10 events of different scales ranging from large conferences to small roundtable discussions and workshops in 7 cities to potential issuers, particularly from the metals and mining, and branded retailing industries. We also made about 40 trips to different Mainland cities to speak at listing promotion events. We met with government officials and potential issuers, including companies that are looking for a second listing and leading enterprises in a number of sectors and industries.

Major events organised by HKEx for Mainland enterprises in 2010

Date	Place	Event	Co-organiser(s)
Jan	Zhengzhou, Henan	Listing in Hong Kong Workshop in Zhengzhou	Zhengzhou Development and Reform Commission
Apr	Changsha, Hunan	Seminar on Listing and Fund Raising in Hong Kong for Hunan Enterprises	Financial Affairs Office of Hunan Provincial Government
May	Hong Kong	Listing in Hong Kong Seminar for Shandong Enterprises	Financial Affairs Office of Shandong Provincial Government, and Economic and Trade Commission of Shandong Provincial Government
May	Shenyang, Liaoning	HKEx Seminar on Listing and Fund Raising in Hong Kong	Financial Affairs Office of Liaoning Province
Jun	Hong Kong	Fund Raising Conference for Nantong Enterprises	Nantong Municipal People's Government
Sep	Kunming, Yunnan	Yunnan – Hong Kong Financial Cooperation Seminar 2010	Hong Kong and Macao Affairs Office of Yunnan Provincial Government, Financial Affairs Office of Yunnan Provincial Government, and Hong Kong Economic and Trade Office in Chengdu
Sep	Wenzhou, Zhejiang	Listing in Hong Kong Seminar in Wenzhou	Wenzhou Financial Services Office and Wenzhou Enterprises Union
Oct	Foshan, Guangdong	Guangdong – Hong Kong Financial Cooperation Seminar 2010	Guangdong Financial Affairs Office, Hong Kong Economic and Trade Office in Guangdong, Foshan Financial Affairs Bureau, InvestHK, and Hong Kong Trade Development Council

During 2010, we saw more overseas companies listed on the Exchange. In January, we had the first company with its operations in Russia listed; in May, the first French company; and later in the year, two giant insurers from the UK and the US respectively, and the first company listed under the depositary receipt programme.

Major marketing events were organised in Canada and Hong Kong where natural resources companies expressed strong interest in raising funds through a Hong Kong listing. At the various events held in overseas markets, we focused on introducing the advantages of listing in Hong Kong to prospective issuers for their China-related business operations. The high-level conference hosted in Toronto in March 2010 was attended by Professor K C Chan, the Secretary for the Financial Services and the Treasury, and our Chairman.

Our Chairman has played a key role in introducing HKEx and its markets to potential issuers, market users and government officials from overseas. In 2010, the Chairman made a presentation at the Russia Capital Raising and Investment Summit, the Russia & CIS Investment Summit and the Russia Asia Investment Forum in Hong Kong to attract Russian companies to list on the Exchange. He also visited Europe and South America to promote HKEx to potential issuers from France, Italy, Spain, Portugal and Brazil as their preferred choice.

Major events organised by HKEx in Hong Kong and overseas in 2010

Date	Place	Event	Co-organiser(s)
Mar	Toronto, Canada	Seminar on Listing and Capital Raising in Hong Kong for Mining and Natural Resources Companies	Hong Kong Economic and Trade Office in Toronto, Hong Kong Trade Development Council, and InvestHK
Mar	Hong Kong	Special Session at Mines and Money Hong Kong 2010	Beacon
Apr	Hong Kong	Forum on Listing of Mongolian Enterprises	Foreign Investment and Foreign Trade Agency of Mongolia
Nov	Hong Kong	HKEx Deloitte Seminar for Japanese Companies	Deloitte Touche Tohmatsu and InvestHK

Listing Training Sessions

As part of our issuer marketing initiatives in 2010, we co-organised 3 training sessions in Hong Kong for about 100 senior executives from the Mainland enterprises with the Hong Kong Polytechnic University and the State Council's Office of Hong Kong and Macau Affairs Research Institute. We aimed to provide the Mainland enterprises with knowledge of good corporate governance and the latest rules and regulations relating to listing in Hong Kong.

Different Market Surveys

HKEx published the Retail Investor Survey 2009 in March 2010, the Derivatives Market Transaction Survey 2009/10 in November 2010 and the Cash Market Transaction Survey 2009/10 in February 2011. The survey findings revealed that the contribution of overseas investors to the total market turnover remained at the relatively high level of more than 40 per cent in value terms in the securities market for the fifth consecutive year, and about a quarter in volume terms in the Derivatives Market, which was the highest level in the past five years. The participation of local retail investors remained high at 35 per cent of the Hong Kong adult population; retail investors were generally positive about the various operational aspects of the HKEx securities and derivatives markets.

The survey reports are available on the HKEx website. We will keep track of the trends and characteristics of investors' participation in and perceptions of the HKEx markets for product and service improvement and ensuring our competitiveness.

Promoting HKEx's Markets

In 2010, HKEx stepped up its effort to promote its products and services by participating in and organising different activities in relation to the financial and market information industries in Hong Kong and overseas. For instance, we visited Mainland television stations in Beijing and Shanghai in March 2010 and the major Mainland telephone companies in Beijing in May 2010 to explore ways to better disseminate our market data. We also visited IVs in Beijing and Shanghai to facilitate a direct connection between Mainland IVs and our market data systems. To expand our market data in other Asian markets, we visited IVs in Japan, Korea and Singapore in 2010 to introduce our related products and services.

In particular, HKEx's Chairman, Chief Executive (CE) and Chief Marketing Officer (CMO) participated in a number of economic summits, listing seminars, mining conferences and investment forums held in the Mainland, Hong Kong and overseas as a speaker or a panelist to promote Hong Kong as an international financial centre and to introduce the Exchange as well as HKEx's development. These events included the Global Exchange and Electronic Trading Conference, the Hong Kong Investment Seminar, the Securities Market Infrastructure Conference, the 1st Annual Emerging Markets Investor Conference, and the Seminar on Global Economic Recovery and RMB Internationalisation.

Our Board members also participated in meetings with the government delegates who visited HKEx, such as the delegation led by the Mongolian Prime Minister in April 2010 and another one led by the Ukraine President in September 2010, to help introduce HKEx and its markets' latest developments to them.

Major events participated/organised by HKEx to promote its products and services in 2010

Date	Place	Event	HKEx's role
Jan	Hong Kong	Asian Financial Forum	Chairman and the CE delivered speeches on the latest development of the Hong Kong markets
Feb	Moscow	Russia Forum	Chairman as a panel speaker to discuss challenges and opportunities facing stock exchanges
Mar	Guangzhou	InvestHK "On Your Marks, Get-set, Go!" Seminar	CMO as a speaker to promote the Hong Kong financial services industry
Apr	Fuzhou	Mainland-Hong Kong Services Industry Symposium & Hong Kong Services Industry Delegation to Fuzhou, Fujian	CMO as a panel speaker to promote the Hong Kong financial services industry
May	Heilongjiang & Vladivostok	Hong Kong Business Delegation led by the Financial Secretary to Heilongjiang, Mainland and Vladivostok, Russia	CE as a speaker in Heilongjiang and CMO as a panel speaker in Vladivostok to promote the Hong Kong financial services industry
May	Hong Kong	Investment Expo (an 8-week joint promotional programme)	HKEx as a major sponsor with 10 EPs to promote Mainland-related futures and options
Jun	Hong Kong	Joint Promotional Programme on Stock Options	HKEx as a co-organiser with 6 OTEPs, aiming at increasing retail participation
Jun	Shanghai	Lujiazui Forum 2010	CE delivered a speech on the Hong Kong financial markets
Jul	Shanghai	HKSAR Finance Forum	HKEx as a co-organiser and the Chairman as a keynote speaker, together with the CE participated in panel discussions on stronger links with the world financial markets, the Mainland and Hong Kong
Aug/Sep	Moscow	Hong Kong High-level Delegation to Moscow, Russia	Chairman as the moderator of a panel to promote the Hong Kong capital market
Sep	Shanghai	Seminar on EP admission requirements	HKEx as the organiser to provide Mainland securities and futures brokers as well as IVs with the knowledge of the requirements for becoming an EP
Oct	Jakarta	The 9 th Asia Pacific Mining Conference & Exhibition	CMO as a speaker to promote the Stock Exchange
Oct	New Delhi & Mumbai	Hong Kong High-Level Delegation to New Delhi and Mumbai, India	CE and CMO visited the Mumbai Stock Exchange to introduce the HKEx markets
Oct	Hong Kong	Asia Pacific Financial Information Conference	HKEx as a co-organiser to promote the Hong Kong market data industry
Oct	Hong Kong	Forums for Asian Stock Exchanges	HKEx as the organiser to share the latest development in the market data industry with other stock exchanges in the Asian Pacific Region
Nov	Chicago	The 26 th Annual Futures and Options Expo organised by Futures Industry Association	HKEx as an exhibitor to promote the Derivatives Market and products to international market participants
Nov	Shanghai	The 4 th Index and Indexing Investment Forum organised by the CSIC	HKEx as a panel speaker to promote HKEx's ETF market
Nov	Hong Kong	The ETF conference	HKEx as a panel speaker to promote HKEx's ETF market
Dec	Hong Kong	Hong Kong Economic Summit 2011	HKEx as a sponsor and CE as a speaker to promote Hong Kong as an international financial centre

Treasury

The Group's funds available for investment comprise Corporate Funds, cash collateral, Margin Funds and Clearing House Funds, totalling \$40.5 billion on average in 2010 (2009: \$40.1 billion).

As compared with 31 December 2009, the overall size of funds available for investment as at 31 December 2010 increased by 14 per cent or \$4.7 billion to \$38.3 billion (2009: \$33.6 billion). Details of the asset allocation of the investments as at 31 December 2010 against those as at 31 December 2009 are set out below.

	Investment Fund Size \$bn		Bonds *		Cash or Bank Deposits *		Global Equities	
	2010	2009	2010	2009	2010	2009	2010	2009
Corporate Funds	9.4	8.2	58%	69%	38%	28%	4%	3%
Cash collateral	3.6	3.4	0%	0%	100%	100%	0%	0%
Margin Funds	22.7	20.2	26%	34%	74%	66%	0%	0%
Clearing House Funds	2.6	1.8	14%	24%	86%	76%	0%	0%
Total	38.3	33.6	31%	38%	68%	61%	1%	1%

* Include certain principal-guaranteed structured notes and principal-guaranteed structured deposits

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the cash collateral, Clearing House Funds and Margin Funds. Excluding equities and mutual funds held under the Corporate Funds (\$0.4 billion as at 31 December 2010 and \$0.2 billion as at 31 December 2009), which have no maturity date, the maturity profiles of the remaining investments as at 31 December 2010 (\$37.9 billion) and 31 December 2009 (\$33.4 billion) were as follows:

	Investment Fund Size \$bn		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		>3 years	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Corporate Funds	9.0	8.0	19%	16%	4%	1%	27%	24%	34%	45%	16%	14%
Cash collateral	3.6	3.4	72%	100%	7%	0%	21%	0%	0%	0%	0%	0%
Margin Funds	22.7	20.2	27%	33%	24%	10%	26%	23%	23%	34%	0%	0%
Clearing House Funds	2.6	1.8	74%	67%	7%	5%	5%	4%	14%	24%	0%	0%
Total	37.9	33.4	33%	37%	16%	7%	24%	20%	23%	33%	4%	3%

Credit exposure is well diversified. The Group's bond portfolio (which includes certain principal-guaranteed structured notes) held is of investment grade and, as at 31 December 2010, had a weighted average credit rating of Aa2 (2009: Aa2) and a weighted average maturity of 2.1 years (2009: 2.3 years). Deposits (which include certain principal-guaranteed structured 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 2010 and 2009 was as follows:

	Average VaR \$m		Highest VaR \$m		Lowest VaR \$m	
	2010	2009	2010	2009	2010	2009
Corporate Funds	19.2	28.1	27.1	35.3	15.3	20.8
Cash collateral	0.0	0.0	0.4	0.2	0.0	0.0
Margin Funds	15.3	31.1	34.5	47.9	7.2	17.9
Clearing House Funds	1.9	2.3	2.4	4.4	0.6	0.3

Details of the Group's net investment income are set out in the Revenue and Other Income section under the Financial Review and note 8 to the consolidated accounts of this Annual Report.

Major Achievements and Key Initiatives

2010 Achievements	2011 Initiatives
Listing	
<ul style="list-style-type: none"> • Completed the fourth review of listed companies' corporate governance practices and a review of 132 financial reports • Published consultation papers on the following topics: <ul style="list-style-type: none"> – Proposed change to the minimum number of shareholders for the Market Capitalisation/Revenue Test; – Proposed changes to requirements for qualified property acquisitions and formation of joint ventures; – Proposed changes to property valuation requirements; – Proposed changes to requirements for the listing of debt issues for professional investors only; – Ex-entitlement trading and shareholder approval; and – Review of the CG Code and associated Listing Rules • Published conclusions on the following consultations: <ul style="list-style-type: none"> – New Listing Rules for mineral companies; – Connected transactions; – Streamlining of requirements for circulars and listing documents; – Acceptance of Mainland accounting and auditing standards and Mainland audit firms for Mainland incorporated companies listed in Hong Kong; and – Issue of paper application forms with electronic prospectuses • Submitted comments on the consultation on statutory backing for disclosure requirements and commenced preparatory work for the necessary Rule amendments • Increased the number of jurisdictions accepted for listing on the Exchange to 15, in addition to Hong Kong, Mainland China, Bermuda and the Cayman Islands • Issued interim guidance on pre-IPO investments • Issued new measures to raise investors' awareness of synthetic ETFs • Developed closer cooperation with exchanges in the Mainland and overseas • Prepared for the launch of SPRINTS • Approved the listing of Vale S.A. which may point to a possible model for an increased-disclosure approach to the listing of overseas companies in appropriate cases • Organised a total of 11 seminars in Hong Kong and Beijing and 9 meet-and-greet sessions as part of the education programme and market outreach to issuers 	<ul style="list-style-type: none"> • Issue consultation paper on further review of connected transactions • Publish conclusions on the following consultations: <ul style="list-style-type: none"> – Proposed change to the minimum number of shareholders for the Market Capitalisation/Revenue Test; – Proposed changes to requirements for qualified property acquisitions and formation of joint ventures; – Proposed changes to property valuation requirements; – Proposed changes to requirements for the listing of debt issues for professional investors only; – Ex-entitlement trading and shareholder approval; – Review of the CG Code and associated Listing Rules; and – Further review of connected transactions • Publish consultation paper on proposed Listing Rule amendments consequential to the potential legislative amendments to codify the disclosure requirement on price-sensitive information • Review the listed structure products regime consequential to SFC's consultations on structured products and selling practices, and reforms to the prospectus regime • Continue reviewing the Joint Policy Statement with the SFC regarding listing of overseas companies • Organise workshops for issuers on environmental, social and governance reporting • Continue developing closer regulatory cooperation with other exchanges • Launch SPRINTS • Pursue prospectus simplification
Cash Market	
<ul style="list-style-type: none"> • Revamped the HKEx Corporate Website • Automated stamp duty reporting and payment • Prepared for AMS/3.8 implementation • Issued and concluded the changes to trading hours of the securities and derivatives markets • Requested EPs operating alternative liquidity pools to report trades using a new indicator • Completed the preparation of trading and clearing of RMB products 	<ul style="list-style-type: none"> • Implement Phase 1 changes to trading hours of the securities market • Implement AMS/3.8 • Conduct review of market structure (including execution at market close, narrowing of minimum spreads and trading anonymity) • Study direct market access related activities in our market and work with the SFC to ensure that sponsoring brokers adopt the best practices • Implement new trade reporting arrangements for alternative liquidity pools • Roll out an enhanced ETF resource centre

2010 Achievements	2011 Initiatives
Derivatives Market	
<ul style="list-style-type: none"> • Introduced flexible options for HSI options and H-shares Index options • Relaxed the pre-defined permissible price range for block trades • Narrowed strike intervals and added a third calendar quarter expiry month to options classes • Introduced new stock options classes with contract sizes of more than 1 board lot of the underlying stock • Introduced options on A-shares ETF • Introduced HSI DPI and HSCEI DPI Futures • Developed a volatility index for the Hong Kong market with an index company and assessed market demand for futures and options on the volatility index 	<ul style="list-style-type: none"> • Implement Phase 1 changes to trading hours of the Derivatives Market • Conduct market consultation on after-hours trading of futures • Study direct market access related activities in our market and work with the SFC to ensure that sponsoring brokers adopt the best practices • Increase frequency of derivatives trading information broadcast by shortening the price update interval in HKATS from 1 second to 0.5 seconds • Prepare infrastructure for RMB margined and settled products • Enrich the trading information of standard combination trades • Introduce standard combination trading function in the stock options market • Introduce tailor-made combination trading function to facilitate strategy trading of derivatives products • Introduce volatility index futures
Clearing	
<ul style="list-style-type: none"> • Streamlined the distribution of corporate communications of non-registered shareholders whose shares are held in CCASS • Allowed admission of structured products authorised by the SFC from the OTC market • Allowed Clearing Participants to use the Microsoft SQL Server software • Extended the DCASS service hours for processing participants' requests of external position transfer and position by 1 hour • Published consultation conclusions on T+2 Finality • Launched a settlement service for RMB transactions • Published joint consultation conclusions on a proposed operational model for implementing a scripless securities market in Hong Kong • Harmonised requirements on Clearing Agreement between General Clearing Participants and Non Clearing Participants of both the Cash and Derivatives Markets • Admitted 27 new ETFs, 6,541 new CBBCs and 7,826 new DWs into CCASS 	<ul style="list-style-type: none"> • Continue working on the operational model for a scripless securities market in Hong Kong • Continue working on the system enhancements to support the implementation of T+2 Finality and launch of the T+2 Finality
Participant Services	
<ul style="list-style-type: none"> • Organised 6 CPT courses jointly with HKSI on HKEx's services and products • Organised 20 training courses on AMS/3 and HKATS, and 32 courses on CCASS and DCASS • Held an MDS/3.8 seminar for IVs responsible for business development, product development and IT • Conducted 3 AMS/3.8 technical seminars for EPs • Held 63 briefing sessions and seminars on HKEx's derivatives products for EPs • Organised 28 interactive training courses on Stock Options to EPs' frontline sales teams 	<ul style="list-style-type: none"> • Conduct CPT courses jointly with HKSI on HKEx's products and services • Hold interactive options training courses for EPs • Conduct joint promotion programmes with EPs on Volatility Index Futures and various products • Hold seminars in the Mainland to recruit new EPs

2010 Achievements	2011 Initiatives
Market Data	
<ul style="list-style-type: none"> • Introduced the Mainland TV programme • Extended the Market Data Collaboration Programme to include the SZSE from April 2010 to end 2011 and continue the programme with the SHSE until the end of 2011 • Added 3 CSIC Indexes into our MDF and displayed CSI 300 on the HKEx website • Increased information business and visibility of HKEx information in the Mainland and further promoted the market data business in the Mainland including the launch of a Mainland TV Discount Programme • Introduced the Single Licence regime for securities and derivatives market data • Conducted an interim review of the Pilot Programme for the Free Prices Website Service and repackaged it as the BMP Service • Further enriched the PRS data content • Finalised the requirements for the enhanced market data system under the MDS/3.8 project • Finalised Listed Company Website Service for Hong Kong-listed companies to display their stock prices on their websites • Developed a PRS Simulator to facilitate IVs' system tests • Enhanced Investment Service Centre to provide more information on listed companies 	<ul style="list-style-type: none"> • Launch the BMP Service in April 2011 • Offer the BMP Service on listed companies' websites via IVs beginning 1 April 2011 • Develop a commercial package for new market datafeed products and for non-display usage • Review the Market Data Collaboration Programme with the SHSE and SZSE • Implement the Single Licence regime with a view to retiring existing legacy vendor licence agreements by the end of 2011 • Further promote the market data business in the Mainland • Finalise the requirements for the Next Generation Market Data System • Review the historical data products • Enrich the data content and features of Investment Service Centre for supporting the initiative of online Investor Relations platform • Roll out PRS Plus • Provide more real-time indexes via MDF and the HKEx website • Enhance the Order and Trade File Services for SEHK Participants
Risk Management	
<ul style="list-style-type: none"> • Revised the holiday margin arrangement of HKCC and SEOCH • Shortened the time for receiving market participants' financial return information from the SFC • Implemented the HKEx ERM Framework • Completed comprehensive review of: <ul style="list-style-type: none"> – HKEx's capital adequacy for its 3 clearing houses including benchmarking analysis of industry standards and the current practices of other central counterparties (CCPs); – benchmarking of HKSCC risk management measures vs. industry standards and CCPs' current practices; and – HKEx's emergency liquidity planning (which contributed to the establishment of \$4 billion committed bank facilities and incorporated RMB availability) • Completed the review of industry standards and their applicability to HKEx's market contingency planning • Delivered risk management measures to: <ul style="list-style-type: none"> – facilitate changes in trading hours; – establish readiness for introduction of T+2 Finality; – support derivatives market systems capacity upgrade; – enhance HKCC and SEOCH holiday margin measures; – established RMB collateral eligibility at HKEx's 3 clearing houses; and – support HKEx's new product and service offerings • Helped to administer and actively participated in the FSTB-led Market Contingency Rehearsal Exercise conducted in Hong Kong 	<ul style="list-style-type: none"> • Conduct stakeholder consultations, obtain approvals and implement the following: <ul style="list-style-type: none"> – enhancement of HKSCC risk management measures; – enhancement of HKSCC Guarantee Fund arrangement; and – enhancement of HKEx's capital adequacy methodology • Review alternatives for further enhancement of HKEx's emergency liquidity planning • Review the control measures applicable to counterparty concentration risk • Review the risk management control measures applicable to bank guarantor risk • Review the effectiveness of the HKEx ERM Framework and implement any approved enhancements • Present recommendations from the HKEx Market Contingency Plan Framework review and implement approved enhancements • Continue to deliver appropriate risk management support to facilitate the successful delivery of HKEx's new products and services

2010 Achievements	2011 Initiatives
Information Technology	
<ul style="list-style-type: none"> • Launched the revamped HKEx corporate website • Upgraded the AMS/3 capacity and the corresponding capacity alignment for CCASS/3 and MDS • Increased the AMS and MDS stock page broadcast rate • Upgraded the capacity and technology infrastructure of HKATS, DCASS and the relevant satellite systems • Commenced the development and implementation of AMS/3.8 and MDS/3.8 • Enhanced CCASS/3 to support RMB money settlement • Completed the independent reviews of the Derivatives Market systems and CCASS • Rolled out e-salary record system and upgraded the corporate email platform • Developed the ERM framework, SPRINTS and the ECM system • Replaced the technology for the to-be-obsolete CCASS/3 IP internet, electronic Participant Shareholding and related system hardware and software • Commenced the NGDC construction project 	<ul style="list-style-type: none"> • Implement AMS/3.8 and MDS/3.8 to achieve a 10-time increase of processing capacity and a 16-time reduction in order processing latency • Implement DCASS software design enhancement by Nasdaq OMX to support 475,000 account positions • Study HKATS/DCASS migration to Genium platform • Implement the PRS Plus system to achieve a 5-time increase of the price update rate • Commence the NGDC construction work • Further enhance IT infrastructure and functionalities to support RMB products
Market Development	
<ul style="list-style-type: none"> • Completed the study on offering central clearing for OTC derivatives traded in Hong Kong • Completed high level business planning for offering hosting services in the NGDC. Secured Board approval to initiate the business • Performed the study on offering data package and services to issuers • Organised 7 seminars and conferences in the Mainland, 6 in Hong Kong and 1 in Canada to promote listing in Hong Kong • Conducted 41 trips to the Mainland and 17 trips to the overseas market to attract potential companies to list in Hong Kong • Conducted meetings with the government of 12 provinces, and the government of Beijing, Shanghai and Tianjin, as well as central government regulators and authorities • Co-organised 3 listing training sessions for Mainland companies • Participated in various listing promotional activities in particular those for mining and energy companies • Published the market survey results relating to the cash and derivatives markets in Hong Kong 	<ul style="list-style-type: none"> • Prepare for the establishment of a clearing house for derivatives traded in Hong Kong's OTC market • Develop the roadmap for HKEx's next generation core IT platforms • Commence a cross-asset class Next Generation Market Data System for implementation in 2012 to generate new market data products for customers in both Hong Kong and the Mainland • Complete the detailed design of hosting services offering at NGDC. Select Hosting Services operating partner and begin pre-sales activities • Facilitate access of Hong Kong market data by Mainland investors and IVs through expansion of service and product offerings • Coordinate with Mainland and Hong Kong regulators and authorities to support and facilitate cross-border RMB-related initiatives • Consider offering issuer data package and services • Continue promotional activities in Hong Kong, the Mainland and selected overseas markets to attract more quality companies to list in Hong Kong • Establish relationship with regulators and stock exchanges of selected overseas markets • Collect market intelligence about the Mainland and overseas securities and derivatives market development • Identify industry-specific potential issuers • Identify overseas-listed issuers with business nexus with the Mainland and to promote dual or secondary listing in Hong Kong • Continue to promote HKEx's strength as a listing center for Mainland and overseas mining and energy companies with business nexus with the Mainland

FINANCIAL REVIEW

HKEx Group – Overview of 2010 Results and Financial Position

Key Market Statistics and Business Drivers – Cash Market

	2010
Average daily turnover value on the Stock Exchange	\$69.1 bn
Number of newly listed DWs	7,826*
Number of newly listed CBBs	6,541
Number of newly listed companies on Main Board	106
Number of newly listed companies on GEM	7
Number of Main Board companies at 31 Dec 2010	1,244
Number of GEM companies at 31 Dec 2010	169
Total equity funds raised on Main Board	\$845.5 bn*
Total equity funds raised on GEM	\$13.2 bn*
Total equity funds raised	\$858.7 bn*

* New record high in 2010

Consolidated Statement of Financial Position

	At 31 Dec 2009	\$m
ASSETS		
Cash and cash equivalents		1,319
Cash and cash equivalents of Clearing House Funds and Margin Funds (Funds) and cash collateral	5	13,419
Financial assets	33,688	18,950
Fixed assets	6	303
Other assets	7	11,341
Total assets		45,332
LIABILITIES AND EQUITY		
Liabilities		
Cash collateral from HKSCC Clearing Participants		3,432
Participants' contributions to Funds	8	21,242
Other liabilities	9	12,631
Total liabilities		37,305
Equity		
Share capital, share premium and reserves		2,058
Shares held for Share Award Scheme	10	(52)
Retained earnings		6,021
Shareholders' funds		8,027
Total liabilities and equity		45,332

Segment Profit for the Year

	2010				Total \$m
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	
Revenue and other income	3,448	1,045	2,399	674	7,566
Operating expenses	849	221	450	92	1,612
	1	2	3	4	
Reportable segment profit before taxation	2,599	824	1,949	582	5,954
Taxation					(917)
Profit attributable to shareholders					5,037

Cash Flows for the Year

	2010	\$m
Net cash inflow from operating activities	11	4,986
Purchases of shares for Share Award Scheme	10	(188)
Payments for fixed assets and lease premium for land		(106)
Dividends paid		(4,258)
Net increase in financial assets of Corporate Funds		(67)
Interest received from financial assets		224
Proceeds from issue of shares		34
Other net cash inflows		1
Net increase in cash and cash equivalents		626
Cash and cash equivalents at 1 Jan 2010		1,319
Cash and cash equivalents at 31 Dec 2010		1,945

Key Market Statistics and Business Drivers – Derivatives Market

	2010
Average daily number of derivatives contracts traded on the Futures Exchange	221,487*
Average daily number of stock options contracts traded on the Stock Exchange	246,474*

* New record high in 2010

Consolidated Statement of Financial Position

	At 31 Dec 2010	\$m
ASSETS		
Cash and cash equivalents		1,945
Cash and cash equivalents of Funds and cash collateral	5	17,416
Financial assets	38,355	18,994
Fixed assets and lease premium for land	6	320
Other assets	7	9,209
Total assets		47,884
LIABILITIES AND EQUITY		
Liabilities		
Cash collateral from HKSCC Clearing Participants		3,594
Participants' contributions to Funds	8	24,741
Other liabilities	9	10,872
Total liabilities		39,207
Equity		
Share capital, share premium and reserves		2,130
Shares held for Share Award Scheme	10	(219)
Retained earnings		6,766
Shareholders' funds		8,677
Total liabilities and equity		47,884

Movements in Share Capital, Share Premium and Reserves for the Year

	2010			Total \$m
	Share capital and share premium \$m	Employee share-based compensation reserve \$m	Designated reserves \$m	
At 1 Jan 2010	1,452	43	563	2,058
Issue of shares	34	-	-	34
Employee share-based compensation benefits	-	36	-	36
Transfer from retained earnings	-	-	17	17
Vesting of shares of Share Award Scheme	-	(15)	-	(15)
Transfer	8	(8)	-	-
At 31 Dec 2010	1,494	56	580	2,130

Notes

Profit attributable to shareholders for 2010 increased mainly due to higher turnover-related income and Stock Exchange listing fees, but the increase was partly offset by the drop in net investment income and higher operating expenses.

The continuing growth of the Mainland and other Asian economies fuelled by ample liquidity provided considerable growth momentum in 2010. Market activity rose strongly particularly in the fourth quarter. Average daily turnover value on the Stock Exchange for 2010 rose by 11 per cent as compared to that for 2009. The Derivatives Market also performed well in 2010, with a record high number of contracts traded. As a result, the total turnover-related income of the Group rose by \$450 million to \$5,024 million in 2010.

Stock Exchange listing fees increased considerably due to a surge in new listings of companies from the Mainland and overseas as well as a significant increase in newly listed DWs during 2010.

The drop in net investment income was primarily attributable to a drop in fair value gains of investments of the Corporate Funds and a decline in Margin Funds and lower interest rates during 2010 as compared with 2009.

The performance of the Group by operating segment during 2010 was as follows:

- 1 Profit of the Cash Market increased by \$342 million mainly due to the higher turnover of the Cash Market.
- 2 Profit of the Derivatives Market dropped by \$11 million mainly as a result of the lower net investment income from Margin Fund investments due to lower interest rates and Margin Funds size, but was partly offset by the increase in the level of activity in the Derivatives Market.
- 3 Profit of the Clearing Business rose by \$120 million mainly attributable to the increase in clearing and settlement fees brought by the higher turnover in Cash Market in 2010 and the increase in depository, custody and nominee services fees due to the increase in scrip fees, dividend collection fees and stock custody fees.
- 4 Profit of the Market Data decreased by \$39 million as certain fees charged on a per quote basis dropped.
- 5 Comprised financial assets and cash and cash equivalents of Margin Funds of \$22,695 million (31 Dec 2009: \$20,234 million), Corporate Funds of \$9,422 million (31 Dec 2009: \$8,281 million), cash collateral of \$3,594 million (31 Dec 2009: \$3,432 million) and Clearing House Funds of \$2,644 million (31 Dec 2009: \$1,741 million).
- 6 Fixed assets and lease premium for land increased by \$17 million mainly due to the additions of \$125 million, but was partly offset by depreciation and amortisation of \$108 million.
- 7 Other assets mainly consisted of money obligations receivable under the Continuous Net Settlement System of \$8,283 million (31 Dec 2009: \$10,476 million) and other receivables.
- 8 Represented margin deposits from Clearing Participants of \$22,702 million (31 Dec 2009: \$20,243 million) and Participants' contributions to Clearing House Funds of \$2,039 million (31 Dec 2009: \$999 million). The increase in margin deposits from Clearing Participants at 31 December 2010 against those at 31 December 2009 was due to the increase in open interest in futures contracts and higher margin rates required per contract at the year end. The increase in Participants' contributions to Clearing House Funds at 31 December 2010 against those at 31 December 2009 was mainly due to the increase in additional contributions from Participants in response to market fluctuations and changes in risk exposure.
- 9 Other liabilities mainly represented money obligations payable under the Continuous Net Settlement System of \$8,283 million (31 Dec 2009: \$10,477 million) and other liabilities.
- 10 Shares are held by the Share Award Scheme on behalf of eligible employees before the Awarded Shares become vested. During the year, \$21 million of shares were vested and transferred to employees and \$188 million of shares were purchased.
- 11 Net cash inflow from operating activities increased by \$444 million mainly due to higher profit generated during 2010.

Movements in Retained Earnings for the Year

	2010 \$m
Profit attributable to shareholders	5,037
Dividends	(4,285)
Dividends forfeited	16
Vesting of shares of Share Award Scheme	(6)
Transfer to designated reserves	(17)
Net increase in retained earnings	745
Retained earnings at 1 Jan 2010	6,021
Retained earnings at 31 Dec 2010	6,766
Representing:	
Retained earnings	4,280
Proposed dividend	2,486
	6,766

Overall Performance

	Note	2010 \$m	2009 \$m	Change
RESULTS				
Revenue and other income:				
Income affected by market turnover	(A)	5,024	4,574	10%
Stock Exchange listing fees	(B)	945	728	30%
Market data fees	(C)	670	695	(4%)
Other revenue	(D)	455	417	9%
Net investment income	(E)	472	621	(24%)
<hr/>				
Operating expenses		7,566	7,035	8%
		1,612	1,493	8%
<hr/>				
Profit before taxation		5,954	5,542	7%
Taxation		(917)	(838)	9%
<hr/>				
Profit attributable to shareholders		5,037	4,704	7%

Profit attributable to shareholders increased to \$5,037 million for the year ended 31 December 2010 against \$4,704 million for 2009 mainly due to higher turnover-related income and Stock Exchange listing fees, but was partly offset by a drop in net investment income.

The continuing growth of the Mainland and other Asian economies fuelled by ample liquidity provided considerable growth momentum in 2010. Market activity rose strongly particularly in the fourth quarter. Average daily turnover value on the Stock Exchange for 2010 rose by 11 per cent as compared to that for 2009. The Derivatives Market also performed well in 2010, with a record high number of contracts traded. As a result, the total turnover-related income of the Group rose by \$450 million to \$5,024 million in 2010.

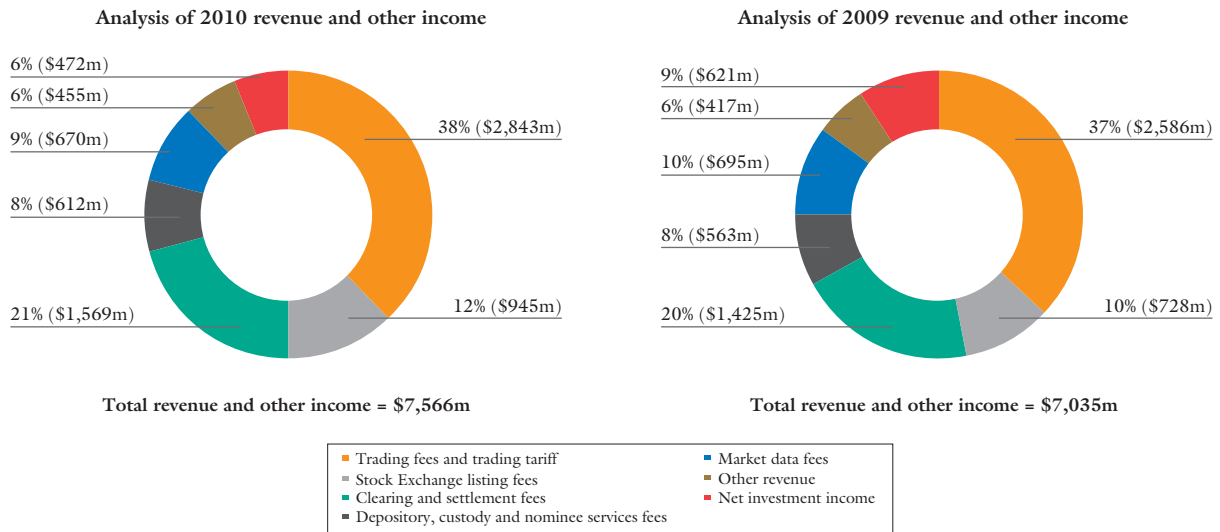
Stock Exchange listing fees increased considerably due to a surge in new listings of companies from the Mainland and overseas as well as a significant increase in newly listed DWs during 2010.

The drop in net investment income was primarily attributable to a drop in fair value gains of investments of the Corporate Funds and a decline in Margin Funds and lower interest rates during 2010 as compared with 2009.

Total operating expenses rose during the year mainly due to higher staff costs and IT and computer maintenance expenses but the increase was partly offset by a drop in premises expenses.

The accounts have been prepared in accordance with the HKFRSs issued by the HKICPA, which were in alignment with the requirements of International Financial Reporting Standards in all material respects at 31 December 2010.

Revenue and Other Income



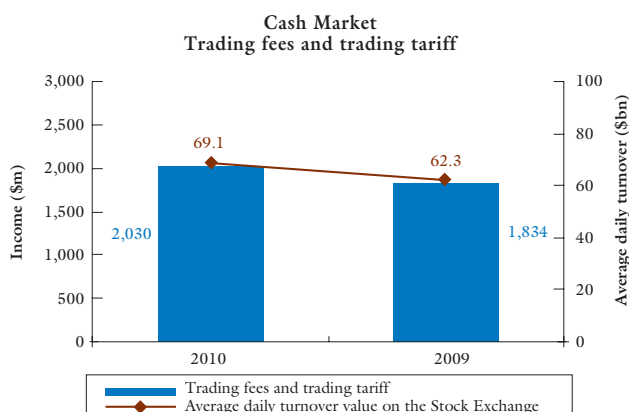
(A) Income Affected by Market Turnover

	2010 \$m	2009 \$m	Change
Trading fees and trading tariff	2,843	2,586	10%
Clearing and settlement fees	1,569	1,425	10%
Depository, custody and nominee services fees	612	563	9%
Total	5,024	4,574	10%

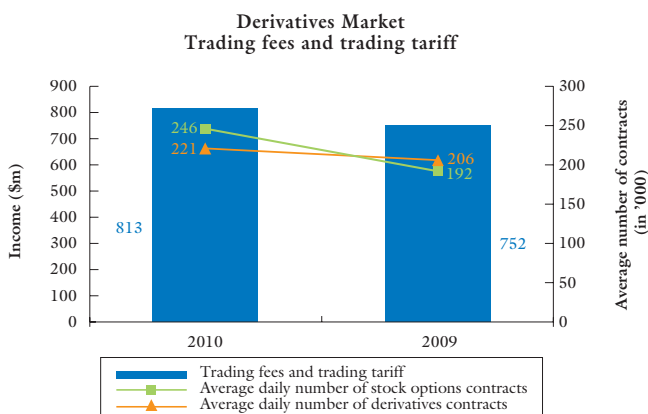
Key Market Indicators

	2010	2009	Change
Average daily turnover value on the Stock Exchange (\$bn)	69.1	62.3	11%
Average daily number of derivatives contracts traded on the Futures Exchange	221,487	206,458	7%
Average daily number of stock options contracts traded on the Stock Exchange	246,474	191,676	29%

Trading Fees and Trading Tariff



The increase in trading fees and trading tariff from the Cash Market was mainly due to higher 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 and options contracts traded was at record high in 2010.

Clearing and Settlement Fees

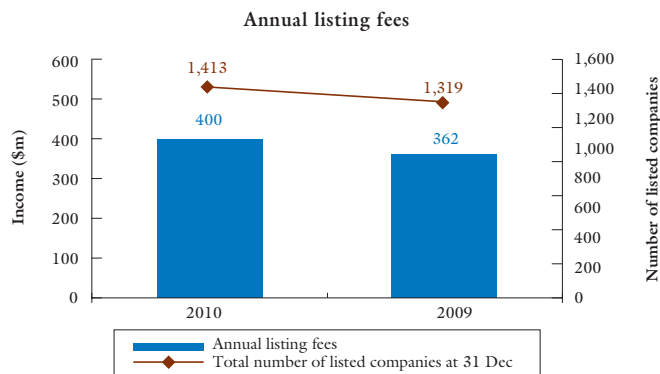
Clearing and settlement fees are derived predominantly from Cash Market transactions. In 2010, the increase in clearing and settlement fees was mainly due to higher turnover of the Cash Market. Clearing and settlement fees are also affected by the volume of SIs, and despite being mostly ad valorem, they are subject to a minimum and a maximum per transaction and therefore may not always move exactly with the changes in the turnover of the Cash Market.

Depository, Custody and Nominee Services Fees

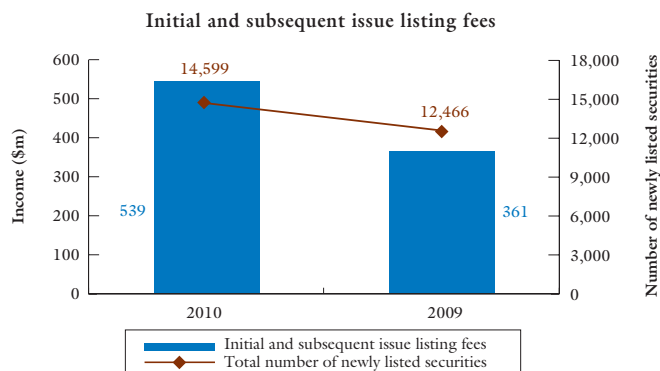
Depository, custody and nominee services fees mainly comprise scrip fees, corporate action fees, stock custody fees, dividend collection fees, stock withdrawal fees, and eIPO handling fees. Depository, custody and nominee services fees rose mainly due to an increase in scrip fees, dividend collection fees, and stock custody fees, but the increase was partly offset by the drop in eIPO handling fees and stock withdrawal fees. Other than the eIPO handling fees, which are affected by the number of eIPO allotments, the other fees are generally influenced by the level of Cash Market activity but do not move proportionately with changes in the turnover of the Cash Market as they vary mostly with the number of board lots of the securities concerned rather than the value of the transaction, and many are subject to a maximum fee. Moreover, scrip fees are only chargeable on the net increase in individual Participants' aggregate holdings of the securities between book closing dates and thus are unusually large on the first book closing date after a new listing.

(B) Stock Exchange Listing Fees

	2010 \$m	2009 \$m	Change
Annual listing fees	400	362	10%
Initial and subsequent issue listing fees	539	361	49%
Others	6	5	20%
Total	945	728	30%



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



Initial and subsequent issue listing fees rose with the increase in the number of newly listed DWs and listed companies, but the increase was partly offset by the drop in the number of newly listed CBBCs.

Key Drivers for Annual Listing Fees

	At 31 Dec 2010	At 31 Dec 2009	Change
Number of companies listed on Main Board	1,244	1,145	9%
Number of companies listed on GEM	169	174	(3%)
Total	1,413	1,319	7%

Key Drivers for Initial and Subsequent Issue Listing Fees

	2010	2009	Change
Number of newly listed DWs	7,826	4,230	85%
Number of newly listed CBBCs	6,541	8,072	(19%)
Number of newly listed companies on Main Board	106	68	56%
Number of newly listed companies on GEM	7	5	40%
Number of other newly listed securities on Main Board and GEM	119	91	31%
Total number of newly listed securities	14,599	12,466	17%
	2010	2009	Change
	\$bn	\$bn	
Total equity funds raised on Main Board			
– through IPOs	448.8	247.9	81%
– Post-IPO	396.7	389.8	2%
Total equity funds raised on GEM			
– through IPOs	0.7	0.4	75%
– Post-IPO	12.5	4.0	213%
Total	858.7	642.1	34%

(C) Market Data Fees

	2010	2009	Change
	\$m	\$m	
Market data fees	670	695	(4%)

Despite an increase in the average turnover of the Cash Market in 2010, market data fees decreased as there was a decline in certain fees charged on a per quote basis.

(D) Other Revenue

	2010	2009	Change
	\$m	\$m	
Network, terminal user, dataline and software sub-license fees	345	321	7%
Participants' subscription and application fees	34	35	(3%)
Brokerage on direct IPO allotments	27	16	69%
Trading booth user fees	15	15	0%
Sales of Trading Rights	11	10	10%
Miscellaneous revenue	23	20	15%
Total	455	417	9%

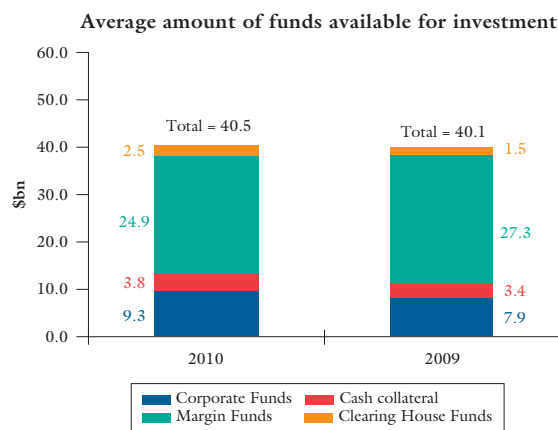
Network, terminal user, dataline and software sub-license fees rose mainly due to higher AMS/3 line rental income and HKATS-related usage fees, but the increase was partly offset by a drop in sales of additional throttle.

Brokerage on direct IPO allotments increased in line with newly listed companies.

(E) Net Investment Income

	2010 \$m	2009 \$m	Change
Gross investment income	476	624	(24%)
Interest rebates to Participants	(4)	(3)	33%
Net investment income	472	621	(24%)

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

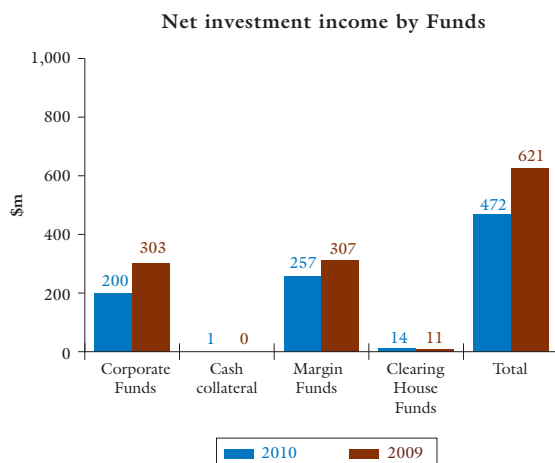


The average amount of Corporate Funds increased as 10 per cent of the profit is retained under the current dividend payment policy. In addition, the profit generated in the second half of 2009 was higher than that in the corresponding period of 2008 and the related dividend was not distributed until May 2010.

The drop in the average amount of Margin Funds available for investment was primarily caused by the lower average margin rate required per contract.

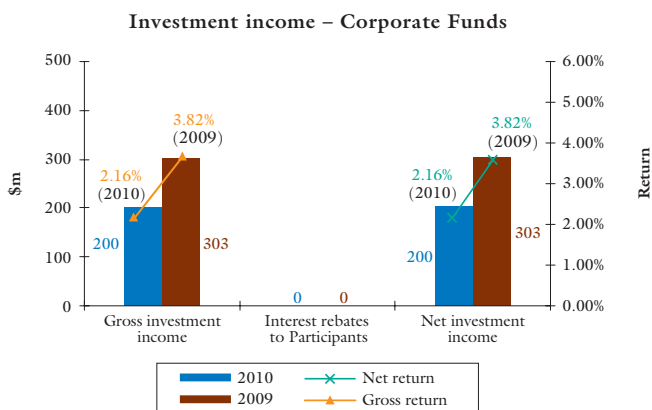
The higher average amount of Clearing House Funds was mainly due to the increase in additional contributions from Participants due to market fluctuations and changes in risk exposure.

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

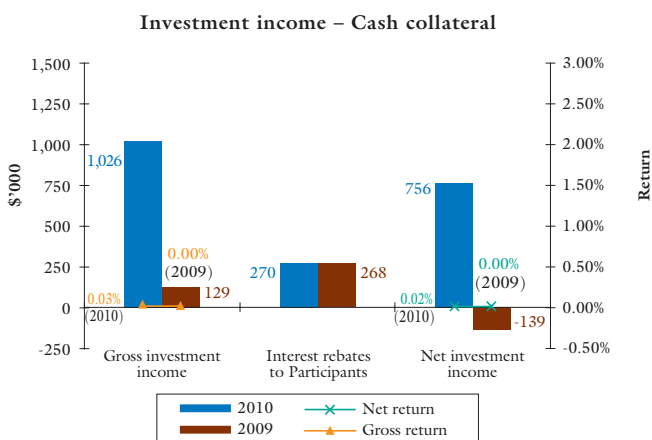


The lower net investment income was mostly due to the drop in net investment income of the Corporate Funds and Margin Funds.

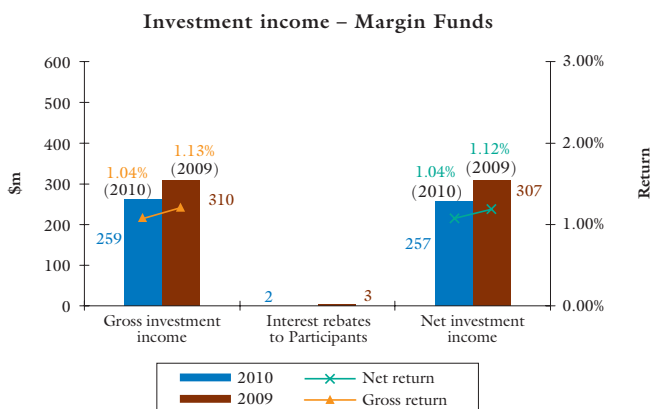
The analysis of investment income by Funds is as follows:



Investment income of Corporate Funds decreased mainly due to the drop in net fair value gains of investments that were measured at fair value (including certain principal-guaranteed structured notes and principal-guaranteed structured deposits) during the year, which led to a lower rate of return in 2010. As the valuation of the investments reflects movements in their market prices, fair value gains or losses may fluctuate or reverse until the investments are sold or mature.

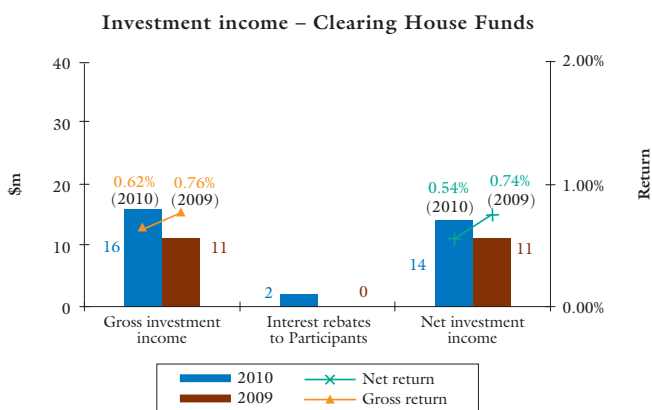


As the cash collateral is refundable within a very short period of time, it was only placed in savings accounts earning a very low rate of return in the past. In 2010, a small portion of the cash collateral was placed in longer-term time deposits for yield enhancement.



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

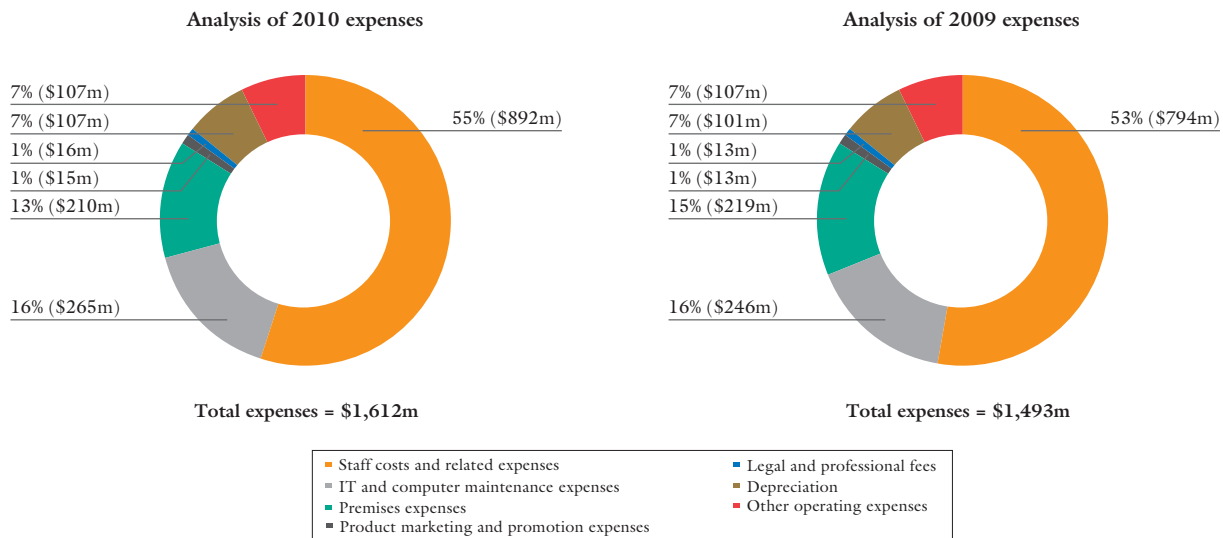
The gross return on Margin Fund investments dropped slightly due to the decrease in interest rates. The net return was similar to the gross return as only very small interest rebates (at savings rates) were paid to Participants under the low interest rate environment in 2010.



The gross investment income of Clearing House Funds rose mainly due to the increase in Clearing House Funds but the rate of return was lower due to the fall in interest rates for overnight deposits. The net return was similar to the gross return as only very small interest rebates were paid to Participants under the low interest rate environment.

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

Operating Expenses



	2010 \$m	2009 \$m	Change
Staff costs and related expenses	892	794	12%
IT and computer maintenance expenses	265	246	8%
Premises expenses	210	219	(4%)
Product marketing and promotion expenses	15	13	15%
Legal and professional fees	16	13	23%
Depreciation	107	101	6%
Other operating expenses	107	107	0%
Total	1,612	1,493	8%

Staff costs and related expenses increased by \$98 million primarily due to salary adjustments to keep up with the market trend, an increase in performance bonus on account of the improved performance of the Group in 2010, and an increase in employee share-based compensation expenses arising from the shares granted to employees in 2010.

IT and computer maintenance expenses consumed by the Group (ie, excluding costs of services and goods directly consumed by the Participants of \$122 million (2009: \$105 million)), were \$143 million (2009: \$141 million). The rise in costs of services and goods directly consumed by the Participants was caused by an increase in AMS/3 line rentals and HKATS maintenance expenses incurred by the Participants. Costs of services and goods consumed by Participants are mostly recovered from the Participants and the income is included as part of the network, terminal user, dataline and software sub-license fees under Other Revenue.

Premises expenses dropped due to cost savings from the consolidation of the data centres for derivatives and cash trading at lower cost premises.

Depreciation increased due to depreciation of leasehold improvements at the new data centre for derivatives trading.

Taxation

	2010 \$m	2009 \$m	Change
Taxation	917	838	9%

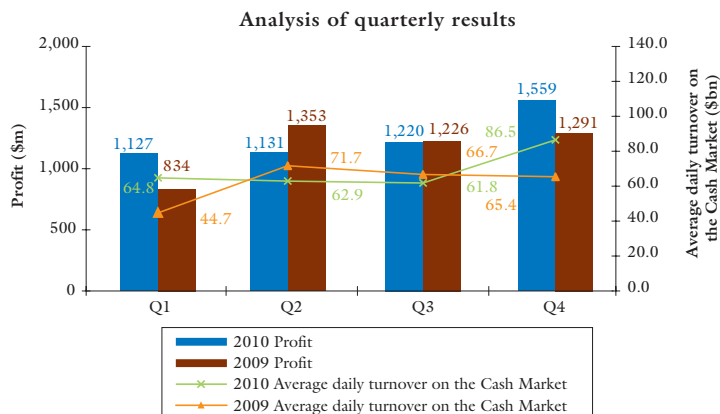
Taxation increased mainly due to higher profit before taxation, and a drop in non-taxable investment income.

Analysis of Results by Quarter

Quarterly Results

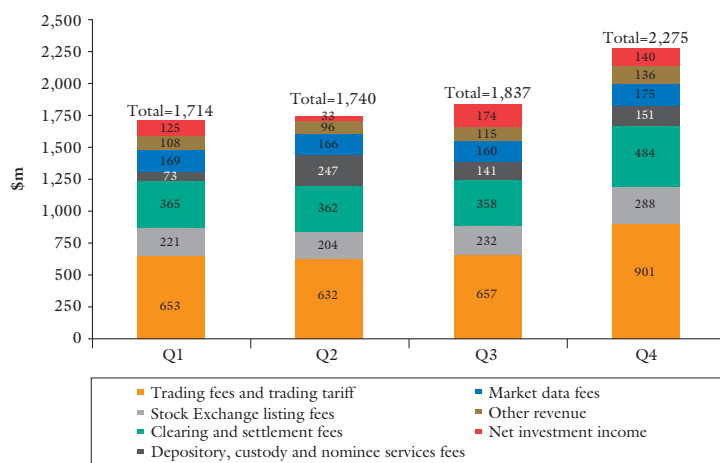
	Q1 2010 \$m	Q2 2010 \$m	Q3 2010 \$m	Q4 2010 \$m	Total 2010 \$m
Revenue and other income	1,714	1,740	1,837	2,275	7,566
Operating expenses	385	391	402	434	1,612
Profit before taxation	1,329	1,349	1,435	1,841	5,954
Taxation	(202)	(218)	(215)	(282)	(917)
Profit attributable to shareholders	1,127	1,131	1,220	1,559	5,037

	Q1 2009 \$m	Q2 2009 \$m	Q3 2009 \$m	Q4 2009 \$m	Total 2009 \$m
Profit attributable to shareholders	834	1,353	1,226	1,291	4,704



Activity on the Cash Market in the first three quarters of 2010 remained at a similar level to the corresponding quarters of 2009. The continuing growth of the Mainland and other Asian economies fuelled by ample liquidity provided considerable growth momentum in 2010. Market activity rose strongly particularly in the fourth quarter, leading to the higher profit for the quarter.

Analysis of 2010 revenue and other income by quarter



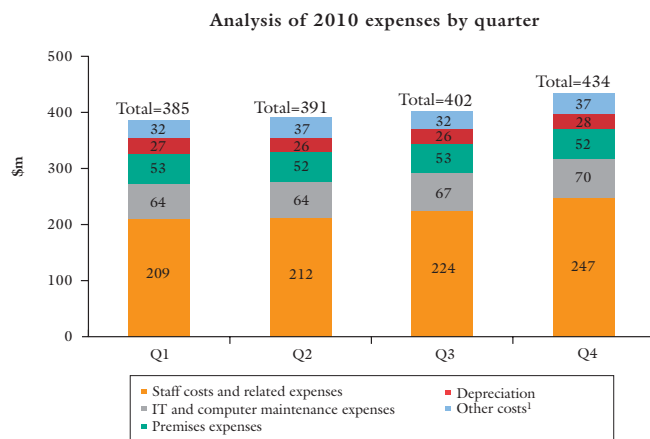
Income affected by market turnover (ie, trading fees and trading tariff, clearing and settlement fees, and depository, custody and nominee services fees) generally moved in line with the average daily turnover on the Cash Market. Depository, custody and nominee services fees were the highest in the second quarter on account of higher scrip fee income due to seasonal factors.

Stock Exchange listing fees were the highest in the fourth quarter as more DWs and companies were newly listed in that quarter.

The net investment income was the highest in the third quarter due to fair value gains of Corporate Fund and Margin Fund investments that reflected market movements.

The key market indicators for the income of the Group by quarter are set out below:

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Total 2010
Average daily turnover value on the Stock Exchange (\$bn)	64.8	62.9	61.8	86.5	69.1
Average daily number of derivatives contracts traded on the Futures Exchange	211,724	223,654	204,094	246,545	221,487
Average daily number of stock options contracts traded on the Stock Exchange	205,581	237,708	216,830	324,534	246,474
Number of newly listed DWs	1,649	1,536	1,938	2,703	7,826
Number of newly listed CBBCs	1,886	1,473	1,369	1,813	6,541
Number of newly listed companies on Main Board	13	15	26	52	106
Number of newly listed companies on GEM	–	2	2	3	7



Staff costs rose in the fourth quarter due to the higher performance bonus attributable to the stronger performance in the quarter.

Other costs remained fairly stable throughout all quarters.

¹ Other costs include product marketing and promotion expenses, legal and professional fees and other operating expenses.

Changes to Key Items in Consolidated Statement of Financial Position

(A) Fixed Assets and Capital Commitments

The Group's fixed assets consist of leasehold land and buildings, trading and clearing systems, other computer hardware and software and miscellaneous assets such as leasehold improvements. At 31 December 2010, the net book value of fixed assets was \$295 million, which was similar to the \$303 million at 31 December 2009 as additions of \$99 million were offset by depreciation of \$107 million during the year.

The Group's capital expenditure commitments at 31 December 2010, including those authorised by the Board but not yet contracted for, amounted to \$2,075 million (31 December 2009: \$66 million) and were mainly related to the upgrade and enhancement of trading and clearing systems, the construction of our NGDC in Tseung Kwan O with hosting service capabilities, and other new business initiatives. The Group has adequate internal resources to fund its capital expenditure commitments.

(B) Significant Financial Assets and Financial Liabilities by Funds

	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m	Change
Financial assets			
Cash and cash equivalents	19,361	14,738	31%
Financial assets measured at fair value through profit or loss	11,190	14,025	(20%)
Financial assets measured at amortised cost	7,804	4,925	58%
Total	38,355	33,688	14%

The Group's financial assets at 31 December 2010 comprised financial assets of the Corporate Funds, cash collateral, Margin Funds, and Clearing House Funds. The amounts attributable to the respective funds were as follows:

	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m	Change
Corporate Funds	9,422	8,281	14%
Cash collateral	3,594	3,432	5%
Margin Funds ¹	22,695	20,234	12%
Clearing House Funds	2,644	1,741	52%
Total	38,355	33,688	14%

¹ Excluding margin receivable from Clearing Participants

	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m	Change
Financial liabilities			
Margin deposits from Clearing Participants on derivatives contracts	22,702	20,243	12%
Cash collateral from HKSCC Clearing Participants	3,594	3,432	5%
Participants' contributions to Clearing House Funds	2,039	999	104%
Total	28,335	24,674	15%

Financial assets of Corporate Funds at 31 December 2010 increased as compared to those at 31 December 2009 since the profit for 2010 was higher than the dividends paid during the year (which were based on 90 per cent of the profits of the second half of 2009 and first half of 2010).

The increase in financial assets of Margin Funds and margin deposits from Clearing Participants on derivatives contracts at 31 December 2010 against those at 31 December 2009 was due to an increase in open interest in futures contracts and higher margin rates required per contract at the year end.

The increase in financial assets of Clearing House Funds and Participants' contributions to Clearing House Funds at 31 December 2010 against those at 31 December 2009 was mainly due to an increase in additional contributions from Participants due to market fluctuations and changes in risk exposure.

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

Save for those disclosed in this Annual Report, there were no significant investments held, nor were there material acquisitions and disposals of subsidiaries during the year. Apart from the construction of the NGDC in Tseung Kwan O and the establishment of a clearing house for OTC derivatives traded in Hong Kong, there is no plan for other material investments or additions of capital assets as of the date of this Annual Report.

(D) Accounts Receivable, Prepayments and Deposits and Accounts Payable, Accruals and Other Liabilities

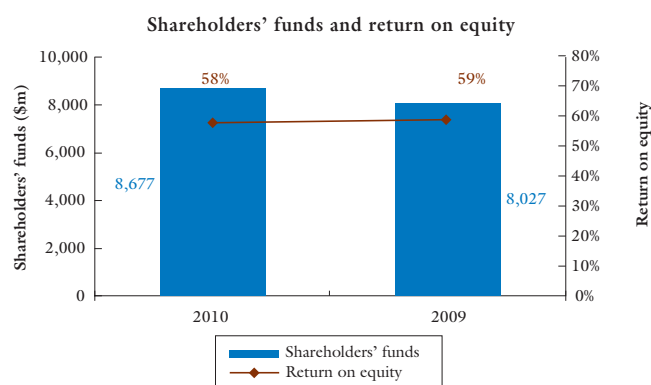
	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m	Change
CNS money obligations receivable	8,283	10,476	(21%)
Other receivables from Participants	708	705	0%
Other accounts receivable, prepayments and deposits	373	320	17%
Less: provision for impairment losses of receivables	(158)	(164)	(4%)
Total accounts receivable, prepayments and deposits	9,206	11,337	(19%)
CNS money obligations payable	8,283	10,477	(21%)
Other payables to Participants	808	519	56%
Stamp duty payable to the Collector of Stamp Revenue	214	205	4%
Other accounts payable, accruals and other liabilities	641	626	2%
Total accounts payable, accruals and other liabilities	9,946	11,827	(16%)

The Group's accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities at 31 December 2010 mainly comprised CNS money obligations receivable and payable and other receivables from and payables to Exchange and Clearing Participants.

The decrease in CNS money obligations receivable and payable was mainly due to higher netting of trades transacted by the same Participants.

(E) Shareholders' Funds and Return on Equity

Shareholders' funds at 31 December 2010 increased by \$650 million to \$8,677 million (31 December 2009: \$8,027 million). The increase was mainly attributable to a \$762 million increase in retained earnings (before transfers to designated reserves), but was partly offset by a \$112 million decrease in other shareholders' equity arising mainly from shares purchased for the Share Award Scheme less employee share options exercised and share-based compensation benefits recognised.



Return on equity dropped slightly as the increase in retained earnings included in shareholders' funds was higher than the increase in profit attributable to shareholders.

Liquidity, Financial Resources and Gearing

Working capital rose by \$664 million to \$6,374 million at 31 December 2010 (31 December 2009: \$5,710 million). The increase was due to profit generated during the year of \$5,037 million, a drop in non-current financial assets of \$303 million, and an increase in other working capital of \$73 million, but was partly offset by the payment of the 2009 final dividend of \$2,251 million and the 2010 interim dividend of \$2,034 million, \$276 million of Participants' contributions to the HKCC Reserve Fund that was changed from non-current liabilities to current liabilities following a clearing house rule amendment, and purchases of shares for the Share Award Scheme of \$188 million.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. During the year, \$4,000 million of committed banking facilities which provide for same day borrowing in HKD and/or RMB have been obtained to further enhance the liquidity of the Group and its clearing houses. The Group's total available banking facilities amounted to \$13,010 million at 31 December 2010 (31 December 2009: \$9,050 million), which include these \$4,000 million of committed banking facilities and \$9,000 million (31 December 2009: \$9,000 million) of repurchase facilities.

Borrowings of the Group have been rare and are mostly event driven, with little seasonality. At 31 December 2010 and 31 December 2009, the Group had no bank borrowings and, therefore, maintained a zero gearing.

At 31 December 2010, 99 per cent (31 December 2009: more than 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.

Charges on Assets

None of the Group's assets was pledged at 31 December 2010 or 31 December 2009.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 45(a)(i) – Foreign exchange risk management to the consolidated accounts of this Annual Report.

Contingent Liabilities

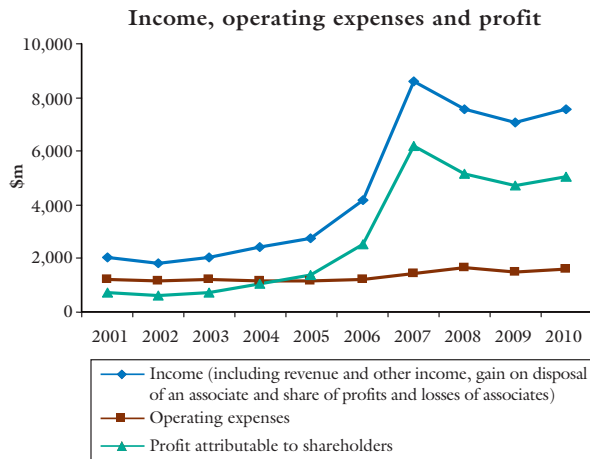
Details of contingent liabilities are included in note 40 to the consolidated accounts of this Annual Report.

10-YEAR FINANCIAL STATISTICS

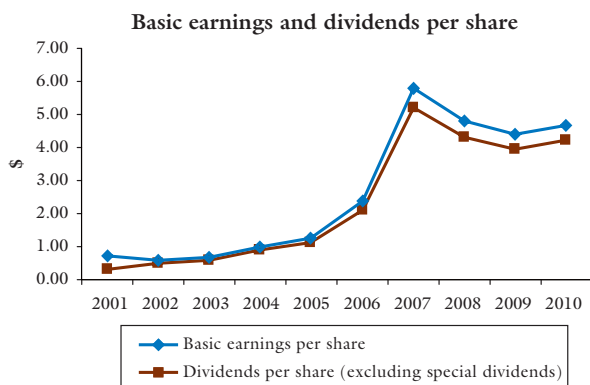
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
KEY MARKET STATISTICS										
Average daily turnover value on the Stock Exchange (\$bn)	69.1	62.3	72.1	88.1	33.9	18.3	16.0	10.4	6.7	8.2
Average daily number of derivatives contracts traded on the Futures Exchange	221,487	206,458	207,052	171,440	100,318	68,157	56,752	41,889	30,038	27,192
Average daily number of stock options contracts traded on the Stock Exchange	246,474	191,676	225,074	187,686	73,390	35,385	22,720	17,122	15,203	16,567
CONSOLIDATED INCOME STATEMENT (\$m)										
Revenue and other income	7,566	7,035	7,549	8,390	4,147	2,694	2,394	2,020	1,808	1,998
Operating expenses	1,612	1,493	1,621	1,412	1,211	1,145	1,156	1,224	1,165	1,179
	5,954	5,542	5,928	6,978	2,936	1,549	1,238	796	643	819
Gain on disposal of an associate	-	-	-	206	-	-	-	-	-	-
Share of profits less losses of associates	-	-	-	6	27	18	13	9	5	-
Profit before taxation	5,954	5,542	5,928	7,190	2,963	1,567	1,251	805	648	819
Taxation	(917)	(838)	(799)	(1,021)	(445)	(227)	(194)	(112)	(59)	(85)
Profit attributable to shareholders	5,037	4,704	5,129	6,169	2,518	1,340	1,057	693	589	734
Dividend per share (\$)										
- Interim and final dividends	4.20	3.93	4.29	5.19	2.13	1.13	0.90	0.60	0.51	0.33
- Special dividends	-	-	-	-	-	-	-	1.68	-	-
	4.20	3.93	4.29	5.19	2.13	1.13	0.90	2.28	0.51	0.33
Basic earnings per share (\$)	4.68	4.38	4.78	5.78	2.37	1.26	1.00	0.66	0.56	0.71
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (\$m)										
Non-current assets	2,350	2,637	425	884	454	1,710	2,839	3,059	2,250	2,082
Current assets	45,534	42,695	62,397	87,070	40,207	21,236	18,629	16,772	11,802	11,669
Current liabilities	(39,160)	(36,985)	(55,220)	(79,273)	(35,134)	(18,336)	(17,168)	(13,922)	(8,249)	(8,200)
Net current assets	6,374	5,710	7,177	7,797	5,073	2,900	1,461	2,850	3,553	3,469
Total assets less current liabilities	8,724	8,347	7,602	8,681	5,527	4,610	4,300	5,909	5,803	5,551
Non-current liabilities	(47)	(320)	(308)	(305)	(270)	(273)	(269)	(296)	(310)	(331)
Shareholders' funds	8,677	8,027	7,294	8,376	5,257	4,337	4,031	5,613	5,493	5,220
Net assets per share ¹ (\$)	8.06	7.46	6.79	7.83	4.94	4.08	3.81	5.35	5.26	5.02
FINANCIAL RATIOS										
Dividend payout ratio ²	90%	90%	90%	90%	90%	90%	90%	91%	91%	46%
Cost to income ratio ³	21%	21%	21%	16%	29%	42%	48%	60%	64%	59%
Pre-tax profit margin ³	79%	79%	79%	84%	71%	58%	52%	40%	36%	41%
Return on equity ⁴	58%	59%	70%	74%	48%	31%	26%	12%	11%	14%
Current ratio	1.2	1.2	1.1	1.1	1.1	1.2	1.1	1.2	1.4	1.4

Notes:

- 1 Based on number of shares issued and fully paid less number of shares held for the Share Award Scheme at 31 December
- 2 The calculation of dividend payout ratio does not take into account special dividends.
- 3 For the purpose of computing cost to income ratio and pre-tax profit margin, income includes gain on disposal of an associate and share of profits less losses of associates.
- 4 Based on shareholders' funds at 31 December

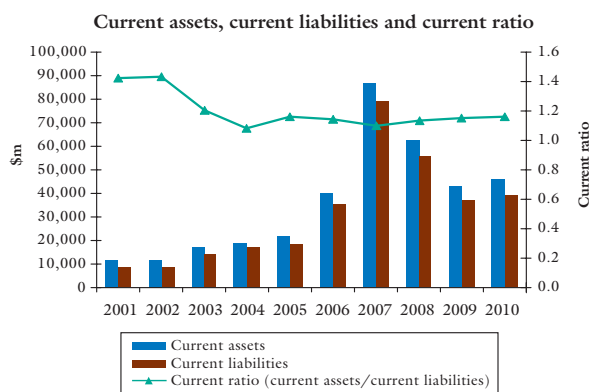


Profit attributable to shareholders declined from 2001 to 2002 as market sentiment was adversely affected by the weak global economy, risk of war in Iraq, and accounting scandals in the US. It started to pick up in 2003 following the end of the Severe Acute Respiratory Syndrome threat and the subsequent increased hope of a revival in the Hong Kong economy. Thereafter, activity in the Cash and Derivatives Markets continued to gather momentum, in particular in 2006 when shares from various large IPOs were listed. Market sentiment was further boosted in 2007 by the strengthening Mainland economy, the relaxation of rules governing permissible investments under the Mainland's Qualified Domestic Institutional Investor scheme, and the Mainland's proposed Pilot Programme for Direct Foreign Portfolio Investments by Domestic Individuals, which culminated in record high turnover in the Cash and Derivatives Markets. In 2008 and 2009, the activity in the Cash Market dropped as market sentiment was stricken by the global economic downturn and stock prices tumbled following the financial tsunami which started in the fourth quarter of 2008. Investor sentiment began to recover in 2010 and considerable growth in market turnover was recorded in the fourth quarter due to ample liquidity and continuing economic growth on the Mainland and in other parts of Asia. Operating expenses were kept relatively stable throughout the years due to stringent cost controls. As a result, profit attributable to shareholders was predominantly affected by the level of income.

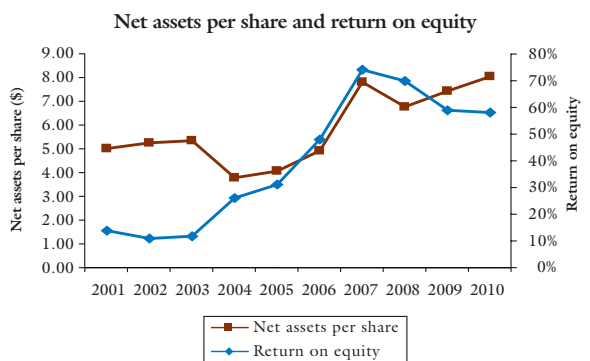


As there were no significant changes in the issued share capital, earnings per share followed the same trend as profit attributable to shareholders.

In 2002, the Board began adopting a policy of providing Shareholders with regular dividends with a target payout ratio of 90 per cent. Since then, dividends per share have moved in line with earnings per share.



Current assets and current liabilities were directly affected by the CNS money obligations receivable and payable under the T+2 settlement cycle and the Margin Funds. Therefore, the amounts generally followed the level of activity in the Cash and Derivatives Markets.



Net assets per share had been increasing steadily due to profits retained until a special dividend of \$1.68 per share was paid in May 2004. Thereafter, net assets per share resumed rising as a result of increasing profits in successive years up to 2007. Net assets per share dropped in 2008 as total dividends paid (which were based on the higher profit in the second half of 2007 and the first half of 2008) were higher than the profit for the year. Net assets per share have been rising again since 2009 as the total dividends paid during 2009 and 2010 were lower than the profit for the two years.

The return on equity generally moved in line with profit attributable to shareholders. The sharp increase in the return on equity in 2004 was due to the special dividend paid in May 2004. The decline in 2008 and 2009 was due to a drop in profit caused by the financial tsunami.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

HKEx is committed to maintaining the highest levels of business integrity and Shareholders' long-term interests through a set of corporate governance principles and practices which have been established upon the four cornerstones of accountability, transparency, fairness and integrity. Since its listing in 2000, HKEx has spared no effort in improving its practices to ensure that they remain relevant in a quickly-evolving business environment while furthering its steadfast commitment to the highest governance standards.

As an exchange controller governed by the SFO, HKEx shall act in the interest of the public with particular regard to the interest of the investing public; and ensure that the interest of the public prevails where it conflicts with the interest of HKEx. We have the primary duty of ensuring an orderly, informed and fair securities and futures market and of ensuring risks are managed prudently. Our corporate governance structure is specifically designed to enable HKEx to discharge this statutory duty while pursuing its business objectives, which helps reinforce Hong Kong's position as an international financial centre.

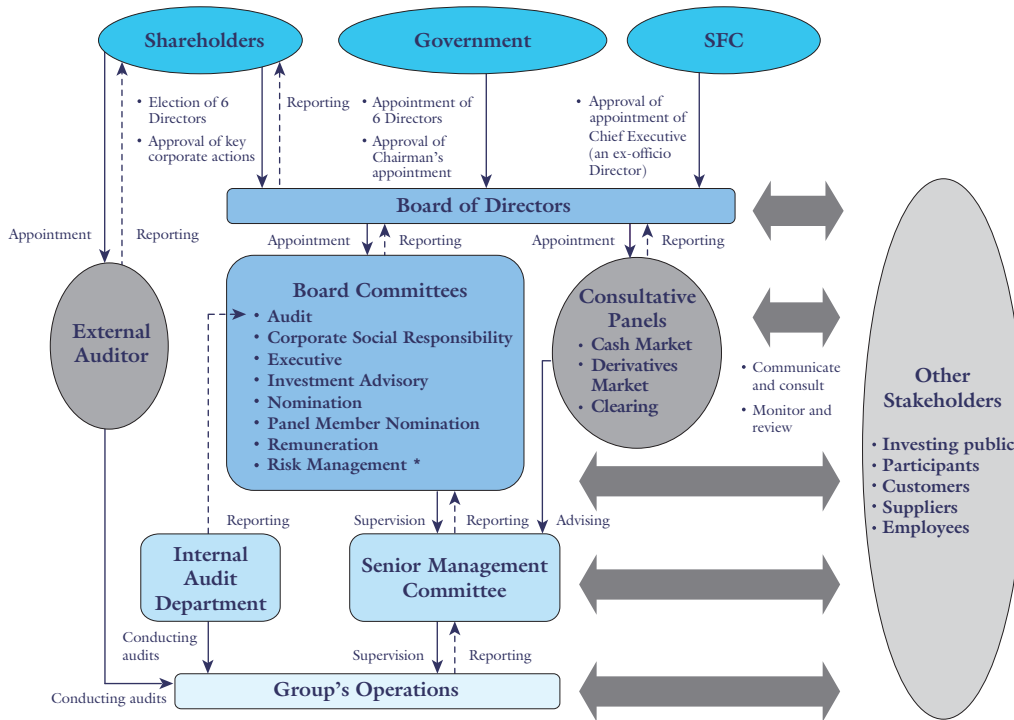
As a listed company on the Stock Exchange (which is HKEx's wholly-owned subsidiary), HKEx is regulated by the SFC in order to prevent any potential conflicts of interest in compliance with the Main Board Listing Rules, thereby ensuring a level playing field with other listed issuers. Moreover, the regulatory function of the Stock Exchange assumed by HKEx's Listing Division is separate and independent of HKEx's income-generating business operations. The regulatory function is supervised by Listing Committees which are totally independent of the Board, in order to maintain impartiality.

The principles in the CG Code of the Main Board Listing Rules have been adopted to shape our corporate governance structure, which has been established to provide guidance when handling relationships and dealings with various stakeholders in a comprehensive and constructive way. More information about our checks and balances as well as our governance principles and practices are available in the Corporate Governance section of the HKEx website.

CG Code Compliance

The Government Appointed Directors and the Chief Executive, in his capacity as a Director, are not subject to election or re-election by Shareholders as their appointments are governed by Section 77 of the SFO and HKEx's Articles respectively. Save as disclosed in this paragraph, HKEx has complied with all the code provisions and, where appropriate, adopted the recommended best practices as set out in the CG Code (Appendix 14 to the Main Board Listing Rules) throughout the year ended 31 December 2010.

Corporate Governance Structure



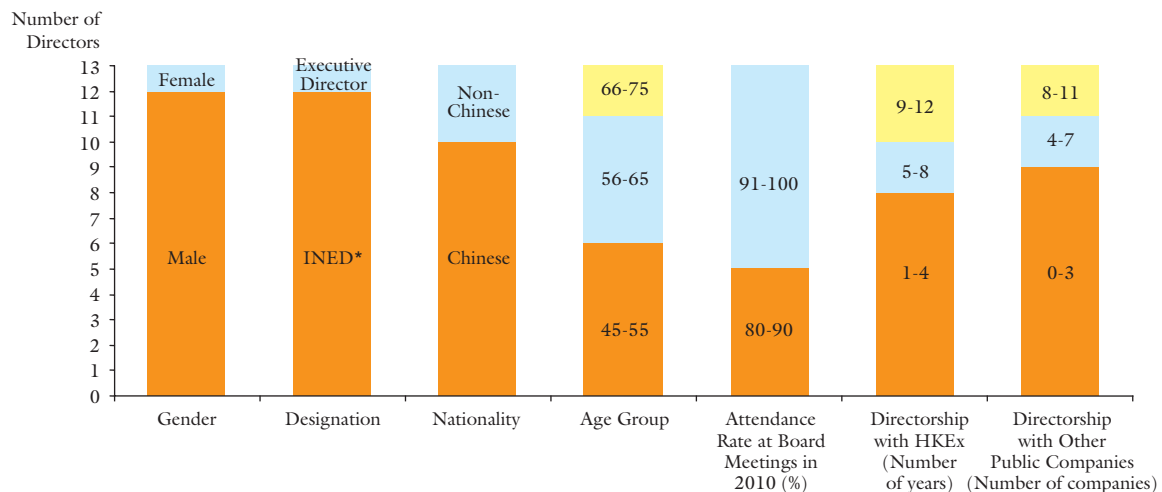
* A statutory committee which consists of no more than 2 members appointed by HKEx and 3 to 5 members appointed by the Financial Secretary pursuant to Section 65 of the SFO.

The Board

Board Composition

The Board structure is governed by Article 90 of HKEx's Articles and Section 77 of the SFO under which the Financial Secretary may appoint any person as a Government Appointed Director; however the number of such shall not exceed the number of Elected Directors, excluding the Chief Executive. Currently, the Board is comprised of 13 members who are either professionals or financial experts. The list of Directors, their biographies and their respective terms of office are set out in the Board of Directors and Senior Management of this Annual Report, and are available on the HKEx website.

Board Composition



* 6 Government Appointed Directors and 6 Elected Directors

Chairman and Chief Executive

The roles of the Chairman and the Chief Executive are separate and assumed by Mr Ronald Arculli (re-appointed by the Board on 23 April 2010 and approved by the HKSAR Acting Chief Executive on 27 April 2010) and Mr Charles Li (who succeeded Mr Paul Chow effective 16 January 2010) respectively. Their respective responsibilities are set out in the Corporate Governance section of the HKEx website. HKEx's Articles provides that the Chairman shall be a non-executive Director. The Chairman's primary responsibilities include deciding on the meeting schedule and agenda, formulating Board policy, ensuring Board effectiveness, promoting the Company and upholding the Company's corporate governance. The Chief Executive has delegated authority from, and is responsible to, the Board for managing the Group's business, including the implementation of the strategies and initiatives adopted by the Board.

Independence of Non-executive Directors

Since its listing, HKEx has been steering by a Board comprised of INEDs by great majority. The Chief Executive is the only executive Director on the Board.

Every non-executive Director has submitted a written confirmation to the SFC stating his/her independence upon his/her appointment with reference to the criteria affecting independence, as set out in the Main Board Listing Rules. Each INED is required to inform the Company as soon as practicable if there is any change that may affect his or her independence. Moreover, each has to declare his or her past or present financial interest or other interest in the Company's or its subsidiaries' business, or his or her connection with any of the Company's connected persons (as defined in the Main Board Listing Rules), if any. Details are disclosed under the Continuing Connected Transactions and Related Party Transactions sections of this report. All Directors do not have any financial, business, family or other material/relevant relationships with each other. In particular, there are none between the Chairman and the Chief Executive.

Appointment and Election of Directors

The appointment, re-election and removal of Directors are governed by the SFO and HKEx's Articles. While each Government Appointed Director is normally appointed for a term of approximately 2 years, the service term of every Elected Director is not more than approximately 3 years. Retiring Directors are eligible for re-appointment or re-election. The staggered structure enables the Board to change its composition in an orderly manner over time while maintaining leadership, stability and continuity, and allows for regular evaluation of the mix of skills and experience, as required.

On 22 April 2010, the Financial Secretary re-appointed Mr Ronald Arculli, Mrs Laura Cha and Dr Moses Cheng each for a term of approximately 2 years from the close of the 2010 AGM until the conclusion of the AGM to be held in 2012. Messrs John Strickland and Oscar Wong were re-elected by Shareholders at the 2010 AGM each for a term of approximately 3 years from 22 April 2010 until the conclusion of the AGM to be held in 2013.

The service terms of 2 Elected Directors, namely Dr Bill Kwok and Mr Vincent Lee, and 3 Government Appointed Directors, namely Dr Marvin Cheung and Messrs Stephen Hui and Michael Lee, will expire at the conclusion of the 2011 AGM. Pursuant to Article 93(5) of HKEx's Articles, they are all eligible for re-appointment. Candidates standing for election at general meetings are recommended by either Shareholders or the Board. HKEx will make an announcement on the appointment of Directors, including Government Appointed Directors, as soon as the results are known.

The Nomination Committee (NC)

The NC is comprised of 5 members who are all INEDs. Its major responsibilities are to formulate and implement the policy for nominating candidates for election by Shareholders, and to assess the independence of non-executive Directors based on the criteria such as reputation for integrity, accomplishment and experience in the financial services sector, professional and educational background, and potential time commitments. Its member list is set out in the Board and Committees of this Annual Report, which together with the terms of reference are available on the HKEx website.

During 2010, the NC met once, and members' attendance record is shown on page 88 of this Annual Report. The NC nominated Messrs John Strickland and Oscar Wong for the Board's recommendation to stand for election by Shareholders at the 2010 AGM, and reviewed and confirmed the independence of the 12 INEDs for the year ended 31 December 2009.

Confirmation of INEDs' Independence

On 2 March 2011, the NC held a meeting to assess the annual confirmation of independence received from each of the INEDs. The factors as set out in Rule 3.13 of the Main Board Listing Rules are taken into account when assessing the independence of a non-executive Director. As a good corporate governance practice, every NC member abstained from assessing his or her own independence. After taking into account that 6 Directors are Government-appointed and 3 of them are Executive Councillors while the Hong Kong Government is a Minority Controller of the Company, and Dr Bill Kwok and Messrs Vincent Lee and John Strickland have served on the Board for more than 9 years, the NC affirmed that all INEDs remained independent.

Nomination of Candidates as Elected Directors

On 2 March 2011, the NC also, in accordance with the Nomination Policy, nominated Dr Bill Kwok and Mr Vincent Lee to stand for election by Shareholders at the 2011 AGM. On the same day, the said nominations were accepted by the Board with Dr Kwok and Mr Lee each abstaining from voting on the proposition of himself for election by Shareholders. Dr Kwok and Mr Lee do not have any service contracts with any member of the Group that are not determinable by the Group within 1 year without compensation (other than statutory compensation); their particulars are set out in the circular to Shareholders to be sent together with this Annual Report.

Board Process and Effectiveness

Role and Responsibilities

The Board plays a central supporting and supervisory role in the Company's corporate governance structure, provides leadership and guidance to the Group's activities and oversees the work of the management and its execution of the Company's business strategies. Its terms of reference are set out in the Corporate Governance section of the HKEx website.

Induction and Development

Every Board member receives a Director's Handbook upon joining the Group, which lays down the Guidelines on Conduct for Board and Committee members and other key governance issues, including but not limited to Board procedures and all applicable laws, rules and regulations that they are required to observe during their service on the Board. The Director's Handbook is updated regularly and the latest version, dated June 2010, is available on the HKEx website.

A formal and tailored induction programme is arranged for each new Director, which includes a briefing on the Group's structure, businesses and governance practices by Senior Management. To seek continuous improvement, Directors are encouraged to attend relevant training sessions, particularly on corporate ethics and integrity matters, risk management, and relevant new laws and regulations, from time to time.

Key features of Board process

- The meeting schedule for the following year is normally given to all Directors within the last quarter of the current year. Board members may then hold extensive discussions of agenda items and other topics of interest. HKEx's senior executives are invited to join Board meetings to enhance the Board's understanding of any business proposals. In 2010, a total of 11 Board meetings were held with an average duration of about 2 hours. The overall attendance rate in 2010 was 94 per cent (2009: 88 per cent). The attendance record of each Director is set out in the Board Committees section of this report. In addition, 2 offsite Board meetings of 1.5 days and 1 full day respectively were held with senior executives in early 2010 to consider HKEx's Strategic Plan 2010-2012.
- The agenda and accompanying papers are normally sent to Directors/Committee members 4 days before the meeting date. Members can request relevant information through the Chief Executive or Company Secretary at any time. Members shall preserve the privacy of confidential information given or presented to, and the deliberations of, the Board/Committees.
- At each of its meetings, the Board receives a written report from the Chief Executive on the Company's major events, projects and initiatives, key matters of each division/department, and corporate activities.
- Other than Board meetings, the Chairman had meetings with individual Directors without management to discuss the performance of the management and matters affecting the Group in an informal but constructive manner.
- Sufficient resources are provided including for seeking independent professional advice to enable Directors to discharge their duties and responsibilities.
- Directors are required to declare their direct/indirect interests, if any, in any business proposals to be considered by the Board and to abstain from the relevant meetings, as appropriate. In 2010, there was 1 occasion where a Director withdrew from a meeting due to potential conflict of interest.
- In each financial reporting period, the Company seeks confirmation from Directors with respect to any related party transactions under HKAS 24 and connected transactions under the Main Board Listing Rules. The relevant information is disclosed in note 42 to the consolidated accounts of this Annual Report.
- Directors' and officers' liability insurance has been arranged. In 2010, no claims under the insurance policy were made.

Key non-routine matters considered and/or resolved by the Board in 2010

- The Group's Strategic Plan
- Development of the NGDC
- Recruitment of the new Chief Financial Officer
- Revised organisation structure
- Scrip dividend alternative
- Donation to support relief efforts in areas affected by the earthquake in Qinghai
- Capacity and technology upgrade for Derivatives Market Systems, AMS/3 and MDS
- Appointment of the Chairman
- Investment in structured products
- The Group's CSR development roadmap
- Internal Audit Report on Treasury Operations
- Performance evaluation of the Board, its Committees and the Directors
- Report on capital adequacy and liquidity review
- Consultation on changes to trading hours
- Community investment policy and budget

Performance Evaluation

In 2010, the Board, for the first time, carried out a formal and rigorous evaluation of its performance as well as that of the Committees and individual Directors by an external independent consultant to ensure objectivity and impartiality.

The evaluation was carried out by circulation of a questionnaire to each Board member. It was devised with specific references to the objectives of the Board and respective Committees, and included interviews with each Director, certain senior executives and representatives of the FSTB, the Hong Kong Monetary Authority and the SFC. The consultant also attended a Board meeting and an Audit Committee (AC) meeting to observe the Board's and Committee's proceedings.

The evaluation report was presented to the Board, which collectively discussed the results and the action plan for improvement. The evaluation concluded that the Board, including its Committees and members, functions well, and there are no major areas of concern. It also concluded that the Board is of good overall quality, with good people, processes and internal dynamics. The Board will conduct a structured evaluation of the Board performance internally on an annual basis and plans to continue reviewing its performance and that of its Committees with external facilitation once every three years.

Delegation by the Board

Board Committees

A total of 8 Board Committees have been formed, each of which is delegated with specific roles and responsibilities by the Board. Their terms of reference are available on the HKEx website. The AC, NC, Panel Member Nomination Committee (PMNC) and Remuneration Committee (RC) are comprised solely of INEDs. All the Board Committees follow the same principles and procedures as those of the Board and are provided with sufficient resources to discharge their duties. The Board receives the minutes of meetings and/or reports from the chairman of each of the committees on a regular basis, including their decisions and recommendations. The member lists of the Board Committees are set out in the Board and Committees of this Annual Report and are available on the HKEx website.

The attendance records of the Board and Committees are set out below.

Attendance record of Directors and Committee Members in 2010										
	2010 AGM	Board	Audit Committee	Corporate Social Responsibility Committee	Executive Committee	Investment Advisory Committee	Nomination Committee	Panel Member Nomination Committee	Remuneration Committee	Risk Management Committee
Number of Meetings	1	11	6	2	14	6	1	1	5	12
Independent Non-executive Chairman										
Ronald J Arculli	1/1	11/11			14/14		1/1		5/5	12/12
INEDs										
Laura M Cha	0/1	9/11						1/1	4/5	
Ignatius T C Chan	1/1	11/11	6/6				1/1			
Moses M C Cheng ¹	0/1	9/11	1/2				1/1		5/5	
Marvin K T Cheung	0/1	9/11	6/6							5/12
Stephen C C Hui	1/1	11/11				6/6				
Bill C P Kwok ²	1/1	11/11	4/4		14/14			1/1		11/12
Vincent K H Lee	1/1	11/11	6/6		14/14			1/1	5/5	
Michael T H Lee	1/1	11/11				5/6		1/1		
John E Strickland	1/1	10/11				6/6	1/1			
John M M Williamson	1/1	10/11	6/6		13/14				4/5	
Oscar S H Wong	1/1	10/11				6/6	1/1	1/1		
Executive Director										
Paul M Y Chow ³										
Charles X Li ³	1/1	11/11		2/2	14/14					
Market Professionals										
Chan Ka-lok										12/12
Fong Hup										9/12
Benjamin P C Hung ⁴										
Edmond Y P Lau										11/12
David Y T Lui						3/6				
Keith K K Lui										12/12
Mark S McCombe ⁵										6/6
Peter T S Wong ⁶										4/6
Executives										
David T F Chan ⁷										
Eddie L S Chow ⁸				2/2						
Peter J Curley ⁹				1/2						
Roger K K Lee ¹⁰										
Joseph K S Mau				2/2						
Alfred K K Wong ¹¹				2/2						
Brenda T M Yen				2/2						
Average Attendance Rate	77%	94%	97%	92%	99%	87%	100%	100%	92%	85%

Notes:

- 1 Dr Cheng retired from the AC on 23 April 2010.
- 2 Dr Kwok was appointed as a member of the AC on 23 April 2010.
- 3 Mr Li succeeded Mr Chow as the executive Director, the Chairman of the CSR Committee and a member of the Executive Committee on 16 January 2010.
- 4 Mr Hung retired from the Risk Management Committee on 20 January 2010.
- 5 Mr McCombe was appointed as a member of the Risk Management Committee on 28 July 2010.
- 6 Mr Wong was appointed as a member of, and retired from, the Risk Management Committee on 20 January 2010 and 28 July 2010, respectively.
- 7 Mr Chan was appointed as a member of the CSR Committee on 16 November 2010.
- 8 Mr Chow retired from the CSR Committee on 1 June 2010.
- 9 Mr Curley retired from the CSR Committee on 1 August 2010.
- 10 Mr Lee was appointed as a member of the CSR Committee on 1 September 2010.
- 11 Mr Wong retired from the CSR Committee on 1 September 2010.

Consultative Panels

In addition to the Board Committees, there are 3 Consultative Panels, namely the Cash Market Consultative Panel, Derivatives Market Consultative Panel and Clearing Consultative Panel under the Board. Their major responsibility is to provide market expertise and advice to the Board on international market trends, the demand of intermediaries, issuers, investors and other market participants, technological challenges, and new product opportunities relating to the trading and clearing of securities and futures products.

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

Meetings held in 2010	
Panel	Number of meetings
Cash Market Consultative Panel	1
Derivatives Market Consultative Panel	3
Clearing Consultative Panel	2

Management Functions

While matters relating in particular to the Group's strategies, policies and business plan require the Board's direction and approval, the day-to-day business operations in accordance with the laid down strategies are delegated to the executive management under the Chief Executive's leadership and supervision.

During 2010, HKEx made a number of changes to its organisation structure to align it with its strategic direction as set forth in the Strategic Plan 2010-2012. The updated structure is set out in the Organisation Chart of this Annual Report and on the HKEx website.

Major changes to organisation structure

Establishment of the Market Development Division (MDD)

- The MDD, headed by Mr Romnesh Lamba, comprises the Issuer Marketing, Mainland Development, Platform Development & Strategy, and Research & Corporate Development departments focusing on capturing future China and international opportunities, broadening HKEx's issuer base, assessing new product development and enhancing the competitiveness of HKEx's market structure and market systems.
- Ms Yang Qiumei was appointed Deputy Head of MDD and Head of the Mainland Development. In February 2011, Mr Eric Landheer joined us as Head of Issuer Marketing.

Restructuring of the Secondary Market Operations

- The Cash Market and Derivatives Market departments were combined into the new Trading Division (headed by Mr Calvin Tai, the former Head of Derivatives Market) in order to achieve operational synergies and more effective implementation of key strategic initiatives in the Secondary Market.
- Mr Eric Yip, the former Head of Cash Market, was appointed Deputy Chief Operating Officer to focus on the implementation of certain strategic initiatives. Subsequent to year-end, Mr Yip tendered resignation and will leave HKEx by the end of March 2011.

Repositioning of the Information Technology Division (ITD)

- ITD was repositioned as a critical business partner to reflect the increasing importance of market systems and platforms to HKEx's sustainable growth.
- A dual-leadership arrangement was introduced in ITD with the appointment of Mr Bill Chow, the former Deputy Head of ITD, and Mr Roger Lee, the former Head of Listing Operations, as the co-Heads of ITD. Mr Chow, who also became the Chief Technology Officer, is in charge of technology development for the IT infrastructure, while Mr Lee is responsible for resources management, operations, administration and governance of ITD.

All staff have defined roles and responsibilities and are subject to a Code of Conduct as set out in the Human Resources Manual, which imposes on them specific obligations regarding ethics and principles in accordance with which our business is conducted. The list of Senior Management and their biographies are set out in the Board of Directors and Senior Management of this Annual Report.

Remuneration of Directors and Senior Management

A formal and transparent procedure for fixing the remuneration packages of individual Directors and Senior Management is in place. Details of remuneration policies and other relevant information are set out in the Remuneration Committee Report of this Annual Report.

Directors' Securities Transactions and Interests in HKEx

Compliance with Model Code

HKEx has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the Model Code throughout the year ended 31 December 2010.

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

As at 31 December 2010, the Directors' and the Chief Executive's interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code are set out below.

Long positions in shares and underlying shares of HKEx

Name of Director	Number of shares/underlying shares held				Total	% of the issued ¹ share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Charles X Li	115,123 ²	–	–	–	115,123	0.01
John E Strickland	18,000 ³	–	–	–	18,000	0.00

Notes:

- Based on 1,078,092,346 shares of HKEx in issue as at 31 December 2010
- Being Mr Li's interests in 114,073 Awarded Shares and 1,050 shares further acquired by reinvesting the dividends received therefrom according to the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in the Remuneration Committee Report of this Annual Report.
- Mr Strickland was the beneficial owner of those shares.

Save for those disclosed above, as at 31 December 2010, none of the Directors or the Chief Executive had any interests or short positions in the shares, underlying shares or debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code.

Apart from the share options and the Awarded Shares as disclosed in the Remuneration Committee Report of this Annual Report, none of the Directors or the Chief Executive (including their spouses and children under the age of 18), during the year ended 31 December 2010, held any interests in or was granted any right to subscribe for the securities of HKEx and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

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

Minority Controllers

Under Section 61 of the SFO, no person shall be or become a Minority Controller, ie, a person who either alone or with any associated person or persons, is entitled to exercise, or control the exercise of, 5 per cent or more of the voting power at any general meeting of the recognised exchange controller, except with the SFC's approval in writing after consultation with the Financial Secretary.

Since 7 September 2007, the Hong Kong Government has become a Minority Controller. According to the Hong Kong Government, the provisions of Section 61 of the SFO do not expressly, or by necessary implication, bind the Hong Kong Government and accordingly by virtue of Section 66 of the Interpretation and General Clauses Ordinance the provisions of Section 61 of the SFO, requiring a person becoming a minority controller to obtain the approval of the SFC, do not affect the right of and are not binding on the Hong Kong Government.

As at the date of this Annual Report, the SFC has granted approval to 6 entities to be Minority Controllers, on the basis that the shares are held by them in custody for their clients. According to the Participant Shareholding Report as at 31 December 2010, the 6 (2009: 6) approved Minority Controllers in aggregate held approximately 64 per cent (2009: 67 per cent) of HKEx's issued share capital.

As at 31 December 2010, other persons' interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange are set out below.

Long positions in shares and underlying shares of HKEx

Name	Capacity	Number of shares/ underlying shares held	Total	% of the issued ¹ share capital
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	62,919,500 ²	62,919,500	5.84

Notes:

1 Based on 1,078,092,346 shares of HKEx in issue as at 31 December 2010

2 Based on a DI filing made by the Hong Kong Government on 10 September 2007 which it stated was voluntary

Save for those disclosed above, as at 31 December 2010, no other persons had any interests or short positions in the shares or underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange.

Senior Management

Senior Management are obliged to strictly follow the Company's restrictions on dealing in securities, futures contracts and derivatives, which are on terms no less stringent than the Model Code, as set out in the Human Resources Manual. As at 31 December 2010, Senior Management's interests in the shares and underlying shares of HKEx are set out below.

Name of employee	Number of shares held	Number of shares issuable under share options granted	Number of * Awarded Shares	Derivatives (number of underlying shares)
Gerald D Greiner	11,946	200,000	60,929	–
Mark F Dickens	–	–	97,913	–
Lawrence K M Fok	1,008,950	–	9,065	–
Kevin T King	–	–	6,188	–
Romnesh Lamba	–	–	49,825	–
Henry M W Law	19,409	65,000	27,370	–
Christine O M Wong	2,500	–	21,297	–
Samuel S F Wong	–	–	21,301	–

* Including further shares acquired through reinvesting dividends received

Continuing Connected Transactions

In June 2000, the SFC granted a waiver (Waiver) to HKEx from strict compliance with the Main Board Listing Rules with respect to certain continuing connected transactions as referred to in (A), (B) and (C) below. The Waiver has since then remained valid. During the year ended 31 December 2010 and subject to the Waiver, the Group had the following continuing connected transactions.

Continuing connected transactions for the year ended 31 December 2010

A. Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with the use of (i) the facilities provided by the Group for the trading, clearing and/or settlement of securities and futures products and transactions; and (ii) all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:

- (a) Mr Ronald Arculli, the Chairman, was interested in the transactions entered into by Bokhary Securities Limited, an EP and a Clearing Participant, in which his sister and his brother-in law each have a 50 per cent interest.
- (b) Dr Bill Kwok, an INED, was interested in the transactions entered into by Wocom Securities Limited (WSL) and Wocom Limited, EPs and Clearing Participants, which are associates of Dr Kwok by virtue of the Main Board Listing Rules.
- (c) Mr Vincent Lee, an INED, was interested in the transactions entered into by Tung Tai Securities Company Limited and Tung Tai Futures Limited, EPs and Clearing Participants, which are associates of Mr Lee by virtue of the Main Board Listing Rules.

B. Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with (i) the listing of securities on the Stock Exchange; and (ii) all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:

- (a) Mrs Laura Cha, an INED, was interested in the transactions entered into by her associates, HKR International Limited and Hanison Construction Holdings Limited. Both companies are listed on the Stock Exchange.
- (b) Dr Bill Kwok, an INED, was interested in the transactions entered into by his associate, Wing On Company International Limited, which is listed on the Stock Exchange.

C. Transactions between HKEx or its subsidiaries and the following connected person arising from or in connection with the HKSCC arrangement on behalf of CCASS Participants for (i) carrying out "buy-in" when a CCASS Participant failed to deliver securities on time for settlement under the CNS System or the Isolated Trades System operated by CCASS; (ii) the purchase or sale of securities in connection with the liquidation of the positions of a CCASS Participant that has been declared by HKSCC to be in default; and (iii) the sale of entitlements of securities held through CCASS (collectively referred as Buy-in Transactions):

- (a) Dr Bill Kwok, an INED, was interested in the Buy-in Transactions entered into by WSL which is an associate of Dr Kwok by virtue of the Main Board Listing Rules. For the year ended 31 December 2010, the total consideration of such transactions, being the brokerage commission earned by WSL, amounted to \$121,423.

The AC comprising 5 INEDs, under the authority delegated by the Board, reviewed the above continuing connected transactions (Transactions) pursuant to Rule 14A.37 of the Main Board Listing Rules. As a good corporate governance practice, Mr Vincent Lee and Dr Bill Kwok, the deputy chairman and a member of the AC respectively, abstained from reviewing the respective transactions in which they had an interest. The AC confirmed that:

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

The Company's external auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the HKICPA. The external auditor has issued their unqualified letter containing their findings and conclusions in respect of the Transactions in accordance with Rule 14A.38 of the Main Board Listing Rules. The Company has provided a copy of the said letter to the SFC and the Stock Exchange.

Related Party Transactions

During the year ended 31 December 2010, the Group also entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of these transactions are disclosed in note 42 to the consolidated accounts of this Annual Report.

Accountability and Audit

Financial Reporting

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. It is also the Board's responsibility to oversee the preparation of the annual accounts which give a true and fair view of the Group's state of affairs, results and cash flows for the year. To discharge this responsibility, the Board regularly reviews the reports prepared by management on the Group's financial and operational performance as well as the development of major initiatives, especially those under the annual operating plan. In preparing the accounts for the year ended 31 December 2010, the Board:

- (a) adopted all HKFRSs which conform to the International Financial Reporting Standards in all material respects;
- (b) selected suitable accounting policies and applied them consistently;
- (c) made prudent and reasonable judgements and estimates; and
- (d) ensured that the accounts were prepared on a going concern basis.

The Board recognises that high quality, transparent and timely financial reporting is important to secure stakeholders' confidence in the Group, and reviews and approves the annual, interim, and quarterly results for publication within 3 months, 2 months and 45 days respectively after the end of the relevant periods.

Internal Controls and Their Effectiveness

The Board has the overall responsibility to maintain sound and effective internal controls for the Group and to review their effectiveness to safeguard Shareholders' investment and the Group's assets. To this end, an internal control and risk management system has been established to provide reasonable, though not absolute, assurance against material misstatement or loss, and manage or mitigate rather than eliminate risks of failure to achieve business objectives.

Internal Control Framework

The Group's internal control and risk management system is an integral part of the Group's management system, which is on a par with the COSO (Committee of Sponsoring Organisations of the Treadway Commission) framework. Details of the internal control procedures are available in the Corporate Governance section of the HKEx website. The key control measures are summarised below.

HKEx's key control measures

Control environment

- A clear organisation structure with defined responsibilities was established and further revised in 2010 to align with the Strategic Plan 2010-2012 as set out under the Management Functions section of this report.
- Different policies, procedures and guidelines have been adopted with defined authority for effective segregation of duties and controls. A new Community Investment Policy was added to the list in June 2010 to set out the community investment focus, approval procedures and the monitoring mechanism.

Risk assessment

- System and procedures have been established to identify, assess and control risks that may affect the Cash and Derivatives Markets.
- An Enterprise Risk Management framework has been developed to ensure that risks are managed at acceptable levels.
- One of the key functions of the Senior Management Committee is to monitor and assess risks for individual business initiatives and to provide oversight of risk management across the Group.
- The Group's risk management functions are carried out by the Risk Management Division.

Control activities

- The relevant divisions and departments carry out their respective business operating plans in the pursuit of the 3-year strategic plan in accordance with the adopted policies and procedures.
- The management and individual divisions/departments are responsible for the day-to-day management of operational risks and implementation of mitigation measures.
- All division/department Heads are required to confirm annually that appropriate internal control policies and procedures have been established and properly complied with.
- Information about the Group's management of its financial risks is set out in note 45 to the consolidated accounts of this Annual Report.
- Information about the Groups' management of reputational risks arising from environmental, social or governance issues is set out in the 2010 CSR Report.

Information and communication

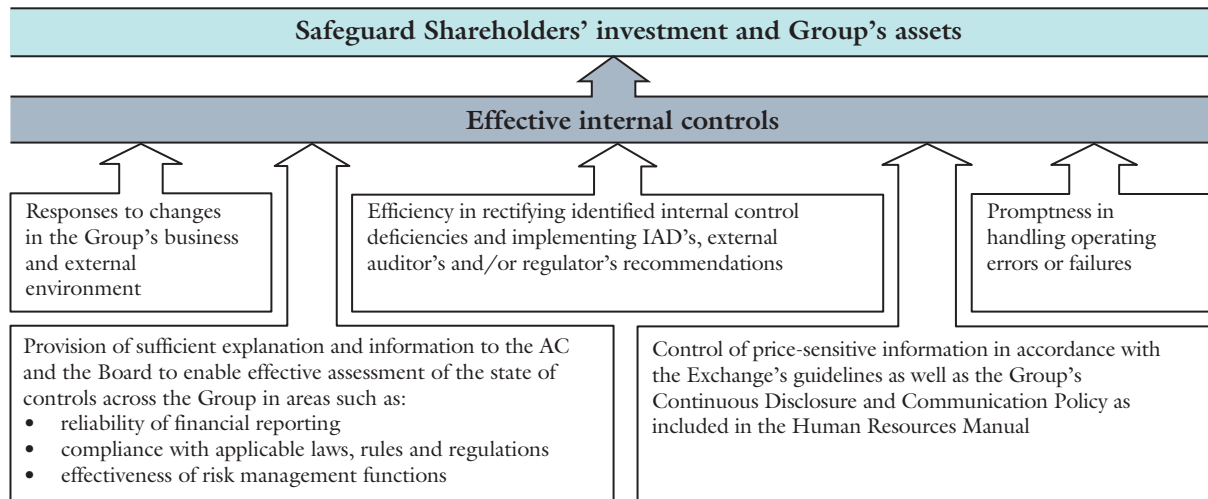
- An effective accounting and information system is in place to ensure timely and accurate disclosure of financial information.
- Various controls are in place to uphold the reliability, availability, security and stability of the Group's IT application systems.
- An Escalation and Incident Reporting Policy has been adopted to facilitate swift action and timely communication with our stakeholders.
- Stringent regulations are imposed to prohibit inappropriate use of confidential or price-sensitive information. Guidelines on reporting and disseminating material information, maintaining confidentiality and dealing restrictions are in place for employees to follow.

Monitoring

- The Internal Audit Department (IAD) conducts independent reviews of the risks associated with, and control over, principal operations and critical IT applications.
- A Whistle-blowing Policy has been adopted to facilitate internal reporting on any malpractice without fear of reprisal or victimisation.
- The Group's IT systems are subject to independent reviews to ensure their integrity, reliability, availability and stability. The review of HKATS, DCASS and PRS was completed in 2010 and re-affirmed that the core Derivatives Market systems are well managed and operated with a high standard of compliance with international best practices. A review of CCASS, completed in January 2011, confirmed that the controls are in line with the industry best practices.

Annual Assessment of Internal Control System

The AC, on behalf of the Board, assesses the effectiveness of the internal control system in detecting fraud and other irregularities on a regular basis by reviewing IAD's work and findings. IAD conducted independent reviews of the adequacy and effectiveness of the Group's internal control and risk management system and regularly reported the review results to the Board through the AC. IAD also assessed the Group's internal controls using the COSO framework to confirm the effectiveness of the Group's internal control system in the following aspects:



More information on the IAD's role and its internal audit methodology and process are available in the Corporate Governance section of the HKEx website.

During 2010, no suspected cases of fraud, irregularities or infringement of laws, rules and regulations or material control failures were identified. At its meeting on 21 February 2011, the AC concluded that the Group's internal control system was adequate and effective, and that the Group had adopted the necessary control mechanisms to monitor and rectify non-compliance throughout 2010. The AC also reviewed and was satisfied with the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function. More information about the AC, including a summary of its work in 2010, is set out in the Audit Committee Report of this Annual Report.

Independence of External Auditor

The AC is mandated to monitor the independence of the external auditor to ensure true objectivity in the financial statements. Prior to the commencement of the audit of the Group's 2010 accounts, the AC received written confirmation from the external auditor on its independence and objectivity. The external auditor is refrained from engaging in non-audit services except for limited tax-related services or specific approved items. The AC reviews the external auditor's statutory audit scope and non-audit services and approves its fees.

External Auditor's services and fees paid		
	2010	2009
	\$	\$
Audit	3,379,000	3,369,500
Permissible		
Non-audit Services:		
• Taxation services	381,338	364,619
• Training	3,300	4,500
Total	3,763,638	3,738,619

The Group has adopted a 5-year rotation policy regarding the engagement partner of the external auditor, hence a new partner in charge of the Group's audit was assigned by the external auditor in 2010. The Group has also adopted the policy of not hiring employees of an external auditor who are or have been involved in the Group's audit so as to ensure no impairment of the auditor's judgement and independence with respect to an audit. These policies have been consistently followed since their adoption.

More information about the external auditor's responsibilities is set out in the Auditor's Report of this Annual Report.

Shareholder Relations

Shareholder Communications

Open and candid communication between the Board and Shareholders is maintained. Regular and publicly available disclosures about important issues, including performance, fundamental business strategy, governance and the management of risk are made through various channels.

Communication channels

- the HKEx website which was revamped in March 2010
- financial statements (including quarterly, interim and annual reports), press conferences and webcasts of presentations on results, and notifications of financial results published in newspapers
- meeting with Shareholders
- regular circulars and letters to Shareholders
- prompt news releases and announcements regarding major corporate actions and business initiatives
- speeches delivered by Directors and key executives
- quarterly newsletter *Exchange* and status reports on new product and market development initiatives
- continuous dialogue with investors, media and financial analysts by means of roadshows, conference calls, one-on-one meetings and industry conferences
- market consultations and periodic surveys
- hotlines and emails

Shareholders are encouraged to access corporate communications from the HKEx website to help preserve the environment. We believe that this is also the most efficient and convenient method of communication with Shareholders.

An Investor Services Team under the Corporate Communications Department has been designated to maintain purposeful dialogue and ongoing relationships with investors and analysts. We strive to provide quality information to Shareholders as well as our many stakeholders regarding the latest developments at HKEx whilst ensuring that relevant information is equally and simultaneously provided and accessible to all interested parties.

Periodic analysis of HKEx's shareholding profile is conducted to help better understand Shareholders' interests and needs. Details of the analysis and HKEx's public float capitalisation are set out in the Shareholding Analysis and Information for Stakeholders of this Annual Report, respectively.

We always welcome Shareholders' views and input. Shareholders and other stakeholders may at any time address their concerns to the Company Secretary by mail or email. The contact details are set out in the Information for Stakeholders of this Annual Report.

More information about our stakeholder engagement programme is available in the CSR section of the HKEx website and in the 2010 CSR Report.

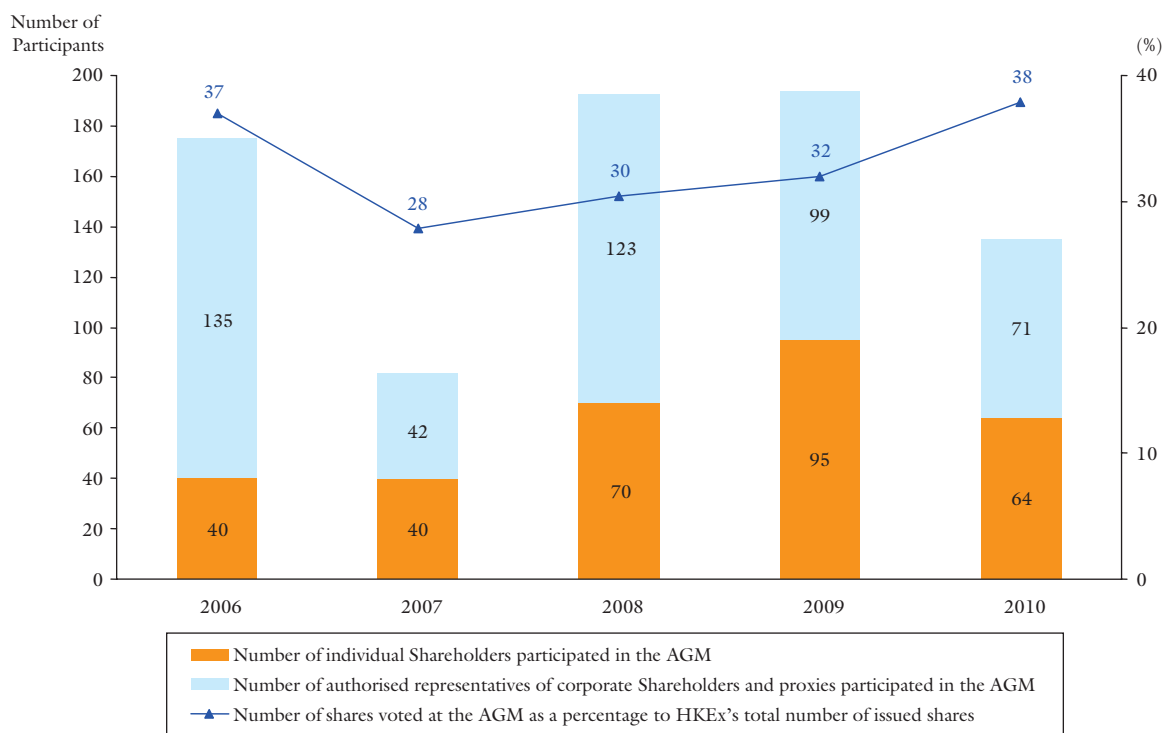
Shareholder Rights

Poll voting has been used for decision-making at Shareholders' meetings since 2003 to ensure that each share is entitled to one vote. Details of the poll voting procedures are set out in the circular sent to Shareholders prior to each meeting and explained at the meeting. The poll voting procedures and the particulars of Shareholders' rights, including the way in which an extraordinary general meeting can be convened and the procedures for putting forward proposals at a Shareholders' meeting, are set out in the Corporate Governance section of the HKEx website.

Annual General Meeting

The general meeting is the ideal venue for the interchange of ideas between the Board, the management and Shareholders. We therefore encourage Shareholders to attend the annual general meeting to discuss matters of business substance with the Board and management and to give us valuable advice on both operational and governance matters. At the AGM held on 22 April 2010 at 4:30 pm at the Exchange Auditorium in the Exchange Exhibition Hall of SEHK, there were a total of 135 individual Shareholders, authorised representatives of corporate Shareholders as well as proxies participated and the number of shares voted represented 38 per cent of the total number of HKEx's issued shares.

Participation in annual general meetings



Moreover, the majority of Directors, including the Chairman (who was also the chairman of the RC and the NC) and the deputy chairman of the AC, together with key executives and the external auditor attended the 2010 AGM. HKEx continued with the procedure of proposing a separate resolution for each substantive issue, including the election of individual Directors. The poll voting results and the minutes of the meeting are available on the HKEx website. The matters resolved thereat are summarised below.

Matters resolved at the 2010 AGM

- Received the audited accounts for the year ended 31 December 2009 together with the Reports of the Directors and the Auditor
- Payment of the final dividend of \$2.09 per share for the year ended 31 December 2009
- Election of Messrs John Strickland and Oscar Wong as Directors
- Re-appointment of PricewaterhouseCoopers as Auditor of the Company and authorisation of the Board to fix the Auditor's remuneration
- Approval to grant a general mandate to the Board for the share repurchase of an amount not exceeding 10 per cent of the aggregate nominal amount of the Company's issued share capital as at the date of 2010 AGM
- Approval of the remuneration of \$500,000 and \$350,000 payable to the Chairman and each of the other non-executive Directors respectively for their service during the period between the conclusion of each AGM and the conclusion of the AGM to be held in the immediately following year until Shareholders determine otherwise
- Approval of, in addition to the remuneration of \$50,000 per annum, an attendance fee of \$2,500 per meeting payable to the chairman and every member (excluding executive Director) of certain Board committees until Shareholders determine otherwise

Note: The motion on amendments to HKEx's Articles (details of which are set out in the circular to Shareholders dated 18 March 2010) were declined by Shareholders.

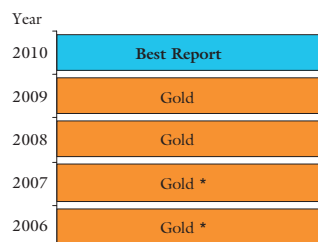
For the 2011 AGM, apart from normal business, the Board has proposed to request general mandates to repurchase HKEx shares and to issue HKEx shares, to raise the remuneration of non-executive Directors and members of certain Board Committees, and to make certain amendments to HKEx's Articles for Shareholders' approval. Details are set out in the circular to Shareholders to be sent together with this Annual Report.

The important Shareholders' dates in 2010 and the results announcement dates in 2011 are set out in the Financial Calendar under the Investor Relations section of the HKEx website.

Corporate Governance Scores and Ratings

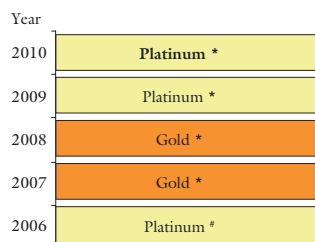
HKEx received the Corporate Governance Asia Recognition Award 2010 from *Corporate Governance Asia* and the highest ranking amongst large-cap companies in Asia for its corporate governance performance in CG Watch 2010 published by CLSA Asia-Pacific Markets and the Asian Corporate Governance Association. HKEx also won the Best Corporate Governance, Best in Investor Relations and Most Committed to a Strong Dividend Policy awards in Hong Kong in the Asia's Best Companies 2010 poll conducted by *FinanceAsia*. Other recognition of HKEx's corporate governance achievements are set out below.

HKMA Best Annual Reports Awards of The Hong Kong Management Association



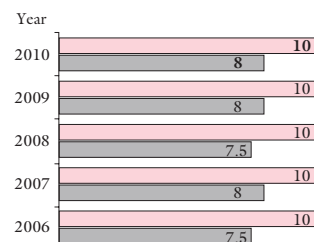
Note: The Gold Award under the General Category
* Also the Winner in Citation for Achievement in Corporate Governance Disclosure

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



* HSI Category
Non-HSI Category

Corporate Governance Rating of GovernanceMetrics International Inc



□ Home Market ■ Global Rating
Note: The score is on a 10-point scale.

We are strongly committed to continuous improvement in our corporate governance standards and practices to ensure that they meet ongoing developments in the global arena and changing investor expectations. Your comments are invaluable to us and can be sent to us in writing or by email to ssd@hkex.com.hk.

Changes after Closure of Financial Year

This report takes into account the changes that have occurred since the end of the 2010 to the date of approval of this report.

On behalf of the Board
MAU Kam Shing, Joseph
Company Secretary

Hong Kong, 2 March 2011

AUDIT COMMITTEE REPORT

The Audit Committee

The Audit Committee (AC) is comprised of 5 INEDs, appointed by the Board, who have extensive experience in financial matters. Among them, Dr Marvin Cheung, Mr Vincent Lee and Mr Ignatius Chan are certified public accountants, and Mr John Williamson is a chartered accountant. None of the members is employed by or otherwise affiliated with the former or existing auditors of HKEx.

Terms of Reference

The AC assists the Board by providing an independent review and supervision of financial reporting, and satisfying themselves as to the effectiveness of the Group's internal controls and the adequacy of the external and internal audits. In performing its duties, the AC is provided with sufficient resources to discharge its responsibilities and is supported by the Internal Audit Department (IAD) to examine all matters relating to the Group's adopted accounting principles and practices and to review all material financial, operational and compliance controls. The external auditor, the Chief Executive and senior executives are invited to attend the AC meetings, as and when necessary. The AC is accountable to the Board and the minutes of all meetings are circulated to the Board for information. The AC's terms of reference are posted on the HKEx website.

Major Work Done in 2010

The AC holds regular meetings, at least 4 times a year, and organises additional meetings if and when necessary. In 2010, a total of 6 meetings were convened. The attendance record of the AC's members is shown on page 88 of this Annual Report.

Major Tasks in 2010

- reviewed the financial reports for disclosure on a quarterly basis;
- reviewed the internal audit activities summary and approved the internal audit annual plan;
- reviewed internal/external auditor's significant findings, and monitored the subsequent implementation of their recommendations;
- reviewed the effectiveness of the internal control system;
- reviewed the external auditor's statutory audit scope for 2010, including their plan and engagement letter, and the letter of representation to be given by the Board;
- considered and approved the 2010 external audit fees;
- reviewed and monitored the external auditor's independence and the non-audit services, especially tax-related services, provided by the external auditor;
- reviewed the results of the independent review of HKEx's derivatives trading, clearing and information dissemination systems, and monitored the subsequent implementation of the recommendations raised in the review report; and
- selected the consultant for the independent review of CCASS/3, and monitored the progress of the review.

Internal Controls

HKEx's internal control system is reviewed regularly by the management and the IAD. The AC assessed the effectiveness of the internal control system in detecting fraud and irregularities by reviewing the work of the IAD and its findings. Based on the IAD's findings, the AC concluded that for the year ended 31 December 2010, HKEx's internal control system was effective and that HKEx had adopted the necessary control mechanisms to monitor and correct non-compliance. On this basis, the AC confirmed that the Group had, in 2010, satisfactorily complied with the requirements of the CG Code in respect of internal controls.

Review of 2010 Consolidated Financial Statements

The AC reviewed the 2010 consolidated financial statements in conjunction with HKEx's external and internal auditors. Based on this review and discussions with the management, the AC is satisfied that the consolidated financial statements have been prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2010. The AC therefore recommended the consolidated financial statements for the year ended 31 December 2010 be approved by the Board.

Review of the Group's Accounting and Financial Reporting Function

In compliance with the CG Code, the AC at its meeting on 21 February 2011 reviewed the resources, qualifications and experience of the employees of the Group's accounting and financial reporting function, and their training programmes and budget, and was satisfied with their adequacy and effectiveness.

Review of the Continuing Connected Transactions

At its meeting held on 21 February 2011, the AC also reviewed the "Continuing Connected Transactions" as set out in the Corporate Governance Report of this Annual Report and confirmed that the continuing connected transactions entered into by the Group were in accordance with the conditions of the waiver granted by the SFC and the requirements of the Main Board Listing Rules.

Recommendation of External Auditor for Re-appointment

The AC was satisfied with the external auditor's work, its independence and objectivity, and therefore recommended the re-appointment of PricewaterhouseCoopers (who has indicated its willingness to continue in office) as the Group's external auditor for 2011 for Shareholders' approval at the 2011 AGM.

Members of the Audit Committee

CHEUNG Kin Tung, Marvin (Chairman)
LEE Kwan Ho, Vincent Marshall (Deputy Chairman)
CHAN Tze Ching, Ignatius
KWOK Chi Piu, Bill
John Mackay McCulloch WILLIAMSON

Hong Kong, 21 February 2011

REMUNERATION COMMITTEE REPORT

The Remuneration Committee

The Remuneration Committee (RC) is comprised of 5 INEDs. Its composition is set out on page 19 of this Annual Report.

Terms of Reference

The RC is mandated to formulate the Group's remuneration policy for the Board's approval. Other key functions include, inter alia, setting the guidelines for the recruitment of the Chief Executive and Senior Management, determining their remuneration packages, and making recommendations to the Board on the Group's annual salary adjustment, annual performance bonus and share award. The terms of reference are posted on the HKEx website.

Major Work Done in 2010

During 2010, the RC held 5 meetings. Members' attendance record is shown on page 88 of this Annual Report.

Major tasks in 2010

- adopted the 2009 RC Report;
- reviewed the remuneration level for non-executive Directors and recommended raising it for 2010/2011;
- recommended changes in the vesting schedule of the Share Award Scheme and awarding shares to selected employees in May 2010;
- reviewed the Compensation Structure Review recommendations;
- recommended the performance bonus and share award pools for 2010 taking into account the Compensation Structure Review recommendations;
- recommended a salary adjustment for 2011 for merit increase and inflation; and
- recommended the performance bonus and share award for the Chief Executive for 2010, and his salary increase for 2011.

Remuneration Policy

Non-executive Directors

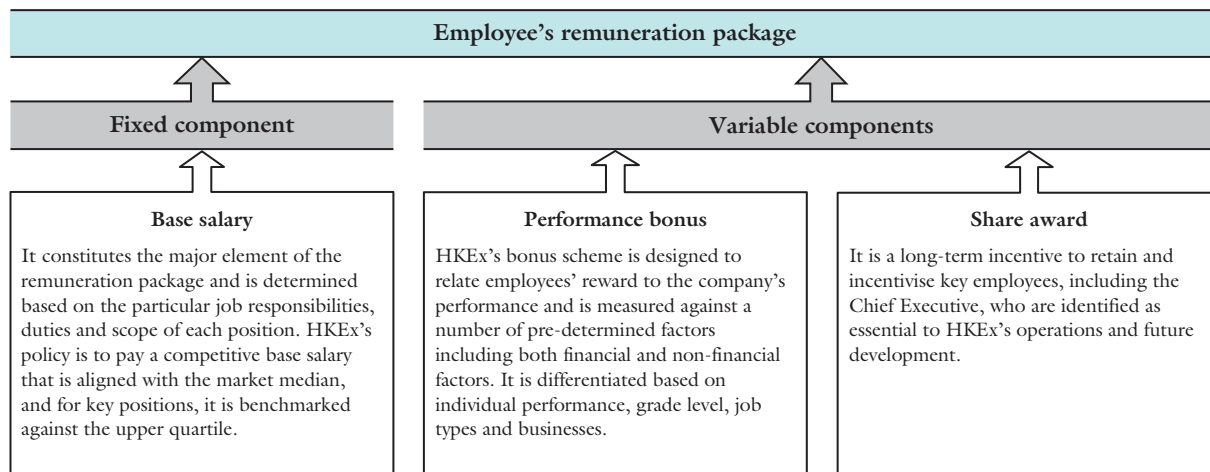
It is the Group's objective to review non-executive Directors remuneration annually with reference to companies of comparable business or scale to ensure they are remunerated fairly but not excessively for their efforts and time dedicated to HKEx, and to seek Shareholders' approval of any changes, if necessary.

Non-executive Directors are not entitled to participate in the Share Option Schemes and the Share Award Scheme, or to other fringe benefits.

Employees

As of 31 December 2010, the Group had 866 permanent employees (2009: 841) and 17 temporary employees (2009: 9). Recognising that quality and dedicated staff are valuable assets contributing to the Group's success, our remuneration policy is to ensure an equitable, performance-oriented, motivating and market-competitive remuneration package is offered to each of them.

Our employee's remuneration package (including that of the Chief Executive) comprises fixed and variable components benchmarked against companies in the financial services sector.



Employees' rewards are differentiated based on a 6-level performance rating scale. A performance development process is in place to help employees set performance objectives, focus on performance improvement and identify training and development opportunities. Information about employees' training is set out in the 2010 CSR Report.

Other benefits include the provident fund (contribution to the provident fund is set out in note 9 to the consolidated accounts of this Annual Report), medical insurance, dental insurance, life and personal accident insurance, employee compensation insurance and business travel insurance.

Details of HKEx's remuneration policy and structure are set out in the Corporate Governance section of the HKEx website.

Non-executive Directors' Fee Review for 2010/2011

In 2010, the RC recommended raising the remuneration of HKEx's Chairman and each of the other non-executive Directors to \$500,000 and \$350,000 per annum respectively. The additional remuneration of the chairman and every member (excluding the executive Director) of the Audit Committee, Executive Committee, Investment Advisory Committee and RC was recommended to remain unchanged at \$50,000 per annum but an attendance fee of \$2,500 per meeting was proposed to reflect the variable workload and time commitment of the members of each of the aforesaid committees. The recommendations were based on the average annual remuneration of non-executive directors of HSI constituent companies as well as overseas listed exchanges and served to bring the remuneration of non-executive Directors closer to that of the market. The recommendations were endorsed by the Board and approved by Shareholders at the 2010 AGM.

	2010/2011	2009/2010
	\$	\$
Board Chairman	500,000	450,000
Board member *	350,000	300,000
Each member of Audit Committee/Executive Committee */ Investment Advisory Committee/Remuneration Committee	50,000 plus an attendance fee of \$2,500 for each committee meeting	50,000

* Excluding the executive Director

In March 2011, the RC recommended raising the remuneration of HKEx's Chairman and each of the other non-executive Directors to \$550,000 and \$385,000 per annum respectively, and the additional remuneration of the chairman and every member (excluding executive Director) of the Audit Committee, Executive Committee, Investment Advisory Committee and RC to \$100,000 and \$70,000 respectively. The attendance fee of \$2,500 in respect of each of the said committee meeting was recommended to remain unchanged. The above recommendations were based on the level of remuneration of non-executive directors of HSI constituent companies and overseas listed exchanges. In addition, views were sought from Egon Zehnder International Limited, an independent consultant specialising in the assessment and recruitment of top level executives and non-executive directors, which was also engaged by HKEx to conduct the evaluation of the performance of the Board and committees. The proposed increase serves to bring the remuneration of non-executive Directors closer to that of overseas exchanges and also to recognise the heavier responsibilities of the chairmen and members of the above committees. The Board has endorsed the RC's recommendations for Shareholders' approval at the 2011 AGM.

Employees' Pay Review for 2010/2011

During 2010, Towers Watson, an independent external consultant was engaged to review HKEx's compensation structure across all employees of different grades, aiming to ensure that compensation packages are competitive and in line with the market. The review was comprehensive covering all elements including base salary, performance bonus and long-term incentives. Towers Watson's recommendations were incorporated in the employees' annual pay review exercise, as appropriate.

For the employees' annual pay review for 2010/2011, in the light of increasing competitiveness in the job market and taking into consideration the cost of living, staff performance and salary level, the Board, based on the RC's recommendation, approved a salary adjustment which took effect from January 2011 for merit increase and inflation.

The Board also in December 2010 approved the RC's recommendation to pay a discretionary performance bonus to eligible employees in recognition of their contribution in 2010. The performance bonus was determined based on the Company's performance, taking into account both financial and non-financial factors including the Company's profit, business and organisational development, market and regulatory development, and market availability. Individual performance bonuses were differentiated based on performance rating, grade level and function.

In December 2010, the Board approved a sum of \$91.3 million for the purchase of HKEx shares from the market for awarding to 117 selected employees (including the Chief Executive).

Neither the Chief Executive nor the Senior Management participated in the RC's discussion on the performance award. The RC consulted the Chief Executive about the performance of the Senior Management members.

Emoluments for 2010

Non-executive Directors

Name	Director's fee	
	2010	2009
	\$	\$
Current Directors		
Ronald J Arculli	617,500	550,000
Laura M Cha	392,500	362,500
Ignatius T C Chan	397,500	262,500
Moses M C Cheng	405,000	400,000
Marvin K T Cheung	397,500	350,000
Stephen C C Hui	400,000	262,500
Bill C P Kwok	460,000	350,000
Vincent K H Lee	527,500	450,000
Michael T H Lee	397,500	262,500
John E Strickland	400,000	350,000
John M M Williamson	522,500	437,500
Oscar S H Wong	400,000	350,000
Ex-Directors		
Henry H L Fan *	–	75,000
Fong Hup *	–	100,000
Christine K W Loh *	–	87,500
Total	5,317,500	4,650,000

* Messrs Fan and Fong, and Dr Loh retired on 23 April 2009.

Executive Director

Mr Paul Chow's service contract as Chief Executive expired upon his retirement on 16 January 2010. Mr Charles Li joined on 16 October 2009 under a 3-year service contract and subsequently succeeded Mr Chow as the Chief Executive effective 16 January 2010. Save as the aforesaid, no Director has any existing or proposed service contract with any members of the Group.

Name	2010					Total	2009	2010	
	Salary	Cash bonus	Other ¹ benefits	Retirement ² benefits cost	Director's fee		Total	Share ³ options benefits	Share ³ awards benefits
Chief Executive									
Paul M Y Chow ⁴	314,516	–	4,537,036	39,315	–	4,890,867	16,633,806	–	207,770
Charles X Li ⁵	7,200,000	8,400,000	119,237	900,000	–	16,619,237	2,593,376	–	2,546,319

Senior Management

Name	2010					Total \$	2009	2010	
	Salary \$	Cash bonus \$	Other ¹ benefits \$	Retirement ² benefits cost \$	Compensation for loss of office \$		Total \$	Share ³ options benefits \$	Share ³ awards benefits \$
Gerald D Greiner	5,851,200	2,925,600	108,331	731,400	-	9,616,531	9,111,155	52,785	1,647,928
Peter J Curley ⁶	1,946,667	-	25,593	196,000	-	2,168,260	4,290,542	21,114	(366,241)
Mark F Dickens	4,033,333	4,200,000	57,707	504,167	-	8,795,207	6,858,840	-	2,113,163
Lawrence K M Fok	3,672,000	1,836,000	76,671	459,000	-	6,043,671	5,117,060	26,393	332,496
Mary M L Kao ⁷	2,147,460	-	1,159,121	268,433	-	3,575,014	5,739,214	26,393	169,777
Kevin T King	3,000,000	1,250,000	65,232	375,000	-	4,690,232	4,429,616	-	199,829
Romnesh Lamba ⁸	3,762,500	3,500,000	58,687	470,313	-	7,791,500	-	-	925,792
Henry M W Law	2,594,880	1,946,160	50,009	324,360	-	4,915,409	4,045,699	21,114	745,598
Archie T C Tsim ⁷	855,000	-	384,685	106,875	-	1,346,560	5,111,232	43,284	(754,141)
Alfred K K Wong ⁷	2,397,333	-	493,213	299,667	-	3,190,213	5,455,409	26,393	(772,920)
Christine O M Wong ⁸	1,876,000	2,520,000	49,521	187,600	-	4,633,121	-	-	248,433
Samuel S F Wong ⁸	1,670,968	1,680,000	48,627	208,871	-	3,608,466	-	-	527,236

Notes:

- 1 Other benefits include leave pay, insurance premium, club membership and relocation allowance, as applicable.
- 2 An employee who retires before normal retirement age is eligible to 18 per cent of the employer's contribution to the provident fund after completion of 2 years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of 7 years of service.
- 3 The share options benefits and the share awards benefits represent the aggregate of the amortised fair value of the share options granted and shares awarded to the Chief Executive and respective members of the Senior Management under the Post-Listing Scheme and the Share Award Scheme respectively that were charged to the consolidated income statement for the year ended 31 December 2010 (under HKFRS 2, amortisation of the fair value of the options granted under the Pre-Listing Scheme is not required).
- 4 Mr Chow retired on 16 January 2010.
- 5 Mr Li was appointed Chief Executive to succeed Mr Paul M Y Chow on 16 January 2010. Mr Li's emoluments for 2010 included his salary and benefits for the period between 1 and 15 January 2010 when he was in the role of Chief Executive Designate. In December 2010, the Board approved the RC's recommendation to award a performance bonus of \$8.4 million and a share award of \$7.2 million to Mr Li in recognition of his contribution in 2010, and to increase his salary to \$7,524,000 per annum with effect from January 2011.
- 6 Mr Curley resigned on 1 August 2010. As a member of a pension scheme operating in the US, he was exempted under Section 4(3) of the Mandatory Provident Fund Schemes Ordinance from participating in HKEEx's provident fund scheme. The vesting scale of retirement benefits was not applicable to Mr Curley.
- 7 Ms Kao retired on 1 August 2010, and Messrs Tsim and Wong resigned on 1 April and 9 September 2010 respectively.
- 8 Mr Lamba, Ms Wong and Mr Wong joined HKEEx on 8 February, 10 June and 2 July 2010 respectively.

Further particulars regarding Directors' emoluments and the 5 top-paid employees as required to be disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 to the Main Board Listing Rules are set out in notes 13 and 14 to the consolidated accounts of this Annual Report respectively.

Long-Term Incentive Schemes

HKEx implemented 2 share option schemes – the Pre-Listing Scheme and the Post-Listing Scheme – and the Share Award Scheme for the purpose of recognising the contributions of certain employees of the Group and retaining them for the continual operation and development of the Group.

Share Option Schemes

The Pre-Listing Scheme and the Post-Listing Scheme expired on 30 May 2010. All options granted under the Pre-Listing Scheme were exercised before the expiry date of the exercise period. Any unexercised options under the Post-Listing Scheme shall however continue to be valid and exercisable subject to the provisions of the scheme until the end of the respective exercise periods.

Movements in the share options during the year ended 31 December 2010 and the share options remained outstanding as at 31 December 2010 are set out in the following.

Pre-Listing Scheme

Date of grant	Exercise price \$	Number of shares issuable under the options			As at 31 Dec 2010	Exercise period
		As at 1 Jan 2010	Issued upon ¹ subscription during the year	Cancelled/ lapsed during the year		
Employees ²						
20 Jun 2000	6.88	114,000	114,000	-	-	6 Mar 2002 – 30 May 2010

Post-Listing Scheme

Date of grant	Exercise price \$	Number of shares issuable under the options			As at 31 Dec 2010	Exercise period ⁴
		As at 1 Jan 2010	Issued upon ³ subscription during the year	Cancelled/ lapsed during the year		
Employees ²						
31 Mar 2004	16.96	1,020,000	550,500	-	469,500	31 Mar 2006 – 30 Mar 2014
17 May 2004	15.91	100,000	-	-	100,000	17 May 2006 – 16 May 2014
26 Jan 2005	19.25	2,122,500	1,237,500	-	885,000	26 Jan 2007 – 25 Jan 2015

Notes:

- 1 The weighted average closing price immediately before the dates on which the options were exercised was \$126.79.
- 2 Employees working under employment contracts that were regarded as “continuous contracts” for the purpose of the Employment Ordinance of Hong Kong.
- 3 The weighted average closing price immediately before the dates on which the options were exercised was \$133.14.
- 4 Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and became fully vested in the fifth anniversary of the grant.

Further details of the Share Option Schemes are set out in note 33(b) to the consolidated accounts of this Annual Report.

Share Award Scheme

The Share Award Scheme was approved by the Board on 14 September 2005 (Adoption Date). The maximum number of shares which can be awarded under the Share Award Scheme and to a selected employee throughout its duration is limited to 3 per cent (ie, 31,871,575 shares) and 1 per cent (ie, 10,623,858 shares) respectively of the HKEx shares in issue as at the Adoption Date.

Pursuant to the Board's decision made in the annual pay review exercise of 2009, the award of long-term incentive for 2009 was deferred to 2010 pending the review of the Share Award Scheme. On 23 April 2010, the Board approved RC's recommendation to change the vesting period of the Awarded Shares and related income under the Share Award Scheme from 5 years to 3 years. Accordingly, the vesting timetable is changed to 50 per cent of the Awarded Shares and related income per annum on the second and third anniversary of the date of grant. The amended and restated rules relating to the Share Award Scheme took effect on 13 May 2010 but do not apply to the Awarded Shares granted prior to 13 May 2010. The amended and restated rules together with the trust deed of the Share Award Scheme are available on the HKEx website.

On 23 April 2010, the Board also approved an amount of \$92.6 million for the purchase of HKEx shares from the market for selected employees, including the Chief Executive and selected new employees in 2010.

In December 2010, the Board approved a sum of \$91.3 million for the purchase of the HKEx shares from the market for selected employees, including the Chief Executive, and a sum of \$30 million for the purchase of HKEx shares for selected new employees to be recruited in 2011.

Further details in relation to the Share Award Scheme are set out in note 33(c) to the consolidated accounts of this Annual Report.

Since its adoption, a total of 2,726,023 shares have been awarded up to the date of this Annual Report, representing about 0.26 per cent of the issued share capital of HKEx as at the Adoption Date.

Date of approval by Board	Date of ¹ award	Awarded ¹ sum \$'000	Number of shares purchased	Number of Awarded Shares	Average ² fair value per share \$	Number of Awarded Shares vested during the year	Vesting period
19 Dec 2005	19 Dec 2005	N/A	960,000	960,000	31.20	181,875	19 Dec 2007 – 19 Dec 2010
13 Dec 2006	15 Jan 2007	19,673	272,500	272,465	72.28	54,673	13 Dec 2008 – 13 Dec 2011
14 Feb 2007	7 Jun 2007	600	7,000	7,000	81.33	1,750	16 Apr 2009 – 16 Apr 2012
15 May 2007	17 Jul 2007	600	5,500	5,500	102.29	1,375	18 Jun 2009 – 18 Jun 2012
12 Dec 2007	4 Feb 2008	26,300	151,000	150,965	163.72	30,755	12 Dec 2009 – 12 Dec 2012
18 Feb 2008	7 Apr 2008	612	4,200	4,200	144.18	4,200	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
23 Apr 2010	10 Jun 2010	88,516	720,100	720,054	123.29	–	13 May 2012 – 13 May 2013
23 Apr 2010	9 Jul 2010	840	6,900	6,900	121.88	–	10 Jun 2012 – 10 Jun 2013
23 Apr 2010	9 Jul 2010	2,520	21,000	21,000	120.32	–	2 Jul 2012 – 2 Jul 2013
14 Dec 2010	31 Dec 2010	91,303	518,100	518,039	176.75	–	14 Dec 2012 – 14 Dec 2013

Notes:

- 1 Prior to 16 August 2006, the date of award refers to the date on which the Board determined such number of shares awarded to the selected employees. Following the amendments to the rules of the Share Award Scheme which took effect on 16 August 2006, the date of award refers to the date on which the trustee allocated such number of Awarded Shares to the selected employees from the total number of shares purchased with the sum determined by the Board.
- 2 Prior to 16 August 2006, the fair value of the Awarded Shares was based on the market value of HKEx share at the date of award. With effect from 16 August 2006, as a result of the amendments to the rules of the Share Award Scheme, the fair value of the Awarded Shares was based on the average purchase cost per share.

As at 31 December 2010, taking into account the further shares acquired by reinvesting the dividend income received in respect of the shares held under the trust, there were a total of 1,655,993 shares held in trust by the trustee under the Share Award Scheme.

Chief Executive's and the Senior Management's Interests in HKEx's Securities under Long-Term Incentive Schemes

Share Options

Name	Date of grant	Exercise price \$	Number of shares issuable under the options				Exercise period ¹
			As at 1 Jan 2010	Subscribed during the year	Lapsed during the year	As at 31 Dec 2010	
Senior Management							
Gerald D Greiner	17 May 2004	15.91	100,000	-	-	100,000	17 May 2006 – 16 May 2014
	26 Jan 2005	19.25	100,000	-	-	100,000	26 Jan 2007 – 25 Jan 2015
Peter J Curley ²	26 Jan 2005	19.25	20,000	20,000	-	-	26 Jan 2007 – 25 Jan 2015
Lawrence K M Fok	26 Jan 2005	19.25	50,000	50,000	-	-	26 Jan 2007 – 25 Jan 2015
Mary M L Kao ²	31 Mar 2004	16.96	30,000	30,000	-	-	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	50,000	50,000	-	-	26 Jan 2007 – 25 Jan 2015
Henry M W Law	31 Mar 2004	16.96	25,000	-	-	25,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	40,000	-	-	40,000	26 Jan 2007 – 25 Jan 2015
Archie T C Tsim ²	26 Jan 2005	19.25	123,000	123,000	-	-	26 Jan 2007 – 25 Jan 2015
Alfred K K Wong ²	31 Mar 2004	16.96	25,000	25,000	-	-	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	50,000	50,000	-	-	26 Jan 2007 – 25 Jan 2015

Notes:

- 1 Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and became fully vested in the fifth anniversary of the grant.
- 2 Mr Curley resigned and Ms Kao retired on 1 August 2010, and Messrs Tsim and Wong resigned on 1 April and 9 September 2010 respectively.

Awarded Shares

Name	Date of award ²	Number of Awarded Shares	Average ³ fair value per share \$	Number of shares ¹					Vesting period ⁴
				As at 1 Jan 2010	Further shares acquired during the year through reinvesting dividends received	Vested during the year	Lapsed during the year	As at 31 Dec 2010	
Chief Executive									
Paul M Y Chow ⁵	15 Jan 2007	11,528	72.28	6,370	-	6,370	-	-	13 Dec 2008 – 13 Dec 2011
	7 Apr 2008	4,200	144.18	4,545	-	4,545	-	-	18 Feb 2010 – 18 Feb 2013
Charles X Li	10 Jun 2010	73,217	123.29	-	1,050	-	-	74,267	13 May 2012 – 13 May 2013
	31 Dec 2010	40,856	176.75	-	-	-	-	40,856	14 Dec 2012 – 14 Dec 2013
Senior Management									
Gerald D Greiner	19 Dec 2005	40,600	31.20	11,526	359	11,885	-	-	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	11,911	72.28	6,593	204	3,391	-	3,406	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	8,418	163.72	6,835	214	2,341	-	4,708	12 Dec 2009 – 12 Dec 2012
	10 Jun 2010	35,700	123.29	-	514	-	-	36,214	13 May 2012 – 13 May 2013
	31 Dec 2010	16,601	176.75	-	-	-	-	16,601	14 Dec 2012 – 14 Dec 2013
Peter J Curley ⁶	19 Dec 2005	20,200	31.20	5,734	95	-	5,829	-	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	9,629	72.28	5,339	89	-	5,428	-	13 Dec 2008 – 13 Dec 2011
Mark F Dickens	3 Feb 2009	59,900	81.96	61,685	1,925	-	-	63,610	1 Jan 2011 – 1 Jan 2014
	10 Jun 2010	14,236	123.29	-	207	-	-	14,443	13 May 2012 – 13 May 2013
	31 Dec 2010	19,860	176.75	-	-	-	-	19,860	14 Dec 2012 – 14 Dec 2013
Lawrence K M Fok	19 Dec 2005	24,600	31.20	6,980	217	7,197	-	-	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	3,842	72.28	2,127	64	1,091	-	1,100	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	658	163.72	549	17	179	-	387	12 Dec 2009 – 12 Dec 2012
	10 Jun 2010	7,468	123.29	-	110	-	-	7,578	13 May 2012 – 13 May 2013
Mary M L Kao ⁶	19 Dec 2005	28,700	31.20	8,148	135	8,283	-	-	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	5,048	72.28	2,791	46	2,837	-	-	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	1,202	163.72	989	18	1,007	-	-	12 Dec 2009 – 12 Dec 2012
Kevin T King	10 Jun 2010	6,101	123.29	-	87	-	-	6,188	13 May 2012 – 13 May 2013
Romnesh Lamba ⁷	10 Jun 2010	25,626	123.29	-	367	-	-	25,993	13 May 2012 – 13 May 2013
	31 Dec 2010	23,832	176.75	-	-	-	-	23,832	14 Dec 2012 – 14 Dec 2013
Henry M W Law	19 Dec 2005	22,900	31.20	6,498	202	6,700	-	-	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	6,660	72.28	3,688	112	1,893	-	1,907	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	3,623	163.72	2,953	93	1,007	-	2,039	12 Dec 2009 – 12 Dec 2012
	10 Jun 2010	15,832	123.29	-	230	-	-	16,062	13 May 2012 – 13 May 2013
	31 Dec 2010	7,362	176.75	-	-	-	-	7,362	14 Dec 2012 – 14 Dec 2013
Archie T C Tsim ⁶	19 Dec 2005	32,700	31.20	9,281	-	-	9,281	-	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	8,965	72.28	4,958	-	-	4,958	-	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	4,941	163.72	4,019	-	-	4,019	-	12 Dec 2009 – 12 Dec 2012
Alfred K K Wong ⁶	19 Dec 2005	32,100	31.20	9,112	283	-	9,395	-	19 Dec 2007 – 19 Dec 2010
	15 Jan 2007	9,417	72.28	5,213	161	-	5,374	-	13 Dec 2008 – 13 Dec 2011
	4 Feb 2008	5,113	163.72	4,158	131	-	4,289	-	12 Dec 2009 – 12 Dec 2012
	10 Jun 2010	21,233	123.29	-	307	-	21,540	-	13 May 2012 – 13 May 2013
Christine O M Wong ⁷	9 Jul 2010	6,900	121.88	-	98	-	-	6,998	10 Jun 2012 – 10 Jun 2013
	31 Dec 2010	14,299	176.75	-	-	-	-	14,299	14 Dec 2012 – 14 Dec 2013
Samuel S F Wong ⁷	9 Jul 2010	21,000	120.32	-	301	-	-	21,301	2 Jul 2012 – 2 Jul 2013

Notes:

- 1 The number included shares acquired through reinvesting dividends received.
- 2 Prior to 16 August 2006, the date of award refers to the date on which the Board determined such number of shares awarded to the selected employees. Following the amendments to the rules of the Share Award Scheme which took effect on 16 August 2006, the date of award refers to the date on which the trustee allocated such number of Awarded Shares to the selected employees from the total number of shares purchased with the sum determined by the Board.
- 3 Prior to 16 August 2006, the fair value of the Awarded Shares was based on the market value of HKEx share at the date of award. With effect from 16 August 2006, as a result of the amendments to the rules of the Share Award Scheme, the fair value of the Awarded Shares was based on the average purchase cost per share.
- 4 Effective 13 May 2010, the vesting period of the Awarded Shares has been changed from 5 years to 3 years. Accordingly, the Awarded Shares and the related income would be vested in 2 equal tranches from the second to the third year after the grant, as opposed to 4 equal tranches from the second to the fifth year prior to the change.
- 5 According to the terms of the Share Award Scheme, a total of 10,915 shares were vested and transferred to Mr Chow on 15 January 2010, the date immediately prior to his retirement.
- 6 Mr Curley resigned and Ms Kao retired on 1 August 2010, and Messrs Tsim and Wong resigned on 1 April and 9 September 2010 respectively.
- 7 Mr Lamba, Ms Wong and Mr Wong joined HKEx on 8 February, 10 June and 2 July 2010 respectively.

Members of the Remuneration Committee

Ronald Joseph ARCULLI (Chairman)

CHA May-Lung, Laura

CHENG Mo Chi, Moses

LEE Kwan Ho, Vincent Marshall

John Mackay McCulloch WILLIAMSON

Hong Kong, 2 March 2011

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE REPORT

The Corporate Social Responsibility Committee

The Board has delegated day-to-day responsibility for all CSR-related matters to the CSR Committee, which is chaired by the Chief Executive and currently comprises 4 other senior executives. The CSR Committee reports to the Board on a regular basis. Its terms of reference are posted on the HKEx website, and its major responsibilities are set out below.

Major Responsibilities

- consider and establish the Group's CSR strategy, vision, principles, framework and policies;
- adopt practices and pursue initiatives to promote the Group's CSR;
- set corporate objectives, targets, key performance indicators and measures to ascertain performance in prioritised CSR areas; and
- monitor and respond to emerging CSR issues and make recommendations to the Board where appropriate to further the Group's CSR commitments.

During 2010, the CSR Committee held 2 meetings and passed 2 written resolutions regarding HKEx's CSR-related matters. The attendance record of members is shown on page 88 of this Annual Report. The following is a summary of major work done under the leadership of the CSR Committee in 2010.

Major Tasks in 2010

- approved the 2009 CSR Report which was independently verified and achieved a Global Reporting Initiative (GRI) application level A+;
- developed a CSR roadmap with CSR initiatives for implementation in 2010 and beyond;
- established a Community Investment Policy which sets out donation and sponsorship focuses and the handling mechanism to better guide HKEx's community investment decisions;
- organised and participated in various CSR-related activities to reinforce stakeholder engagement;
- conducted the 2010 Environmental Poster Design Competition to promote environmental protection among HKEx's employees and their family members; and
- developed and adopted a CSR Management System to further strengthen HKEx's management of its CSR performance and the CSR impacts arising from its business operations.

CSR Working Group and Management System

A CSR Working Group, comprising CSR Coordinators appointed by each division and department, has been formed under the leadership of the CSR Committee for the development and implementation of a CSR Management System. During 2010, the CSR Working Group held 2 meetings.

In November 2010, HKEx adopted a CSR Management System as a means to better manage its CSR performance and the CSR impacts arising from its business operations. The CSR Management System was developed with reference to the ISO 26000: 2010 Guidance on Social Responsibility and ISO 14001: 2004 Environmental Management Systems standard, and includes a supply chain management system to address the significant social and environmental impacts arising from HKEx's key suppliers. Training sessions were provided to the CSR Working Group members and other representatives of each division and department to ensure their competency in implementing HKEx's CSR practices in their respective divisions or departments. The implementation of the CSR Management System will be monitored on a regular basis to ensure its effectiveness in supporting the ongoing development of HKEx's CSR commitments and initiatives.

CSR Development

Since the inception of the CSR Committee in September 2008, HKEx's commitment to sustainable development and CSR achievements have gone from strength to strength. We are pleased that our efforts have been recognised, with HKEx honoured as one of the CSR leaders among the HSI constituent companies in the CSR Survey of HSI Constituent Companies 2009 published by Oxfam Hong Kong in April 2010. HKEx was also selected as a constituent company of the Hang Seng Corporate Sustainability Index Series and as a component stock in the Dow Jones Sustainability Asia Pacific Index effective 26 July 2010 and 20 September 2010, respectively. Moreover, HKEx has continued to be a constituent company in the FTSE4Good Index Series throughout 2010.

We have published our 2010 CSR Report which describes the various CSR initiatives we organised and supported during 2010 with the aim of building a robust marketplace, quality workplace, caring community and healthy environment. The 2010 CSR Report, with a GRI application level A+, can be viewed online at www.hkex.com.hk/exchange/csr/csr.htm. We welcome your feedback on HKEx's CSR management approach and performance.

Members of the Corporate Social Responsibility Committee

LI Xiaojia, Charles (Chairman)
CHAN Tsan Fai, David
LEE Kwok Keung, Roger
MAU Kam Shing, Joseph
YEN Tai Mui, Brenda

Hong Kong, 24 February 2011

SHAREHOLDING ANALYSIS

Share Capital (as at 31 December 2010)

Authorised Share Capital \$2,000 million with shares of \$1 each
 Issued Share Capital \$1,078,092,346 with shares of \$1 each

An analysis of Shareholders based on HKEx's ROM as at 31 December 2010 and 31 December 2009 is as follows:

Shareholding Distribution

Size of Shareholding	Number of Shareholders		% of Shareholders		Number of ¹ shares held ('000)		% of the issued share capital	
	2010	2009	2010	2009	2010	2009	2010	2009
1 – 1,000	2,047	2,191	45.89	47.05	1,223	1,346	0.11	0.13
1,001 – 5,000	1,445	1,513	32.39	32.49	3,927	4,070	0.37	0.38
5,001 – 10,000	425	423	9.53	9.08	3,449	3,440	0.32	0.32
10,001 – 100,000	393	379	8.81	8.14	12,411	11,888	1.15	1.10
100,001 and above	151	151	3.38	3.24	1,057,082	1,055,446	98.05	98.07
Total	4,461	4,657	100.00	100.00	1,078,092	1,076,190	100.00	100.00

Geographical Distribution

Location	Number of Shareholders		Number of shares held ¹ ('000)	
	2010	2009	2010	2009
Hong Kong	4,449	4,644	1,078,041	1,076,041
Outside Hong Kong	12	13	51	149
Australia	1	1	0.1	0.1
Canada	1	3	0.5	3.5
Indonesia	1	–	0.5	–
Macau	3	5	33.0	35.5
PRC	4	2	12.0	8.0
UK	2	2	5.4	102.0
Total	4,461	4,657	1,078,092	1,076,190

Share Ownership by Type

Type of Shareholders	Number of Shareholders		Number of shares held ¹ ('000)		% of the issued share capital	
	2010	2009	2010	2009	2010	2009
Individual	4,369	4,568	64,110	65,843	5.95	6.12
Non-Individual	92	89	1,013,982	1,010,347	94.05	93.88
HKSCC Nominees Limited	1	1	976,322	971,700	90.56	90.29
Direct Clearing Participants			149,973	132,668	13.91	12.33
General Clearing Participants						
– Broker Participants			9,755	5,971	0.91	0.55
– Custodian Participants			490,203	514,328	45.47	47.79
Custodian Participants			317,075	309,195	29.41	28.73
IPs			8,002	7,970	0.74	0.74
Defaulting Participant			1,489	1,489	0.14	0.14
Other corporate/incorporated bodies	91	88	976,497 ²	971,621 ²	90.58	90.28
Total	4,461	4,657	1,078,092	1,076,190	100.00	100.00

Notes:

- Figures have been rounded up/down to the nearest thousand, and may not add up to the total due to rounding.
- The breakdown of the shareholding in the name of HKSCC Nominees Limited was obtained from the record shown in the Participant Shareholding Report (PSH Report). The number of shares registered in HKSCC Nominees Limited as shown in the PSH Report is different from that shown on the ROM because some shares withdrawn from or deposited into the CCASS depository had not yet been re-registered.

For 2010, the shares were held for 402 Direct Clearing Participants (2009: 396); 7 General Clearing Participants (2009: 7), of which 3 were Broker Participants (2009: 3) and 4 were Custodian Participants (2009: 4); 27 Custodian Participants (2009: 28); 803 IPs (2009: 811); and 1 Defaulting Participant (2009: 1).

INFORMATION FOR STAKEHOLDERS

Annual Report

This Annual Report is printed in English and Chinese and is available in the Investor Relations section of the HKEx website. Shareholders can elect to receive printed or electronic copies. Should Shareholders elect electronic means, HKEx will donate \$50 to a charity with a focus on environmental protection, subject to a cap of \$100,000 per annum. A free printed version will be sent to Shareholders who have elected to receive electronic copies but for any reason have difficulty receiving or gaining access to them. Shareholders may at any time decide to change their choice of language or means of receipt of the Company's corporate communications free of charge with notice in writing to HKEx's registrar, Hong Kong Registrars Limited, or by email to hkex.ecom@computershare.com.hk.

2010 Dividends

Interim dividend	\$1.89 per share
Proposed final dividend	\$2.31 per share

Scrip Dividend Alternative

Subject to Shareholders' approval of the proposed final dividend and a general and unconditional mandate to issue shares at the 2011 AGM, the final dividend will be payable in cash with a scrip dividend alternative to Shareholders whose names appear on HKEx's ROM on 20 April 2011. The scrip dividend alternative is also conditional upon the SFC's granting the listing of, and permission to deal in, HKEx's new shares to be issued pursuant thereto.

A circular containing details of the scrip dividend alternative together with an election form will be despatched to Shareholders on or about Thursday, 28 April 2011. Definitive share certificates in respect of the scrip dividend and dividend warrants will be despatched to Shareholders on or about Friday, 27 May 2011.

Closure of Register of Members

HKEx's ROM will be closed and no transfer of shares will be registered from Friday, 15 April 2011 to Wednesday, 20 April 2011, both dates inclusive, for the purpose of determining Shareholders' entitlements to the proposed final dividend and attendance and voting at the 2011 AGM.

To qualify for the proposed final dividend and be entitled to attend and vote at the 2011 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with HKEx's registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on Thursday, 14 April 2011.

Annual General Meeting

The 2011 AGM will be held on Wednesday, 20 April 2011. The Notice of the 2011 AGM which constitutes part of the circular to Shareholders will be sent together with this Annual Report. The Notice of the 2011 AGM and the proxy form will also be available on the HKEx website.

Financial Calendar

Announcement of 2010 final results	2 March 2011
Ex-dividend date for final dividend	13 April 2011
Closure of ROM	15 to 20 April 2011
2011 AGM	20 April 2011
Record date for final dividend	20 April 2011
Despatch of scrip dividend circular and election form	on or about 28 April 2011
Despatch of dividend warrants/definitive share certificates	on or about 27 May 2011

Share Information

Share Listing

First listed on the Stock Exchange	27 June 2000
As a HSI constituent stock	Since 11 September 2006
As a Hang Seng Corporate Sustainability Index Series constituent company	Since 26 July 2010
As a Dow Jones Sustainability Asia Pacific Index component stock	Since 20 September 2010

Board Lot 100 shares

Market Capitalisation as at 31 December 2010

Public float capitalisation	\$190.1 billion
Number of issued shares	1,078,092,346 shares
Closing price	\$176.30 per share

Stock Codes

Stock Exchange	388
Access to Reuters	0388.HK
Access to Bloomberg	388 HK Equity
WPK Number	A0NJY9
SEDOL1	6267359 HK
ISIN	HK0388045442
COMMON	035776478

American Depositary Receipt

Ticker Symbol	HKXCY
CUSIP	43858F109

Price and Turnover History

2010	Price per Share (\$)		Turnover * (in million)	
	High	Low	Shares	\$
January	154.00	130.90	169.2	24,217.1
February	136.50	124.00	83.9	10,881.2
March	135.00	128.00	96.0	12,663.7
April	142.00	128.70	92.1	12,452.5
May	129.00	115.00	90.0	10,992.8
June	129.00	115.40	74.7	9,169.5
July	128.50	119.20	68.2	8,438.8
August	134.60	120.00	108.9	13,897.8
September	153.00	120.90	181.2	25,368.2
October	185.90	152.70	221.9	38,107.3
November	198.60	173.00	205.2	37,819.2
December	186.70	172.30	99.9	17,948.9

* Figures have been rounded.

HKEx's Registrar and Transfer Office

Hong Kong Registrars Limited

Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Tel. No.: +852 2862 8555

Fax No.: +852 2865 0990/+852 2529 6087

Our Contact Information

Registered Office

12th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Tel. No.: +852 2522 1122

Fax No.: +852 2295 3106

Email address: info@hkex.com.hk

Website: www.hkex.com.hk

Beijing Representative Office

Ren Guang Ming, Chief Representative
Suite 1002, Level 10, Tower W2, The Towers,
Oriental Plaza, No. 1 East Chang An Avenue,
Dong Cheng District, Beijing, 100738 China

Tel. No.: +8610 8519 0288

Fax No.: +8610 8518 3288

Email address: bj@hkex.com.hk

Shanghai Special Representative

Maggie Cao, Special Representative
Unit 2101, 2 Grand Gateway, 3 Hongqiao Road,
Xuhui District, Shanghai, 200030 China

Tel. No.: +8621 6407 8811

Fax No.: +8621 6448 0597

Email address: maggiacao@hkex.com.hk

Guangzhou Special Representative

Franky Chung, Special Representative
Room 2503, 25/F, HNA Tower,
No. 8 Linhezhong Road,
Tianhe District, Guangzhou, 510610 China

Tel. No.: +8620 8550 1459

Fax No.: +8620 8550 1035

Email address: frankychung@hkex.com.hk

Chief Marketing Officer

Lawrence Fok

12th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Tel. No.: +852 2840 3050

Fax No.: +852 2521 7060

Email address: lawrencefok@hkex.com.hk

Corporate Communications/Investor Services

Henry Law, Head of Corporate Communications
Department

12th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Tel. No.: +852 2840 3861

Fax No.: +852 2868 4270

Email address: info@hkex.com.hk

Listing

Mark Dickens, Head of Listing Division
11th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Tel. No.: +852 2840 3036

Fax No.: +852 2295 4806

Email address: hol@hkex.com.hk

Market Development

Romnesh Lamba, Head of Market Development
Division

12th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Tel. No.: +852 2840 3829

Fax No.: +852 2537 1168

Email address: imd@hkex.com.hk

Secondary Market

Gerald Greiner, Chief Operating Officer
12th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Tel. No.: +852 2840 3312

Fax No.: +852 2295 0935

Email address: geraldgreiner@hkex.com.hk

Secretarial Services

Joseph Mau, Company Secretary and
Head of Secretarial Services Department

12th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

Tel. No.: +852 2840 3872

Fax No.: +852 2878 7029

Email address: ssd@hkex.com.hk

DIRECTORS' REPORT

The Directors are pleased to present this Annual Report together with the audited financial statements for the year ended 31 December 2010.

Principal Activities

HKEx is the recognised exchange controller under the SFO. It owns and operates the only stock exchange and futures exchange in Hong Kong and their related clearing houses, namely HKSCC, SEOCH and HKCC.

The Stock Exchange and the Futures Exchange are recognised exchange companies under the SFO to operate and maintain a stock market and futures market in Hong Kong respectively. HKSCC, SEOCH and HKCC are the recognised clearing houses pursuant to the SFO.

The Group's revenue is derived solely from business activities conducted in Hong Kong. An analysis of the Group's income and profit before taxation for the year ended 31 December 2010 is set out in note 4 to the consolidated accounts of this Annual Report.

Particulars of HKEx's subsidiaries as at 31 December 2010 are set out in note 31 to the consolidated accounts of this Annual Report.

Results and Appropriations

The Group's results for the year ended 31 December 2010 are set out in the consolidated income statement on page 124 of this Annual Report.

The Board declared an interim dividend of \$1.89 per share (2009: \$1.84 per share), amounting to a total of about \$2,037 million (2009: \$1,980 million), which was paid to Shareholders on 8 September 2010 and included dividends of about \$3 million for shares held in trust under the Share Award Scheme (2009: \$2 million).

The Board recommends the payment of a final dividend of \$2.31 per share (2009: \$2.09 per share) to Shareholders whose names appear on HKEx's ROM at the close of business on 20 April 2011, and the retention of the remaining profit for the year. The proposed final dividend together with the interim dividend payment amounts to a total of about \$4,527 million, which is at a payout ratio of about 90 per cent (2009: 90 per cent) (The total includes dividends of about \$7 million for shares held in trust under the Share Award Scheme) (2009: \$4,232 million, including dividends of about \$3 million for shares held in trust under the Share Award Scheme). The Board also proposed to offer a scrip dividend alternative to allow Shareholders to elect to receive such final dividend wholly or partly in the form of new fully paid Shares instead of in cash.

Distributable Reserves

In May 2010, the HKICPA issued Accounting Bulletin 4 – “Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance” (Guidance) which also clarifies the treatment of merger relief reserve created under section 48C of the Companies Ordinance (Merger Reserve). The Guidance was issued in response to concerns over the lack of clarity on the meaning of “realised profits” in the context of the Companies Ordinance expressed by respondents to a consultation exercise to re-write the Companies Ordinance carried out in June 2008 by the Hong Kong Government.

In the light of the publication of the Guidance, HKEx conducted a review of its approach to the determination of its “realised profits” and profits available for distribution (Distributable Reserves) and the payment of dividends. HKEx confirms that, on a consolidated basis, the Group has at all times previously had sufficient profits available for its past dividends. However, HKEx notes that, by reference to the Guidance, Merger Reserve is not distributable until it becomes a “realised profit” and, in respect

of certain years, HKEx's individual unconsolidated financial statements technically did not have sufficient Distributable Reserves at the time of past dividend payments. This is because the declaration and payment of corresponding dividends by its operating subsidiaries to HKEx did not occur sufficiently early to be reflected in the relevant HKEx accounts. HKEx has addressed these issues in relation to the final dividend in respect of the 2010 financial year. In the light of the Guidance, HKEx will no longer treat the Merger Reserve as available for distribution except to the extent realised.

HKEx, its legal advisers and its auditors are satisfied that, based on available guidance at the time and prior to the issue of the Guidance, its inclusion of Merger Reserve as Distributable Reserves (including its approach to determination of realised profit) in all prior years was permissible. HKEx's financial statements on an unconsolidated basis and on a consolidated basis were prepared in accordance with accounting standards and the revised approach mentioned above does not impact the audited financial statements for all prior years.

HKEx's Distributable Reserves as at 31 December 2010, calculated under Section 79B of the Hong Kong Companies Ordinance and with reference to the Guidance, amounted to \$1,246 million. Subsequently, HKEx's Distributable Reserves were increased after \$4,427 million of dividends were received in February 2011 from its subsidiaries which were paid out of the subsidiaries' prior year retained earnings and 2010 profits. A copy of the unconsolidated financial statements of HKEx for the period between 1 January 2011 and 15 February 2011 reflecting such dividend payments will be delivered to the Companies Registry upon posting of the 2010 Annual Report on the HKEx website.

Details of the movements in the reserves of the Group and HKEx during the year are set out in notes 33 to 37 to the consolidated accounts of this Annual Report.

Donations

The Group's charitable and other donations during the year amounted to \$2,255,000 (2009: \$542,000). No donations were made to political parties.

Fixed Assets

Details of the movements in fixed assets of the Group and HKEx during the year are set out in note 22 to the consolidated accounts of this Annual Report.

Share Capital

Details of the movements in HKEx's share capital during the year are set out in note 32 to the consolidated accounts of this Annual Report.

Group Financial Summary

A summary of the Group's results and assets and liabilities for the past 10 financial years is set out in the 10-Year Financial Statistics of this Annual Report.

Purchase, Sale or Redemption of HKEx's Listed Securities

In 2010, 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 1,297,400 HKEx shares at a total consideration of \$188 million.

Public Float

As at the date of this Annual Report, based on publicly available information and within the Directors' knowledge, 100 per cent of HKEx's issued share capital is held by the public. HKEx share information, including the Company's market capitalisation as at 31 December 2010, is set out in the Information for Stakeholders of this Annual Report.

Directors

The list of Directors during the year and up to the date of this Annual Report is set out in the Board and Committees of this Annual Report. Information about the Board, including members' appointments and retirements, and their interests in HKEx's shares, is set out in the Corporate Governance Report of this Annual Report.

Biographical Details of Directors and Senior Management

The biographical details of Directors and Senior Management as at the date of this Annual Report are set out in the Board of Directors and Senior Management of this Annual Report. None of the Directors or Senior Management is involved in any of the relationships as defined in Appendix 16 of the Main Board Listing Rules.

Management Contracts

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the year.

Directors' Interests in Contracts

Details of the connected transactions and related party transactions are set out in the Corporate Governance Report and note 42 to the consolidated accounts of this Annual Report.

Save for the above, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at any time during the year or at the end of the year.

Directors' Rights to Acquire Shares or Debentures

Pursuant to the Post-Listing Scheme and the Share Award Scheme, options were granted and shares were awarded to the Company's sole executive director, details of which are set out in the Remuneration Committee Report and note 33 to the consolidated accounts of this Annual Report.

Save for the above, neither HKEx nor any of its subsidiaries was a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, HKEx or any other body corporate at any time during the year or at the end of the year.

Major Customers and Suppliers

During the year ended 31 December 2010, the combined value of the Group's contracts with its 5 largest suppliers which were not of a capital nature was less than 30 per cent of the total value of supplies purchased. HKEx's 5 largest customers combined contributed less than 30 per cent of the Group's total income during the year ended 31 December 2010.

Provident Fund Schemes

Particulars of the Group's provident fund schemes are set out in note 9 to the consolidated accounts of this Annual Report.

Corporate Governance

HKEx's principal corporate governance practices are set out in the Corporate Governance Report, Audit Committee Report, Remuneration Committee Report and Corporate Social Responsibility Committee Report of this Annual Report.

Auditor

The accounts for the year ended 31 December 2010 have been audited by PricewaterhouseCoopers which retires and, being eligible, offers itself for re-appointment at the 2011 AGM. A resolution to re-appoint PricewaterhouseCoopers and to authorise the Directors to fix its remuneration will be proposed at the 2011 AGM.

On behalf of the Board

Ronald Joseph ARCULLI
Chairman

Hong Kong, 2 March 2011

AUDITOR'S REPORT

Independent Auditor's Report to the Shareholders of Hong Kong Exchanges and Clearing Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Hong Kong Exchanges and Clearing Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 124 to 206, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 2 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	2010 \$m	2009 \$m
Trading fees and trading tariff	5	2,843	2,586
Stock Exchange listing fees	6	945	728
Clearing and settlement fees		1,569	1,425
Depository, custody and nominee services fees		612	563
Market data fees		670	695
Other revenue	7	455	417
REVENUE		7,094	6,414
Losses on disposal of financial assets measured at amortised cost		(4)	–
Other investment income		480	624
Interest rebates to Participants		(4)	(3)
Net investment income	8	472	621
	4	7,566	7,035
OPERATING EXPENSES			
Staff costs and related expenses	9	892	794
Information technology and computer maintenance expenses	10	265	246
Premises expenses		210	219
Product marketing and promotion expenses		15	13
Legal and professional fees		16	13
Depreciation		107	101
Other operating expenses	11	107	107
	4	1,612	1,493
PROFIT BEFORE TAXATION	4/12	5,954	5,542
TAXATION	15(a)	(917)	(838)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	37	5,037	4,704
DIVIDENDS	16	4,520	4,226
Earnings per share			
Basic	17(a)	\$4.68	\$4.38
Diluted	17(b)	\$4.67	\$4.36

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010 \$m	2009 \$m
Profit attributable to shareholders	5,037	4,704
Other comprehensive income:		
Available-for-sale financial assets:		
Change in fair value up to maturity	–	(113)
Less: Reclassification adjustment:		
Gains included in profit or loss on disposal	–	(3)
Deferred tax on available-for-sale financial assets	–	19
Other comprehensive income attributable to shareholders, net of tax	–	(97)
Total comprehensive income attributable to shareholders	5,037	4,607

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Note	At 31 Dec 2010			As restated At 31 Dec 2009			As restated At 1 Jan 2009		
		Current	Non- current	Total	Current	Non- current	Total	Current	Non- current	Total
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
ASSETS										
Cash and cash equivalents	18	19,361	-	19,361	14,738	-	14,738	27,784	-	27,784
Financial assets at fair value through profit or loss		-	-	-	-	-	-	3,020	-	3,020
Financial assets measured at fair value through profit or loss	19	9,949	1,241	11,190	12,466	1,559	14,025	-	-	-
Available-for-sale financial assets		-	-	-	-	-	-	19,394	-	19,394
Financial assets at amortised cost		-	-	-	-	-	-	3,664	47	3,711
Financial assets measured at amortised cost	20(a)	7,021	783	7,804	4,157	768	4,925	-	-	-
Accounts receivable, prepayments and deposits	21	9,203	3	9,206	11,334	3	11,337	8,535	3	8,538
Fixed assets	22(a)	-	295	295	-	303	303	-	370	370
Lease premium for land	23	-	25	25	-	-	-	-	-	-
Deferred tax assets	30(e)	-	3	3	-	4	4	-	5	5
Total assets		45,534	2,350	47,884	42,695	2,637	45,332	62,397	425	62,822
LIABILITIES AND EQUITY										
Liabilities										
Margin deposits from Clearing Participants										
on derivatives contracts	24	22,702	-	22,702	20,243	-	20,243	41,840	-	41,840
Cash collateral from HKSCC Clearing Participants	25	3,594	-	3,594	3,432	-	3,432	3,600	-	3,600
Accounts payable, accruals and other liabilities	26	9,946	-	9,946	11,827	-	11,827	8,894	-	8,894
Deferred revenue		473	-	473	424	-	424	393	-	393
Taxation payable		320	-	320	261	-	261	141	-	141
Other financial liabilities	27	58	-	58	42	-	42	118	-	118
Participants' contributions to Clearing House Funds	28	2,039	-	2,039	723	276	999	198	252	450
Provisions	29(a)	28	29	57	33	26	59	36	25	61
Deferred tax liabilities	30(e)	-	18	18	-	18	18	-	31	31
Total liabilities		39,160	47	39,207	36,985	320	37,305	55,220	308	55,528
Equity										
Share capital	32			1,078			1,076			1,075
Share premium	32			416			376			347
Shares held for Share Award Scheme	32			(219)			(52)			(65)
Employee share-based compensation reserve	33			56			43			47
Investment revaluation reserve	34			-			-			97
Designated reserves	28, 35			580			563			552
Retained earnings	37			6,766			6,021			5,241
Shareholders' funds				8,677			8,027			7,294
Total liabilities and equity				47,884			45,332			62,822
Net current assets				6,374			5,710			7,177
Total assets less current liabilities				8,724			8,347			7,602

Approved by the Board of Directors on 2 March 2011

Ronald Joseph ARCULLI
Director

LI Xiaojia, Charles
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Note	At 31 Dec 2010			As restated At 31 Dec 2009			As restated At 1 Jan 2009		
		Current	Non- current	Total	Current	Non- current	Total	Current	Non- current	Total
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
ASSETS										
Cash and cash equivalents	18	45	-	45	27	-	27	32	-	32
Available-for-sale financial assets		-	-	-	-	-	-	8	-	8
Financial assets at amortised cost		-	-	-	-	-	-	142	1	143
Financial assets measured at amortised cost	20(b)	84	15	99	93	10	103	-	-	-
Accounts receivable, prepayments and deposits	21	15	3	18	15	3	18	17	3	20
Amounts due from subsidiaries	31(b)	3,684	-	3,684	2,798	-	2,798	1,839	-	1,839
Fixed assets	22(b)	-	29	29	-	28	28	-	23	23
Investments in subsidiaries	31(a)	-	4,157	4,157	-	4,157	4,157	-	4,157	4,157
Deferred tax assets	30(e)	-	2	2	-	4	4	-	4	4
Total assets		3,828	4,206	8,034	2,933	4,202	7,135	2,038	4,188	6,226
LIABILITIES AND EQUITY										
Liabilities										
Accounts payable, accruals and other liabilities	26	201	-	201	181	-	181	175	-	175
Amounts due to subsidiaries	31(b)	2,030	-	2,030	484	-	484	32	-	32
Taxation payable		19	-	19	18	-	18	24	-	24
Other financial liabilities	27	11	-	11	11	-	11	11	-	11
Provisions	29(b)	28	1	29	33	1	34	35	1	36
Total liabilities		2,289	1	2,290	727	1	728	277	1	278
Equity										
Share capital	32			1,078			1,076			1,075
Share premium	32			416			376			347
Shares held for Share Award Scheme	32			(219)			(52)			(65)
Employee share-based compensation reserve	33			56			43			47
Merger reserve	36			2,997			2,997			2,997
Retained earnings	37			1,416			1,967			1,547
Shareholders' funds				5,744			6,407			5,948
Total liabilities and equity				8,034			7,135			6,226
Net current assets				1,539			2,206			1,761
Total assets less current liabilities				5,745			6,408			5,949

Approved by the Board of Directors on 2 March 2011

Ronald Joseph ARCULLI
Director

LI Xiaojia, Charles
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital, share premium and shares held for Share Award Scheme (note 32) \$m	Employee share-based compensation reserve (note 33) \$m	Other comprehensive income Investment revaluation reserve (note 34) \$m	Designated reserves (note 35) \$m	Retained earnings (note 37) \$m	Total equity \$m
At 1 Jan 2009	1,357	47	97	552	5,241	7,294
Profit attributable to shareholders	-	-	-	-	4,704	4,704
Other comprehensive income attributable to shareholders	-	-	(97)	-	-	(97)
Total comprehensive income attributable to shareholders	-	-	(97)	-	4,704	4,607
2008 final dividend at \$1.80 per share	-	-	-	-	(1,935)	(1,935)
2009 interim dividend at \$1.84 per share	-	-	-	-	(1,978)	(1,978)
Unclaimed dividends forfeited	-	-	-	-	4	4
Shares issued under employee share option schemes	23	-	-	-	-	23
Shares purchased for Share Award Scheme	(9)	-	-	-	-	(9)
Vesting of shares of Share Award Scheme	22	(18)	-	-	(4)	-
Employee share-based compensation benefits	-	21	-	-	-	21
Transfer of reserves	7	(7)	-	11	(11)	-
At 31 Dec 2009	1,400	43	-	563	6,021	8,027
At 1 Jan 2010	1,400	43	-	563	6,021	8,027
Profit attributable to shareholders	-	-	-	-	5,037	5,037
Other comprehensive income attributable to shareholders	-	-	-	-	-	-
Total comprehensive income attributable to shareholders	-	-	-	-	5,037	5,037
2009 final dividend at \$2.09 per share	-	-	-	-	(2,251)	(2,251)
2010 interim dividend at \$1.89 per share	-	-	-	-	(2,034)	(2,034)
Unclaimed dividends forfeited	-	-	-	-	16	16
Shares issued under employee share option schemes	34	-	-	-	-	34
Shares purchased for Share Award Scheme	(188)	-	-	-	-	(188)
Vesting of shares of Share Award Scheme	21	(15)	-	-	(6)	-
Employee share-based compensation benefits	-	36	-	-	-	36
Transfer of reserves	8	(8)	-	17	(17)	-
At 31 Dec 2010	1,275	56	-	580	6,766	8,677

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

		2010	As restated 2009
	Note	\$m	\$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	38	4,986	4,542
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		(80)	(48)
Net proceeds from sales of fixed assets		1	1
Payments for acquisition of lease premium for land		(26)	-
Net (increase)/decrease in financial assets of Corporate Funds:			
Increase in time deposits with original maturities more than three months		(928)	(237)
Payments for purchases of available-for-sale financial assets		-	(465)
Net proceeds from sales or maturity of available-for-sale financial assets		-	3,013
Payments for purchases of financial assets measured at amortised cost (excluding bank deposits)		(387)	(1,285)
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding bank deposits)		726	-
Payments for purchases of financial assets measured at fair value through profit or loss		(53)	(1,752)
Net proceeds from sales or maturity of financial assets measured at fair value through profit or loss		575	-
Interest received from available-for-sale financial assets		-	188
Interest received from financial assets measured at amortised cost (excluding bank deposits)		25	1
Interest received from financial assets measured at fair value through profit or loss and financial assets at fair value through profit or loss		199	80
Net cash inflow/(outflow) from investing activities		52	(504)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		34	23
Purchases of shares for Share Award Scheme		(188)	(9)
Dividends paid		(4,258)	(3,889)
Net cash outflow from financing activities		(4,412)	(3,875)
Net increase in cash and cash equivalents		626	163
Cash and cash equivalents at 1 Jan, as previously reported		4,751	4,756
Effect of change in accounting policy of cash collateral		(3,432)	(3,600)
Cash and cash equivalents at 31 Dec	18	1,945	1,319
Analysis of cash and cash equivalents			
Cash at bank and in hand		1,402	617
Time deposits with original maturities within three months		543	702
Cash and cash equivalents at 31 Dec	18	1,945	1,319

NOTES TO THE CONSOLIDATED ACCOUNTS

1. General Information

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

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

These consolidated accounts were approved for issue by the Board of Directors (Board) on 2 March 2011.

2. Principal Accounting Policies

(a) Statement of compliance

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

(b) Basis of preparation

These consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities measured at fair value.

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

Early adoption of new/revised HKFRSs

In the fourth quarter of 2010, the Group early adopted all new/revised HKFRSs issued up to 31 December 2010 which were pertinent to its operations where early adoption is permitted. The applicable HKFRSs are set out below:

HKFRS 9: Financial Instruments (as amended in 2010)
Improvements to HKFRSs (2010)

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Early adoption of new/revised HKFRSs (continued)

HKFRS 9 (as amended in 2010) has been expanded to include the requirements with respect to derecognition of financial assets and financial liabilities (which have been taken from HKAS 39 without amendment) and classification and measurement of financial liabilities. The early adoption of the amended HKFRS 9 did not have any financial impact to the Group as the Group did not have any financial liabilities that were affected by the changes in classification and measurement requirements and there were no changes in the derecognition of financial assets and financial liabilities.

The Improvements to HKFRSs (2010) comprise a number of minor and non-urgent amendments to a range of HKFRSs. Of these, only the amendments to HKFRS 7: Financial Instruments: Disclosures are pertinent to the Group's operations.

HKFRS 7 is amended to clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The early adoption of the amendment did not have any financial impact to the Group as it only affects certain disclosure of financial instruments held by the Group. The amendments have been applied retrospectively.

Change in accounting policy for cash and cash equivalents of cash collateral

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash and cash equivalents available for the disposition of the Group and exclude cash and cash equivalents held for specific purposes such as those held for the purpose of the Margin Funds, Clearing House Funds and cash collateral received from Clearing Participants of Hong Kong Securities Clearing Company Limited (HKSCC). In prior years, cash collateral received from HKSCC Participants was included as part of the cash and cash equivalents of the Group for the purpose of the consolidated statement of cash flows. The comparative figures have been restated to conform with the revised presentation.

Change in accounting policy for HKEx Employees' Share Award Scheme

In prior years, contributions made to The HKEx Employees' Share Award Scheme (HKEx Employee Share Trust), a controlled special purpose entity, were carried as an asset and disclosed as Contributions to HKEx Employee Share Trust in HKEx's statement of financial position. During the year, the Group has reassessed the relationship between HKEx and the HKEx Employee Share Trust. As the HKEx Employee Share Trust is set up solely for the purpose of purchasing, administering and holding HKEx shares for the Share Award Scheme (note 33(c)), HKEx has the power to govern the financial and operating policies of the HKEx Employee Share Trust and it can derive benefits from the services of the employees who have been awarded the Awarded Shares through their continued employment with the Group. Accordingly, the Group considers that it is appropriate to include the assets and liabilities of HKEx Employee Share Trust in HKEx's statement of financial position from 2010 onwards, and to present as a deduction in equity the HKEx shares held by the HKEx Employee Share Trust as Shares held for Share Award Scheme. This change has been applied retrospectively and comparative figures have been restated to reflect such change.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Change in presentation of statements of financial position

In previous years, the Group and HKEx presented current and non-current assets, and current and non-current liabilities, as separate classifications in the statements of financial position. From 2010 onwards, the Group and HKEx decided to present their assets and liabilities in order of liquidity in the statements of financial position as it provides information that better reflects the manner in which the assets and liabilities are managed in the business operations of the Group, particularly following the changes made on adopting HKFRS 9, and is thus more relevant.

The comparative figures have been restated to conform with the revised presentation. There is no financial impact to the Group and HKEx.

Change in units of presentation of accounts

In previous years, the consolidated accounts were presented in Hong Kong dollars (HKD), rounded to the nearest thousand. From 2010 onwards, the Group and HKEx decided to present the consolidated accounts in HKD, rounded to the nearest million, as it simplifies the accounts and provides a better view on material items.

Effects of HKFRSs issued after 31 December 2010 and up to the date of approval of the consolidated accounts

Subsequent to 31 December 2010 and up to the date of approval of these consolidated accounts, the HKICPA has issued certain revised HKFRSs but they are not applicable to the Group's operations.

(c) Consolidation

The consolidated accounts include the accounts of HKEx and all of its subsidiaries made up to 31 December.

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

The accounts of subsidiaries and controlled special purpose entities are included in the consolidated accounts from the date on which control commences until the date that control ceases. The assets and liabilities of the controlled special purpose entity, HKEx Employee Share Trust, are included in HKEx's statement of financial position and the HKEx shares held by the HKEx Employee Share Trust are presented as a deduction in equity as Shares held for Share Award Scheme. All material intra-group transactions and balances have been eliminated on consolidation.

In HKEx's statement of financial position, investments in subsidiaries are stated at cost less provision for any impairment, if necessary. The results of subsidiaries are accounted for by HKEx on the basis of dividends received and receivable.

2. Principal Accounting Policies (continued)

(d) Revenue and other income recognition

Turnover consists of revenues from principal activities and is the same as Revenue in the consolidated income statement. Revenue and other income are recognised in the consolidated income statement on the following basis:

- (i) Trading fees and trading tariff are recognised on a trade date basis.
- (ii) Initial listing fees for initial public offering (IPO) are recognised upon the listing of an applicant, cancellation of the application or six months after submission of the application, whichever is earlier. Initial listing fees for warrants, callable bull/bear contracts and other securities are recognised upon the listing of the securities. Income from annual listing fees is recognised on a straight-line basis over the period covered by the respective fees received in advance.
- (iii) Fees for clearing and settlement of trades between Participants in eligible securities transacted on The Stock Exchange of Hong Kong Limited (Stock Exchange) are recognised in full on T+1, ie, on the day following the trade day, upon acceptance of the trades. Fees for other settlement transactions are recognised upon completion of the settlement.
- (iv) Custody fees for securities held in the Central Clearing and Settlement System (CCASS) depository are calculated and accrued on a monthly basis. Income on registration and transfer fees on nominee services are calculated and accrued on the book close dates of the relevant stocks during the financial year.
- (v) Market data fees and other fees are recognised when the related services are rendered.
- (vi) Interest income on investments represents gross interest income from bank deposits and securities and is recognised on a time apportionment basis using the effective interest method.

Interest income on impaired loans is recognised using the original effective interest rate.

(e) Net investment income

Net investment income comprises interest income (net of interest rebates to Participants), net fair value gains/losses on financial assets and financial liabilities and dividend income, which is presented on the face of the consolidated income statement as part of other income.

(f) Interest expenses and interest rebates to Participants

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

2. Principal Accounting Policies (continued)

(g) Employee benefit costs

(i) Employee leave entitlements

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

(ii) Equity compensation benefits

For share options granted under the Post-Listing Share Option Scheme (Post-Listing Scheme) and HKEx shares (Awarded Shares) granted under the employees' share award scheme (Share Award Scheme), the estimated fair value of the options granted and the cost of Awarded Shares are recognised as employee share-based compensation expense and credited to an employee share-based compensation reserve under equity over the vesting periods (note 33(b)(i) and note 33(c)(i)).

At the end of each reporting period, the Group revises its estimates of the number of options and Awarded Shares that are expected to ultimately vest. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to employee share-based compensation expense in the current year, with a corresponding adjustment to the employee share-based compensation reserve.

(iii) Retirement benefit costs

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

(h) Operating leases

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

(i) Finance leases

Leases where substantially all the rewards and risks of ownership are transferred to the Group are accounted for as finance leases. Government land leases in Hong Kong are classified as finance leases as the present value of the minimum lease payments (ie, transaction price) of the land amounted to substantially all of the fair value of the land as if it were freehold. Finance leases are capitalised at the commencement of the leases at the lower of the fair values of the leased assets and the present values of the minimum lease payments.

2. Principal Accounting Policies (continued)

(j) Fixed assets

Tangible fixed assets (including leasehold land classified as finance lease) are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

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

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

Leasehold land classified as finance lease	Over the remaining lives of the leases
Leasehold buildings	25 years
Leasehold improvements	Over the remaining lives of the leases but not exceeding 5 years
Computer trading and clearing systems	
– hardware and software	5 years
Other computer hardware and software	3 years
Furniture, equipment and motor vehicles	3 to 5 years

Expenditures incurred in the construction of leasehold buildings and other directly attributable costs are capitalised when it is probable that future economic benefits associated with the expenditures will flow to the Group and the costs can be measured reliably. Other costs such as relocation costs and administration and other overhead costs are charged to profit or loss during the year in which they are incurred.

Qualifying software system development expenditures and related directly attributable costs are capitalised and recognised as a fixed asset as the software forms an integral part of the hardware on which it operates.

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

(k) Lease premium for land

Leasehold land premiums are up-front payments to acquire medium-term interests in leasehold land classified as operating leases. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis. The amortisation is capitalised as fixed assets during the construction period.

2. Principal Accounting Policies (continued)

(l) Impairment of non-financial assets

Assets are reviewed for impairment whenever there is any indication that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (ie, the higher of an asset's fair value less costs to sell and value in use). Such impairment losses are recognised in profit or loss.

Impairment loss is reversed if the circumstances and events leading to the impairment cease to exist.

(m) Margin Funds

Margin Funds are established by cash received or receivable from The SEHK Options Clearing House Limited (SEOCH) and HKFE Clearing Corporation Limited (HKCC) Clearing Participants for covering their open positions in derivatives contracts (note 24(a)).

The obligation to refund the margin deposits is disclosed as Margin deposits from Clearing Participants on derivatives contracts under current liabilities. Non-cash collateral (ie, securities and bank guarantees) received from Clearing Participants is not recognised on the consolidated statement of financial position.

(n) Clearing House Funds

The Clearing House Funds are established under the Clearing House Rules (note 28(a)).

Clearing Participants' contributions to Clearing House Funds are treated as non-current liabilities in the consolidated statement of financial position with the exception of those amounts which are refundable to Participants within twelve months and are included as current liabilities. Non-cash collateral of the Clearing House Funds (ie, contributions receivable from Clearing Participants fully secured by bank guarantees) is not recognised on the consolidated statement of financial position.

(o) Derivative financial instruments

Derivatives, which may include forward foreign exchange contracts, futures and options contracts, are initially recognised at fair value on trade-date and subsequently remeasured at their fair values. Changes in fair value, based on quoted market prices in active markets or recent market transactions, are recognised in profit or loss. All derivatives are classified as financial assets measured at fair value through profit or loss when their fair values are positive and as financial liabilities at fair value through profit or loss when their fair values are negative.

2. Principal Accounting Policies (continued)

(p) Financial assets

(i) Classification

For financial assets held on or after 31 December 2009

Following the adoption of HKFRS 9 on 31 December 2009, investments and other financial assets of the Group held on or after 31 December 2009 are classified under the following categories:

Financial assets measured at amortised cost

Investments are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows for managing liquidity and generating income on the investments, but not for the purpose of realising fair value gains; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, with interest being the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and are unleveraged.

Bank deposits, trade and accounts receivable and other deposits are also classified under this category.

Financial assets measured at fair value through profit or loss

Investments and other financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost.

Securities or bank deposits with embedded derivatives are classified in their entirety as measured at fair value through profit or loss where the economic characteristics and risks of the embedded derivatives are dissimilar to those of the host contracts and modify the contractual cash flows, such that they are not solely payments of principal and interest on the principal amount outstanding or the interest rate does not reflect only consideration for the time value of money and credit risk.

The Group will reclassify all affected investments when and only when its business model for managing these assets changes.

Financial assets of Clearing House Funds, Margin Funds and cash collateral are classified as current assets as they will be liquidated whenever liquid funds are required.

Financial assets of Corporate Funds, which include those held for trading purpose, are classified as current assets unless they are non-trading assets that are expected to mature after twelve months at the end of the reporting period and, in which case, they are included in non-current assets. For equities and mutual funds, which have no maturity date, they are included in current assets as they are held for trading.

2. Principal Accounting Policies (continued)

(p) Financial assets (continued)

(i) Classification (continued)

For financial assets held on 1 January 2009 or financial assets derecognised prior to 31 December 2009

Investments and other financial assets of the Group which were held on 1 January 2009 or derecognised prior to 31 December 2009 were classified under the following categories:

Financial assets at fair value through profit or loss

This category comprised financial assets held for trading and financial assets designated as fair value through profit or loss at inception if the designation related to financial instruments containing one or more embedded derivatives that significantly modified the cash flows arising from those financial instruments.

Securities or bank deposits with embedded derivatives whose economic characteristics and risks were not closely related to the host investments were designated as financial assets at fair value through profit or loss.

Available-for-sale financial assets

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

Loans and receivables

Loans and receivables, which comprised bank deposits, trade and accounts receivable, deposits and other assets, were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and the Group had no intention of trading the loans or receivables.

Financial assets were classified as current assets unless the investments were expected to mature after twelve months at the end of the reporting period and, in which case, they were included in non-current assets. For equities or mutual funds, which had no maturity date, they were included in current assets as they were held for trading.

(ii) Recognition and initial measurement

Purchases and sales of financial assets are recognised on trade-date. Assets classified as financial assets measured at fair value through profit or loss and financial assets at fair value through profit or loss are initially recognised at fair value with transaction costs recognised as expenses in profit or loss. Financial assets not carried at fair value through profit or loss are initially recognised at fair value plus transaction costs.

2. Principal Accounting Policies (continued)

(p) Financial assets (continued)

(iii) Derecognition

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

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

For financial assets held on or after 31 December 2009

Financial assets measured at fair value through profit or loss

- Financial assets under this category are investments carried at fair value. Gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise. Upon disposal, the differences between the net sale proceeds and the carrying values are included in profit or loss.
- Interest income is recognised in profit or loss using the effective interest method and included in net fair value gains/(losses) and interest income from these financial assets.
- Dividend income is recognised when the right to receive a dividend is established and is disclosed separately as dividend income.

Financial assets measured at amortised cost

- Financial assets under this category are carried at amortised cost using the effective interest method less provision for impairment. Gains and losses arising from disposal, being the differences between the net sale proceeds and the carrying values, are recognised in profit or loss.
- Interest income is recognised in profit or loss using the effective interest method and disclosed as interest income.

2. Principal Accounting Policies (continued)

(p) Financial assets (continued)

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

For financial assets held on 1 January 2009 or financial assets derecognised prior to 31 December 2009

Financial assets at fair value through profit or loss

- Same as financial assets measured at fair value through profit or loss held on or after 31 December 2009.

Available-for-sale financial assets

- Available-for-sale financial assets were investments carried at fair value. Gains and losses (including transaction costs on acquisition) arising from changes in fair value were recognised in other comprehensive income and transferred to investment revaluation reserve. When an asset was sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments recognised in other comprehensive income and retained in the investment revaluation reserve were reclassified from investment revaluation reserve to profit or loss as a reclassification adjustment.
- Interest income was recognised in profit or loss using the effective interest method and disclosed as interest income.

Loans and receivables

- Same as financial assets measured at amortised cost held on or after 31 December 2009.

- (v) Fair value measurement principles

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

- (vi) Impairment

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

2. Principal Accounting Policies (continued)

(p) Financial assets (continued)

(vi) Impairment (continued)

- significant financial difficulty of the debtor or obligor;
- fees receivable that have been outstanding for over 180 days;
- it is becoming probable that the debtor or obligor will enter into bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

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

For financial assets held on or after 31 December 2009

Financial assets measured at amortised cost

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

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

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

2. Principal Accounting Policies (continued)

(p) Financial assets (continued)

(vi) Impairment (continued)

For financial assets held on 1 January 2009 or financial assets derecognised prior to 31 December 2009

Available-for-sale financial assets

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

Loans and receivables

- Same as financial assets measured at amortised cost held on or after 31 December 2009.

(q) Financial liabilities

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

Financial liabilities at fair value through profit or loss are financial liabilities held for trading.

Liabilities under this category are initially recognised at fair value on trade-date and subsequently remeasured at their fair values. Changes in fair value of the liabilities are recognised in profit or loss.

(ii) Financial guarantee contracts

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

Financial guarantee contracts are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 and the amount initially recognised less, where appropriate, cumulative amortisation over the life of the guarantee on a straight-line basis.

Financial guarantee contracts issued by HKEx to guarantee borrowings of subsidiaries are eliminated on consolidation.

(iii) Other financial liabilities

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

2. Principal Accounting Policies (continued)

- (r) Recognition of receivables and payables from/to HKSCC Clearing Participants on Stock Exchange trades settled under the Continuous Net Settlement (CNS) basis

Upon acceptance of Stock Exchange trades for settlement in CCASS under the CNS basis, HKSCC interposes itself between the HKSCC Clearing Participants as the settlement counterparty to the trades through novation.

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

- (s) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the income tax losses can be utilised. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine deferred tax assets and liabilities. Movements in deferred tax provision are recognised in profit or loss with the exception of deferred tax related to transactions recognised in other comprehensive income (such as fair value re-measurement of available-for-sale financial assets).

- (t) Deferred revenue

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

- (u) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

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

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

2. Principal Accounting Policies (continued)

(v) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured in HKD, which is the Group's presentation currency and HKEx's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into HKD using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Translation differences on non-monetary financial assets that are classified as financial assets measured at fair value through profit or loss are reported as part of the fair value gain or loss.

(w) Cash and cash equivalents

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

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash and cash equivalents available for the disposition of the Group and exclude cash and cash equivalents held for specific purposes such as those held for the purpose of the Margin Funds, Clearing House Funds and cash collateral received from HKSCC Clearing Participants.

(x) Shares held for Share Award Scheme

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

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

(y) Operating Segments

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-makers (note 4). Information relating to segment assets and liabilities are not disclosed as such information is not regularly reported to the chief operating decision-makers.

2. Principal Accounting Policies (continued)

(z) Dividends

Dividends disclosed in note 16 to the consolidated accounts represent interim dividend paid and final dividend proposed for the year (based on the issued share capital less the number of shares held for the Share Award Scheme at the end of the reporting period).

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

3. Critical Accounting Estimates and Judgements

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

(a) Deferred tax assets

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

At 31 December 2010, the Group had tax losses carried forward amounting to \$318 million (31 December 2009: \$315 million). These losses relate to subsidiaries that have a history of tax losses and the Group has not accounted for the relevant deferred tax assets. They will not expire and may be able to offset against taxable income in the future. If the Group were to recognise all unrecognised deferred tax assets, the Group's profit would increase by \$52 million (2009: \$52 million).

(b) Impairment of debt instruments measured at amortised cost

The Group has a significant holding of debt instruments as investments that are measured at amortised cost. The Group recognises an impairment loss when there is objective evidence that a debt instrument is impaired (eg, significant financial difficulties of the issuer, probability that the issuer will enter into bankruptcy or financial reorganisation, and default or delinquency in interest or principal payments).

At 31 December 2010, the debt instruments that were measured at amortised cost held by the Group amounted to \$950 million (31 December 2009: \$1,296 million). If one percent of the amount of such debt instruments was impaired, the Group's profit would decrease by \$10 million (2009: \$13 million).

3. Critical Accounting Estimates and Judgements (continued)

- (c) Valuation of investments measured at fair value through profit or loss

The Group has a significant amount of investments that are measured at fair value through profit or loss. The valuations are either provided by banks or the custodian of the investments, a reputable independent third party custodian bank.

At 31 December 2010, the financial assets that are measured at fair value through profit or loss held by the Group excluding those fair values obtained using quoted prices in active market (ie, Level 1 defined in HKFRS 7) amounted to \$10,797 million (31 December 2009: \$13,752 million). If the fair value of such financial assets decreased by one percent, the Group's profit would decrease by \$108 million (2009: \$138 million).

4. Operating Segments

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

The Group has four reportable segments which are managed separately as each business offers different products and services and requires different information technology systems and marketing strategies. The operations of the Group's reportable segments are as follows:

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, callable bull/bear contracts (CBBCs) and derivative warrants (DWs). Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market (GEM). The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market. Stock Exchange listing fees and costs of the Listing Function are further explained in note 6.

The **Derivatives Market** business refers to the derivatives products traded on Hong Kong Futures Exchange Limited (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. Its income mainly comprises trading fees, trading tariff and net investment income on the Margin Funds invested.

The **Clearing Business** refers to the operations of the three clearing houses, namely HKSCC, SEOC and HKCC, which are responsible for clearing, settlement and custodian activities of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from providing clearing, settlement, depository, custody and nominee services and net investment income earned on the Clearing House Funds.

The **Market Data** (formerly 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 market data fees of the Cash and Derivatives Markets.

4. Operating Segments (continued)

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

	2010				
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Group \$m
Income from external customers	3,345	752	2,324	673	7,094
Net investment income	103	293	75	1	472
	3,448	1,045	2,399	674	7,566
Operating expenses					
Direct costs	629	162	319	61	1,171
Indirect costs	220	59	131	31	441
	849	221	450	92	1,612
Reportable segment profit before taxation	2,599	824	1,949	582	5,954
Interest income	19	102	16	–	137
Interest rebates to Participants	–	(2)	(2)	–	(4)
Depreciation	(49)	(17)	(38)	(3)	(107)
Other material non-cash items:					
Employee share-based compensation expenses	(20)	(4)	(9)	(3)	(36)
Reversal of provision for impairment losses	–	–	4	–	4
Additions to non-current assets other than financial assets and deferred tax assets	53	21	40	11	125

4. Operating Segments (continued)

	2009				
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Group \$m
Income from external customers	2,905	704	2,110	695	6,414
Net investment income	129	339	152	1	621
	3,034	1,043	2,262	696	7,035
Operating expenses					
Direct costs	602	157	322	50	1,131
Indirect costs	175	51	111	25	362
	777	208	433	75	1,493
Reportable segment profit before taxation	2,257	835	1,829	621	5,542
Interest income	23	239	29	–	291
Interest rebates to Participants	–	(3)	–	–	(3)
Depreciation	(48)	(10)	(40)	(3)	(101)
Other material non-cash items:					
Employee share-based compensation expenses	(12)	(2)	(5)	(2)	(21)
Reversal of provision for impairment losses	1	–	–	–	1
Additions to non-current assets other than financial assets and deferred tax assets	7	23	4	1	35

- (a) The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2.

Central income (mainly net investment income of the Corporate Funds) and central costs (mainly costs of support functions that centrally provide services to all of the operating segments) are allocated to the operating segments as they are included in the measure of the segments' profit before taxation for the purpose of assessing segment performance. Taxation charge/(credit) is not allocated to reportable segments.

4. Operating Segments (continued)

(b) Geographical information

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

	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
Hong Kong	322	305
China	1	1
	323	306

(c) Information about major customers

In 2010 and 2009, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's total revenue.

5. Trading Fees and Trading Tariff

	2010 \$m	2009 \$m
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	2,030	1,834
Derivatives contracts traded on the Derivatives Market	813	752
	2,843	2,586

6. Stock Exchange Listing Fees

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

	2010				2009			
	Equity		CBBCs, DWs & others	Total	Equity		CBBCs, DWs & others	Total
	Main Board \$m	GEM \$m			Main Board \$m	GEM \$m		
Stock Exchange Listing Fees								
Annual listing fees	374	24	2	400	336	24	2	362
Initial and subsequent issue listing fees	96	7	436	539	68	3	290	361
Other listing fees	5	1	-	6	5	-	-	5
Total	475	32	438	945	409	27	292	728
Costs of Listing Function								
Direct costs	236	51	18	305	229	49	16	294
Indirect costs	44	8	13	65	37	6	10	53
Total costs	280	59	31	370	266	55	26	347
Contribution to Cash Market Segment Profit before Taxation	195	(27)	407	575	143	(28)	266	381

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

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

7. Other Revenue

	2010 \$m	2009 \$m
Network, terminal user, dataline and software sub-license fees	345	321
Participants' subscription and application fees	34	35
Brokerage on direct IPO allotments	27	16
Trading booth user fees	15	15
Sales of Trading Rights	11	10
Miscellaneous revenue	23	20
	455	417

8. Net Investment Income

	2010 \$m	2009 \$m
Interest income		
Available-for-sale financial assets		
– listed securities	–	7
– unlisted securities	–	162
	–	169
Loans and receivables		
– bank deposits	–	81
Financial assets measured at amortised cost		
– bank deposits	115	30
– listed securities	4	–
– unlisted securities	18	11
	137	41
Gross interest income	137	291
Interest rebates to Participants	(4)	(3)
Net interest income	133	288
Net fair value gains and interest income on financial assets at fair value through profit or loss		
<u>On designation</u>		
– exchange differences	–	2
<u>Held for trading</u>		
– listed securities	–	61
– unlisted securities	–	10
– exchange differences	–	90
	–	161
	–	163
Net fair value gains and interest income on financial assets mandatorily measured at fair value through profit or loss		
– listed securities	90	128
– unlisted securities	223	130
– bank deposits with embedded derivatives	15	1
– exchange differences	123	48
	451	307
Net fair value losses on financial liabilities mandatorily measured at fair value through profit or loss		
– listed securities	(6)	(3)
– exchange differences	(108)	(137)
	(114)	(140)
Losses on disposal of unlisted financial assets measured at amortised cost	(4)	–
Others	6	3
Net investment income	472	621

9. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	2010 \$m	2009 \$m
Salaries and other short-term employee benefits	793	711
Employee share-based compensation benefits (note 33)	36	21
Termination benefits	–	1
Retirement benefit costs (note (a)):		
– ORSO Plan	62	61
– MPF Scheme	1	–
	892	794

(a) Retirement Benefit Costs

The Group has sponsored a defined contribution provident fund scheme (ORSO Plan) which is registered under ORSO and a Mandatory Provident Fund scheme (MPF Scheme). The Group contributes 12.5 per cent of the employee's basic salary to the ORSO Plan if an employee contributes 5 per cent. If the employee chooses not to contribute, the Group will contribute 10 per cent of the employee's salary to the ORSO Plan. Contributions to the MPF Scheme are in accordance with the statutory limits prescribed by the MPF Ordinance (ie, 5 per cent of the employee's relevant income subject to a maximum of \$1,000 per month).

10. Information Technology and Computer Maintenance Expenses

	2010 \$m	2009 \$m
Costs of services and goods:		
– consumed by the Group	143	141
– directly consumed by Participants	122	105
	265	246

11. Other Operating Expenses

	2010 \$m	2009 \$m
Insurance	4	4
Financial data subscription fees	6	5
Custodian and fund management fees	11	11
Bank charges	15	13
Repair and maintenance expenses	11	10
License fees	16	15
Communication expenses	6	5
Overseas travel expenses	7	4
Contribution to Financial Reporting Council	4	3
Other miscellaneous expenses	27	37
	107	107

12. Profit before Taxation

	2010 \$m	2009 \$m
Profit before taxation is stated after (charging)/crediting:		
Auditor's remuneration		
– audit fees	(3)	(3)
Operating lease rentals		
– land and buildings	(168)	(174)
– computer systems and equipment	(6)	(6)
Exchange gains/(losses) on financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss and financial assets measured at fair value through profit or loss)	1	(1)

13. Directors' Emoluments

All Directors, including two Executive Directors, received emoluments during the years ended 31 December 2010 and 31 December 2009. The aggregate emoluments paid and payable to the Directors during the two years were as follows:

	2010 \$'000	2009 \$'000
Executive Directors:		
Salaries and other short-term employee benefits	11,877	7,859
Performance bonus	8,054	7,800
Retirement benefit costs	903	975
	20,834	16,634
Employee share-based compensation benefits (note (a))	2,754	461
	23,588	17,095
Non-executive Directors:		
Fees	5,318	4,650
	28,906	21,745

- (a) Employee share-based compensation benefits represent fair value of Awarded Shares issued under the Share Award Scheme amortised to profit or loss during the year.
- (b) The emoluments, including employee share-based compensation benefits, of the Directors were within the following bands:

	2010 Number of Directors	2009 Number of Directors
\$1 – \$500,000	9	14
\$500,001 – \$1,000,000	3	1
\$5,000,001 – \$5,500,000	1	–
\$17,000,001 – \$17,500,000	–	1
\$18,000,001 – \$18,500,000	1	–
	14	16

13. Directors' Emoluments (continued)

- (c) The emoluments of all Directors, including the Chief Executive who is an ex-officio member, for the years ended 31 December 2010 and 2009 are set out below:

Name of Director	2010							
	Fees	Salary	Other	Performance	Retirement	Sub-total	Employee	Total
	\$'000	\$'000	benefits (note (i)) \$'000	bonus \$'000	benefit costs (note (ii)) \$'000	\$'000	share-based compensation benefits \$'000	\$'000
Ronald J Arculli	618	-	-	-	-	618	-	618
Charles X Li (note (iii))	-	6,910	116	8,054	864	15,944	2,546	18,490
Paul M Y Chow (note (iv))	-	314	4,537	-	39	4,890	208	5,098
Laura M Cha	393	-	-	-	-	393	-	393
Ignatius T C Chan (note (v))	397	-	-	-	-	397	-	397
Moses M C Cheng	405	-	-	-	-	405	-	405
Marvin K T Cheung	397	-	-	-	-	397	-	397
Stephen C C Hui (note (v))	400	-	-	-	-	400	-	400
Bill C P Kwok	460	-	-	-	-	460	-	460
Vincent K H Lee	528	-	-	-	-	528	-	528
Michael T H Lee (note (v))	397	-	-	-	-	397	-	397
John E Strickland	400	-	-	-	-	400	-	400
John M M Williamson	523	-	-	-	-	523	-	523
Oscar S H Wong	400	-	-	-	-	400	-	400
Total	5,318	7,224	4,653	8,054	903	26,152	2,754	28,906

Name of Director	2009							
	Fees	Salary	Other	Performance	Retirement	Sub-total	Employee	Total
	\$'000	\$'000	benefits (note (i)) \$'000	bonus \$'000	benefit costs (note (ii)) \$'000	\$'000	share-based compensation benefits \$'000	\$'000
Ronald J Arculli	550	-	-	-	-	550	-	550
Paul M Y Chow (note (iv))	-	7,800	59	7,800	975	16,634	461	17,095
Laura M Cha	363	-	-	-	-	363	-	363
Ignatius T C Chan (note (v))	262	-	-	-	-	262	-	262
Moses M C Cheng	400	-	-	-	-	400	-	400
Marvin K T Cheung	350	-	-	-	-	350	-	350
Henry H L Fan (note (vi))	75	-	-	-	-	75	-	75
Fong Hup (note (vi))	100	-	-	-	-	100	-	100
Stephen C C Hui (note (v))	262	-	-	-	-	262	-	262
Bill C P Kwok	350	-	-	-	-	350	-	350
Vincent K H Lee	450	-	-	-	-	450	-	450
Michael T H Lee (note (v))	262	-	-	-	-	262	-	262
Christine K W Loh (note (vi))	88	-	-	-	-	88	-	88
John E Strickland	350	-	-	-	-	350	-	350
John M M Williamson	438	-	-	-	-	438	-	438
Oscar S H Wong	350	-	-	-	-	350	-	350
Total	4,650	7,800	59	7,800	975	21,284	461	21,745

13. Directors' Emoluments (continued)

(c) (continued)

Notes:

- (i) Other benefits included leave pay, insurance premium and club membership.
- (ii) Employees who retire before normal retirement age are eligible for 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of seven years of service.
- (iii) Appointment effective 16 January 2010
- (iv) Retired on 16 January 2010. The emoluments for 2010 included accumulated annual leave entitlement paid in January 2010.
- (v) Appointment effective 23 April 2009
- (vi) Retired on 23 April 2009

14. Five Top-paid Employees

One (2009: one) of the five top-paid employees was a Director whose emoluments are disclosed in note 13. Details of the emoluments of the other four (2009: four) top-paid employees were as follows:

	2010 \$'000	2009 \$'000
Salaries and other short-term employee benefits	17,620	17,216
Performance bonus	12,462	7,827
Retirement benefit costs	2,165	2,122
	32,247	27,165
Employee share-based compensation benefits (note (a))	5,099	3,445
	37,346	30,610

- (a) Employee share-based compensation benefits represent fair value of share options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme amortised to profit or loss during the year.
- (b) The emoluments of these four (2009: four) employees, including share-based compensation benefits, were within the following bands:

	2010 Number of employees	2009 Number of employees
\$6,000,001 – \$6,500,000	1	2
\$8,000,001 – \$8,500,000	–	1
\$8,500,001 – \$9,000,000	1	–
\$10,000,001 – \$10,500,000	–	1
\$10,500,001 – \$11,000,000	1	–
\$11,000,001 – \$11,500,000	1	–
	4	4

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

15. Taxation

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

	2010 \$m	2009 \$m
Provision for Hong Kong Profits Tax at 16.5 per cent (2009: 16.5 per cent)	918	837
Overprovision in respect of prior years	(2)	(6)
	916	831
Deferred taxation (note 30(a))	1	7
	917	838

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of 16.5 per cent (2009: 16.5 per cent) as follows:

	2010 \$m	2009 \$m
Profit before taxation	5,954	5,542
Calculated at a taxation rate of 16.5 per cent (2009: 16.5 per cent)	982	914
Income not subject to taxation	(72)	(88)
Expenses not deductible for taxation purposes	4	3
Change in deferred tax arising from unrecognised tax losses and other deferred tax adjustments	5	15
Overprovision of Hong Kong Profits Tax in respect of prior years	(2)	(6)
Taxation charge	917	838

16. Dividends

	2010 \$m	2009 \$m
Interim dividend paid:		
\$1.89 (2009: \$1.84) per share	2,037	1,980
Less: Dividend for shares held by Share Award Scheme	(3)	(2)
	2,034	1,978
Final dividend proposed (notes (a) and (b)):		
\$2.31 (2009: \$2.09) per share based on issued share capital at 31 Dec	2,490	2,249
Less: Dividend for shares held by Share Award Scheme at 31 Dec	(4)	(1)
	2,486	2,248
	4,520	4,226

- (a) Actual 2009 final dividend paid was \$2,251 million (after eliminating \$1 million paid for shares held by the Share Award Scheme), of which \$3 million was paid for shares issued for employee share options exercised after 31 December 2009.
- (b) The final dividend proposed after 31 December has not been recognised as a liability at 31 December.
- (c) The 2010 final dividend will be payable in cash with a scrip dividend alternative subject to the permission of the Securities and Futures Commission (SFC) of the listing of and permission to deal in the new shares to be issued.

17. Earnings Per Share

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

- (a) Basic earnings per share

	2010	2009
Profit attributable to shareholders (\$m)	5,037	4,704
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,076,404	1,074,704
Basic earnings per share (\$)	4.68	4.38

17. Earnings Per Share (continued)

(b) Diluted earnings per share

	2010	2009
Profit attributable to shareholders (\$m)	5,037	4,704
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,076,404	1,074,704
Effect of employee share options (in '000)	1,743	3,246
Effect of Awarded Shares (in '000)	916	903
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,079,063	1,078,853
Diluted earnings per share (\$)	4.67	4.36

18. Cash and Cash Equivalents

	Group		HKEx	
	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
Cash and cash equivalents:				
– Clearing House Funds (note 28)	2,155	1,280	–	–
– Margin Funds (note 24)	12,418	8,707	–	–
– Cash collateral (note 25)	2,843	3,432	–	–
(note (a))	17,416	13,419	–	–
– Corporate Funds	1,945	1,319	45	27
	19,361	14,738	45	27

- (a) The cash and cash equivalents of Clearing House Funds, Margin Funds and cash collateral are held for specific purposes and cannot be used by the Group to finance other activities. Therefore they are not included in cash and cash equivalents of the Group for cash flow purpose in the consolidated statement of cash flows.

19. Financial Assets Measured at Fair Value through Profit or Loss

	Group			
	At 31 Dec 2010			
	Clearing House Funds (note 28) \$m	Margin Funds (note 24) \$m	Corporate Funds \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
– listed in Hong Kong	–	–	85	85
– listed outside Hong Kong	–	–	180	180
	–	–	265	265
Debt securities:				
– listed in Hong Kong	–	–	107	107
– listed outside Hong Kong	130	287	2,100	2,517
– unlisted	229	5,667	2,277	8,173
	359	5,954	4,484	10,797
Mutual funds:				
– listed outside Hong Kong	–	–	115	115
Derivative financial instruments:				
– forward foreign exchange contracts (note 45(b))	–	–	13	13
	359	5,954	4,877	11,190
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	359	5,954	3,636	9,949
More than twelve months	–	–	1,241	1,241
	359	5,954	4,877	11,190

19. Financial Assets Measured at Fair Value through Profit or Loss (continued)

	Group			
	At 31 Dec 2009			
	Clearing House Funds (note 28) \$m	Margin Funds (note 24) \$m	Corporate Funds \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
– listed in Hong Kong	–	–	23	23
– listed outside Hong Kong	–	–	157	157
	–	–	180	180
Debt securities:				
– listed in Hong Kong	–	–	68	68
– listed outside Hong Kong	130	290	1,866	2,286
– unlisted	280	6,557	2,455	9,292
	410	6,847	4,389	11,646
Mutual funds:				
– listed outside Hong Kong	–	–	75	75
Derivative financial instruments:				
– equity index futures contracts, listed outside Hong Kong (note (b))	–	–	1	1
– forward foreign exchange contracts (note 45(b))	–	–	17	17
	–	–	18	18
Bank deposits with embedded derivatives	–	1,826	280	2,106
	410	8,673	4,942	14,025
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	410	8,673	3,383	12,466
More than twelve months	–	–	1,559	1,559
	410	8,673	4,942	14,025

(a) Included financial assets maturing after twelve months of \$359 million (31 December 2009: \$410 million) and \$5,137 million (31 December 2009: \$5,975 million) attributable to the Clearing House Funds and Margin Funds respectively that could readily be liquidated to meet liquidity requirements of the respective Funds (note 45(b)).

(b) The total notional value of the equity index futures contracts outstanding at 31 December 2009 was \$35 million.

20. Financial Assets Measured at Amortised Cost

(a) Group

At 31 Dec 2010					
	Clearing House Funds (note 28) \$m	Margin Funds (note 24) \$m	Cash collateral (note 25) \$m	Corporate Funds \$m	Total \$m
Debt securities:					
– listed outside Hong Kong (note (i))	–	–	–	201	201
– unlisted	–	–	–	749	749
	–	–	–	950	950
Time deposits with original maturities over three months	130	4,323	751	1,602	6,806
Other financial assets	–	–	–	48	48
	130	4,323	751	2,600	7,804
The expected recovery dates of the financial assets are analysed as follows:					
Within twelve months (note (ii))	130	4,323	751	1,817	7,021
More than twelve months	–	–	–	783	783
	130	4,323	751	2,600	7,804
At 31 Dec 2009					
	Clearing House Funds (note 28) \$m	Margin Funds (note 24) \$m	Corporate Funds \$m	Total \$m	
Debt securities:					
– listed outside Hong Kong (note (i))	–	–	200	200	
– unlisted	–	–	1,096	1,096	
	–	–	1,296	1,296	
Time deposits with original maturities over three months	51	2,854	674	3,579	
Other financial assets	–	–	50	50	
	51	2,854	2,020	4,925	
The expected recovery dates of the financial assets are analysed as follows:					
Within twelve months (note (ii))	51	2,854	1,252	4,157	
More than twelve months	–	–	768	768	
	51	2,854	2,020	4,925	

20. Financial Assets Measured at Amortised Cost (continued)

(a) Group (continued)

- (i) The total market value of the listed debt securities at 31 December 2010 was \$203 million (31 December 2009: \$198 million).
- (ii) Included time deposits maturing after twelve months of \$2 million (31 December 2009: \$2 million) and \$Nil (31 December 2009: \$954 million) attributable to the Clearing House Funds and Margin Funds respectively that could readily be liquidated to meet liquidity requirements of the respective Funds (note 45(b)).

(b) HKEx

	Corporate Funds	
	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
Unlisted debt securities	91	72
Time deposits with original maturities over three months	7	29
Other financial assets	1	2
	99	103

21. Accounts Receivable, Prepayments and Deposits

	Group		HKEx	
	At	At	At	At
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
	\$m	\$m	\$m	\$m
Receivable from Exchange and Clearing Participants:				
– Continuous Net Settlement money obligations	8,283	10,476	–	–
– transaction levy, stamp duty and fees receivable	514	517	–	–
– others	194	188	–	–
Other receivables, prepayments and deposits	373	320	18	18
Less: Provision for impairment losses of receivables (note (b))	(158)	(164)	–	–
	9,206	11,337	18	18

- (a) The carrying amounts of accounts receivable and deposits approximated their fair values.
- (b) The movements in provision for impairment losses of receivables were as follows:

	Group	
	2010	2009
	\$m	\$m
At 1 Jan	164	168
Reversal of provision for impairment losses of receivables under other operating expenses	(4)	(2)
Receivables written off during the year as uncollectible	(2)	(2)
At 31 Dec	158	164

- (c) Continuous Net Settlement money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 60 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

22. Fixed Assets

(a) Group

	Leasehold land in Hong Kong under long term finance lease \$m	Leasehold buildings \$m	Computer trading and clearing systems \$m	Other computer hardware and software \$m	Leasehold improvements, furniture, equipment and motor vehicles \$m	Total \$m
Cost:						
At 1 Jan 2009	70	16	1,388	364	310	2,148
Additions	-	-	6	10	19	35
Disposals	-	-	(133)	(155)	(44)	(332)
At 31 Dec 2009	70	16	1,261	219	285	1,851
At 1 Jan 2010	70	16	1,261	219	285	1,851
Additions	-	21	47	16	15	99
Disposals	-	-	(14)	(8)	(4)	(26)
At 31 Dec 2010	70	37	1,294	227	296	1,924
Accumulated depreciation and impairment:						
At 1 Jan 2009	9	10	1,177	339	243	1,778
Depreciation	-	1	60	14	26	101
Impairment loss under other operating expenses	-	-	-	-	1	1
Disposals	-	-	(133)	(155)	(44)	(332)
At 31 Dec 2009	9	11	1,104	198	226	1,548
At 1 Jan 2010	9	11	1,104	198	226	1,548
Depreciation	1	1	56	12	37	107
Disposals	-	-	(14)	(8)	(4)	(26)
At 31 Dec 2010	10	12	1,146	202	259	1,629
Net book value:						
At 31 Dec 2010	60	25	148	25	37	295
At 31 Dec 2009	61	5	157	21	59	303
At 1 Jan 2009	61	6	211	25	67	370

- (i) The amount of expenditures recognised as fixed assets in the course of its construction was \$24 million at 31 December 2010 (31 December 2009: \$Nil), of which \$21 million (31 December 2009: \$Nil) was included under “leasehold buildings” and \$3 million (31 December 2009: \$Nil) was included under “leasehold improvements” respectively.

22. Fixed Assets (continued)

(b) HKEx

	Other computer hardware and software \$m	Leasehold improvements, furniture, equipment and motor vehicles \$m	Total \$m
Cost:			
At 1 Jan 2009	66	35	101
Additions	8	8	16
Disposals	(14)	(2)	(16)
At 31 Dec 2009	60	41	101
At 1 Jan 2010	60	41	101
Additions	8	7	15
Disposals	(3)	(2)	(5)
At 31 Dec 2010	65	46	111
Accumulated depreciation:			
At 1 Jan 2009	59	19	78
Depreciation	4	7	11
Disposals	(14)	(2)	(16)
At 31 Dec 2009	49	24	73
At 1 Jan 2010	49	24	73
Depreciation	5	9	14
Disposals	(3)	(2)	(5)
At 31 Dec 2010	51	31	82
Net book value:			
At 31 Dec 2010	14	15	29
At 31 Dec 2009	11	17	28
At 1 Jan 2009	7	16	23

23. Lease Premium for Land

	Group	
	2010 \$m	2009 \$m
Net book value at 1 Jan	–	–
Additions	26	–
Amortisation capitalised	(1)	–
Net book value at 31 Dec	25	–

- (a) During the year ended 31 December 2010, the Group acquired a non-Hong Kong Government medium-term lease in Tseung Kwan O in Hong Kong for the construction of a new data centre for a consideration of \$26 million.

24. Margin Deposits from Clearing Participants on Derivatives Contracts

	Group	
	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
Margin deposits from Clearing Participants comprised (note (b)):		
SEOCH Clearing Participants' margin deposits	3,528	2,567
HKCC Clearing Participants' margin deposits	19,174	17,676
	22,702	20,243
The margin deposits were invested in the following instruments for managing the obligations of the Margin Funds:		
Cash and cash equivalents (note 18)	12,418	8,707
Financial assets measured at fair value through profit or loss (note 19)	5,954	8,673
Financial assets measured at amortised cost (note 20(a))	4,323	2,854
Margin receivable from Clearing Participants	7	9
	22,702	20,243

- (a) Margin Funds are established by cash received or receivable from SEOCH and HKCC Clearing Participants for covering their open positions in derivatives contracts. The funds are refundable to the Clearing Participants when they close out their positions in derivatives contracts. These funds are held in segregated accounts of the respective clearing houses for this specific purpose and cannot be used by the Group to finance any other activities. The funds are invested in financial assets to manage the liquidity requirements of the Margin Funds and earn investment income. The financial assets will be liquidated whenever liquid funds are required and are therefore classified as current assets.
- (b) Amounts excluded non-cash collateral received and utilised as alternative to cash margin.

25. Cash Collateral from HKSCC Clearing Participants

	Group	
	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
Cash collateral from HKSCC Clearing Participants (note (b))	3,594	3,432
The cash collateral was invested in the following instruments:		
Cash and cash equivalents (note 18)	2,843	3,432
Financial assets measured at amortised cost (note 20(a))	751	–
	3,594	3,432

- (a) Cash collateral was received from HKSCC Clearing Participants to cover for their open positions. As these funds are refundable to the Participants when they settle their positions, the collateral received is reflected as liabilities to the Participants and disclosed as Cash collateral from HKSCC Clearing Participants under current liabilities.

Cash collateral is invested in bank deposits to earn investment income. They will be liquidated whenever liquid funds are required and are therefore classified as current assets.

- (b) Amounts excluded non-cash collateral received and utilised as alternative to cash collateral.

26. Accounts Payable, Accruals and Other Liabilities

	Group		HKEx	
	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
Payable to Exchange and Clearing Participants:				
– Continuous Net Settlement money obligations	8,283	10,477	–	–
– others	808	519	–	–
Transaction levy payable to the SFC	95	125	–	–
Unclaimed dividends (note (b))	313	307	124	113
Stamp duty payable to the Collector of Stamp Revenue	214	205	–	–
Other payables, accruals and deposits received	233	194	77	68
	9,946	11,827	201	181

- (a) The carrying amounts of accounts payable and other liabilities approximated their fair values.
- (b) Unclaimed dividends for the Group represent dividends declared by listed companies which were held by HKSCC Nominees Limited but not yet claimed by shareholders of the companies concerned, and dividends declared by HKEx but not yet claimed by its shareholders. During the year, dividends declared by HKEx which were unclaimed over a period of six years from the date of payment amounting to \$16 million (2009: \$4 million) were forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association (note 37).
- (c) Continuous Net Settlement money obligations payable mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

27. Other Financial Liabilities

	Group		HKEx	
	At	At	At	At
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
	\$m	\$m	\$m	\$m
Financial liabilities of Clearing House Funds (note 28)	25	20	-	-
Financial liabilities of Corporate Funds:				
Financial liabilities at fair value through profit or loss (note (a))	13	2	-	-
Financial guarantee contracts (note (b))	20	20	11	11
	33	22	11	11
	58	42	11	11

- (a) Financial liabilities at fair value through profit or loss

	Group	
	At	At
	31 Dec 2010	31 Dec 2009
	\$m	\$m
<u>Held for trading</u>		
Derivative financial instruments:		
– forward foreign exchange contracts (note 45(b))	13	2

- (b) Financial guarantee contracts

- (i) Group

The amount represented the carrying value of a financial guarantee provided by the Group to the Collector of Stamp Revenue, details of which are disclosed in note 40(a)(ii).

- (ii) HKEx

The amount represented the carrying value of an undertaking provided by HKEx in favour of HKSCC amounting to \$50 million (note 40(b)(i)). The amount was eliminated on consolidation.

28. Clearing House Funds

	Group	
	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
The Clearing House Funds were attributable to:		
Clearing Participants' contributions (note (b)):		
Due within twelve months	2,039	723
Due after twelve months (note (c))	–	276
	2,039	999
Designated reserves (note (d) and note 35)	580	563
	2,619	1,562
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Cash and cash equivalents (note 18)	2,155	1,280
Financial assets measured at fair value through profit or loss (note 19)	359	410
Financial assets measured at amortised cost (note 20(a))	130	51
	2,644	1,741
Less: Other financial liabilities of Clearing House Funds (note 27)	(25)	(20)
	2,619	1,721
Provision for loss arising from closing-out losses of defaulting Participants (note (e))	–	(159)
	2,619	1,562
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	224	219
SEOCH Reserve Fund	967	583
HKCC Reserve Fund	1,428	760
	2,619	1,562

28. Clearing House Funds (continued)

- (a) The Clearing House Funds are established under the Clearing House Rules. Assets contributed by Clearing Participants and the Group and are held by the respective clearing houses (ie, HKSCC, HKCC and SEOCH) (together with the accumulated income less related expenses) expressly for the purpose of ensuring that the respective clearing houses are able to fulfil their counterparty obligations in the event that one or more of the 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 CCASS. The funds are for the stated specific purposes only and cannot be used to finance any other activities of the Group. These funds are therefore held in segregated accounts of the respective clearing houses. The funds are invested in financial assets to manage the liquidity requirements of the Clearing House Funds and earn investment income. The financial assets will be liquidated whenever liquid funds are required and are therefore classified as current assets.
- (b) Amounts excluded bank guarantees received and utilised as alternatives to cash contributions.
- (c) Following a clearing house rule amendment in 2010, Participants' contributions to the HKCC Reserve Fund have been changed from non-current liabilities to current liabilities as the requirement for an HKCC Participant to give twelve months' prior written notice to terminate its participation was removed in 2010.
- (d) Designated reserves comprise contributions from the clearing houses and accumulated net investment income net of expenses of the Clearing House Funds appropriated from retained earnings.
- (e) In December 2008, losses totalling \$161 million were incurred by the clearing houses on the default of Clearing Participants. The HKEx Board resolved that the losses (less the contribution of the defaulting participants to the Clearing House Funds) would be borne wholly by the Group and no part of the loss was allocated to any other Clearing Participants. A provision for this loss was made in the accounts of HKSCC and HKCC at the time. During the year, funds were transferred from the Clearing House Funds to the clearing houses to settle the losses incurred by the clearing houses.

29. Provisions

- (a) Group

	Reinstatement costs \$m	Employee benefit costs \$m	Total \$m
At 1 Jan 2010	26	33	59
Provision for the year	3	42	45
Amount used during the year	–	(39)	(39)
Amount paid during the year	–	(8)	(8)
At 31 Dec 2010	29	28	57

29. Provisions (continued)

(b) HKEx

	Reinstatement costs \$m	Employee benefit costs \$m	Total \$m
At 1 Jan 2010	1	33	34
Provision for the year	–	42	42
Amount used during the year	–	(39)	(39)
Amount paid during the year	–	(8)	(8)
At 31 Dec 2010	1	28	29

- (i) The provision for reinstatement costs represents the estimated costs used to restore the leased office premises to their original state upon the expiry of the leases. The leases are expected to expire within five years.
- (ii) The provision for employee benefit costs represents unused annual leave that has been accumulated at the end of the reporting period. It is expected to be fully utilised in the coming twelve months.

30. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5 per cent (2009: 16.5 per cent).

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

	Group		HKEx	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m
At 1 Jan	14	26	(4)	(4)
Charged to income statement (note 15(a))	1	7	2	–
Credited to other comprehensive income (note (b))	–	(19)	–	–
At 31 Dec (note (e))	15	14	(2)	(4)

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

	Group	
	2010 \$m	2009 \$m
Available-for-sale financial assets (note 34)	–	(19)

(c) Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of \$318 million at 31 December 2010 (31 December 2009: \$315 million) that may be carried forward for offsetting against future taxable income indefinitely.

30. Deferred Taxation (continued)

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

	Group									
	Accelerated tax depreciation		Tax losses		Revaluation of available-for-sale financial assets		Employee benefits		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan	23	33	(3)	(20)	-	19	(6)	(6)	14	26
Charged/(credited) to income statement	1	(10)	(1)	17	-	-	1	-	1	7
Credited to other comprehensive income	-	-	-	-	-	(19)	-	-	-	(19)
At 31 Dec	24	23	(4)	(3)	-	-	(5)	(6)	15	14

	HKEx					
	Accelerated tax depreciation		Employee benefits		Total	
	2010	2009	2010	2009	2010	2009
	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan	2	2	(6)	(6)	(4)	(4)
Charged to income statement	1	-	1	-	2	-
At 31 Dec	3	2	(5)	(6)	(2)	(4)

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

	Group		HKEx	
	At 31 Dec 2010	At 31 Dec 2009	At 31 Dec 2010	At 31 Dec 2009
	\$m	\$m	\$m	\$m
Net deferred tax assets	(3)	(4)	(2)	(4)
Net deferred tax liabilities	18	18	-	-
	15	14	(2)	(4)

The deferred tax assets and liabilities are expected to be recovered after more than twelve months.

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

(a) Investments in subsidiaries

	HKEx	
	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
Investments in unlisted shares, at cost	4,146	4,146
Financial guarantee granted to a subsidiary (note 27(b)(ii))	11	11
	4,157	4,157

(b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries are repayable on demand. The amounts due from/(to) subsidiaries are interest-free during 2010 and 2009.

(c) Particulars of subsidiaries

HKEx had direct or indirect interests in the following subsidiaries at 31 December 2010, all of which are wholly-owned private companies incorporated and operating in Hong Kong. Details of these companies were as follows:

Company	Issued and fully paid up share capital	Principal activities	Interest held
Direct subsidiaries:			
The Stock Exchange of Hong Kong Limited	“A” shares \$929	Operates the single Stock Exchange in Hong Kong	100%
Hong Kong Futures Exchange Limited	Ordinary \$19,600,000 Standard \$850,000	Operates a futures and options exchange	100%
Hong Kong Securities Clearing Company Limited	Ordinary \$2	Operates a clearing house for securities traded on the Stock Exchange in Hong Kong and the central securities depository and provides custody and nominee services for eligible securities listed in Hong Kong	100%
HKEx Property Limited	Ordinary \$2	Property holding	100%
HKEx (China) Limited	\$2	Promotes HKEx products and services	100%

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

(c) Particulars of subsidiaries (continued)

Company	Issued and fully paid up share capital	Principal activities	Interest held
Indirect subsidiaries:			
The SEHK Options Clearing House Limited	Ordinary \$1,000,000	Operates a clearing house for options contracts traded on the Stock Exchange in Hong Kong	100%
HKEx Information Services Limited	\$100	Sale of market data	100%
The Stock Exchange Club Limited	\$8	Property holding	100%
The Stock Exchange Nominee Limited	\$2	Dormant	100%
HKFE Clearing Corporation Limited	Ordinary \$1,000,000	Operates a clearing house for derivatives contracts traded on the Futures Exchange	100%
HKSCC Nominees Limited	\$20	Acts as common nominee in respect of securities held in the CCASS depository	100%
HK Conversion Agency Services Limited	\$2	Conversion agency services	100%

(d) Controlled special purpose entity

HKEx controls a special purpose entity which operates in Hong Kong, particulars of which are as follows:

Special purpose entity	Principal activities
The HKEx Employees' Share Award Scheme (HKEx Employee Share Trust)	Purchases, administers and holds HKEx shares for the Share Award Scheme for the benefit of eligible HKEx employees (note 33(c))

As the HKEx Employee Share Trust is set up solely for the purpose of purchasing, administering and holding HKEx shares for the Share Award Scheme (note 33(c)), HKEx has the power to govern the financial and operating policies of the HKEx Employee Share Trust and it can derive benefits from the services of the employees who have been awarded the Awarded Shares through their continued employment with the Group. The assets and liabilities of HKEx Employee Trust are included in HKEx's statement of financial position from 2010 onwards and the HKEx shares held by the HKEx Employee Share Trust are presented as a deduction in equity as Shares held for Share Award Scheme.

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

	HKEx	
	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
Authorised: 2,000,000,000 shares of \$1 each	2,000	2,000

Issued and fully paid:

	Group and HKEx				
	Number of shares of \$1 each '000	Share capital \$m	Share premium \$m	Shares held for Share Award Scheme \$m	Total \$m
At 1 Jan 2009	1,073,940	1,075	347	(65)	1,357
Shares issued under employee share option schemes (note (a))	1,304	1	22	-	23
Transfer from employee share-based compensation reserve upon exercise of employee share options (note 33)	-	-	7	-	7
Shares purchased for Share Award Scheme (note (b))	(90)	-	-	(9)	(9)
Vesting of shares of Share Award Scheme (note (c))	361	-	-	22	22
At 31 Dec 2009	1,075,515	1,076	376	(52)	1,400
At 1 Jan 2010	1,075,515	1,076	376	(52)	1,400
Shares issued under employee share option schemes (note (a))	1,902	2	32	-	34
Transfer from employee share-based compensation reserve upon exercise of employee share options (note 33)	-	-	8	-	8
Shares purchased for Share Award Scheme (note (b))	(1,298)	-	-	(188)	(188)
Vesting of shares of Share Award Scheme (note (c))	317	-	-	21	21
At 31 Dec 2010	1,076,436	1,078	416	(219)	1,275

- (a) During the year, employee share options granted under the Pre-Listing Share Option Scheme (Pre-Listing Scheme) and the Post-Listing Scheme were exercised to subscribe for 1,902,000 shares (2009: 1,304,000 shares) in HKEx at a consideration of \$34 million (2009: \$23 million), of which \$2 million (2009: \$1 million) was credited to share capital and \$32 million (2009: \$22 million) was credited to the share premium account.

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

- (b) During the year, the Share Award Scheme (note 33(c)) acquired 1,297,400 HKEx shares (2009: 89,700 shares) through purchases on the open market. The total amount paid to acquire the shares during the year was \$188 million (2009: \$9 million), of which \$184 million (2009: \$5 million) were related to purchases of Awarded Shares and \$4 million (2009: \$4 million) were related to purchases of shares arising from re-investing dividends received on Awarded Shares.
- (c) During the year, the Share Award Scheme transferred 317,172 HKEx shares (2009: 360,749 shares) to the awardees upon vesting of certain Awarded Shares and the shares arising from related dividends reinvested. The total cost of the vested shares was \$21 million (2009: \$22 million).

33. Employee Share-based Compensation Reserve

	Group and HKEx	
	2010 \$m	2009 \$m
At 1 Jan	43	47
Employee share-based compensation benefits (note (a) and note 9)	36	21
Transfer to share premium upon exercise of employee share options (note 32)	(8)	(7)
Vesting of shares of Share Award Scheme	(15)	(18)
At 31 Dec	56	43

- (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 second to the fifth year after the grant provided that the relevant employee remained employed by the Group. Forfeited share options would be cancelled. 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 in respect of the nominal value of the shares issued with the balance credited to share premium. The original estimated fair value of the relevant share options is then transferred from employee share-based compensation reserve to share premium.

When vested 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.

33. 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:

	2010		2009	
	Average exercise price per share \$	Number of shares issuable under options granted '000	Average exercise price per share \$	Number of shares issuable under options granted '000
Pre-Listing Scheme				
Outstanding at 1 Jan	6.88	114	6.88	130
Exercised	6.88	(114)	6.88	(16)
Outstanding at 31 Dec	–	–	6.88	114
Post-Listing Scheme				
Outstanding at 1 Jan	18.43	3,243	18.30	4,556
Exercised	18.54	(1,788)	17.96	(1,288)
Forfeited	–	–	19.25	(25)
Outstanding at 31 Dec	18.28	1,455	18.43	3,243
Total	18.28	1,455	18.03	3,357

At 31 December 2010, all outstanding options (31 December 2009: 2,201,500) were vested and exercisable at a weighted average exercise price of \$18.28 (31 December 2009: \$17.40) per share.

Options exercised in 2010 resulted in 1,902,000 shares (2009: 1,304,000 shares) being issued at a weighted price of \$17.85 per share (2009: \$17.82 per share). The weighted average closing share price on the dates on which the options were exercised was \$132.16 (2009: \$97.90) per share.

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

	At 31 Dec 2010		At 31 Dec 2009	
	Remaining contractual life	Number of shares issuable under options granted '000	Remaining contractual life	Number of shares issuable under options granted '000
Exercise price				
\$6.88	–	–	0.41 year	114
\$16.96	3.24 years	470	4.24 years	1,020
\$15.91	3.37 years	100	4.37 years	100
\$19.25	4.07 years	885	5.07 years	2,123
	3.75 years	1,455	4.64 years	3,357

33. Employee Share-based Compensation Reserve (continued)

(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 over the vesting period after the awards are granted, provided that the relevant awardee remained employed by the Group or retired on reaching normal retirement age. In April 2010, the Board resolved to amend the Scheme and change the vesting period of the Awarded Shares granted on or after 13 May 2010 from 5 years to 3 years, and the shares would be vested in two equal tranches from the second to the third year after the shares are granted, as opposed to four equal tranches from the second to fifth year prior to the change. Before vesting, the Awarded Shares are held in a trust set up by the Scheme.

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 Scheme 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 of the Scheme who may award such shares to the awardees taking into consideration recommendations of the Board.

Details of the Awarded Shares awarded during 2009 and 2010 are set out below:

Date of approval by Board	Date of award	Awarded Sum \$m	Number of shares purchased	Number of Awarded Shares awarded	Average fair value per share \$	Vesting period
10 Dec 2008	3 Feb 2009	5	59,900	59,900	81.96	1 Jan 2011 – 1 Jan 2014
23 Apr 2010	10 Jun 2010	89	720,100	720,054 ¹	123.29	13 May 2012 – 13 May 2013
23 Apr 2010	9 Jul 2010	1	6,900	6,900	121.88	10 Jun 2012 – 10 Jun 2013
23 Apr 2010	9 Jul 2010	3	21,000	21,000	120.32	2 Jul 2012 – 2 Jul 2013
14 Dec 2010	31 Dec 2010	91	518,100	518,039 ¹	176.75	14 Dec 2012 – 14 Dec 2013

¹ 73,217 and 40,856 shares were awarded to the Chief Executive of HKEx on 10 Jun 2010 and 31 December 2010 respectively.

33. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

Details of the Awarded Shares vested during 2009 and 2010 are as follows:

Date of award	Average fair value per share \$	2010		2009	
		Number of Awarded Shares vested	Cost of related Awarded Shares \$m	Number of Awarded Shares vested	Cost of related Awarded Shares \$m
19 Dec 2005	31.20	181,875	6	217,550	7
15 Jan 2007	72.28	54,673 ²	4	65,423 ²	5
7 Jun 2007	81.33	1,750	< 1	1,750	< 1
17 Jul 2007	102.29	1,375	< 1	1,375	< 1
4 Feb 2008	163.72	30,755	5	36,312	6
7 Apr 2008	144.18	4,200 ³	< 1	-	-
		274,628	15	322,410	18

² 5,764 (2009: 2,882) of the shares vested were for the former Chief Executive of HKEx.

³ The shares vested were for the former Chief Executive of HKEx.

During the year ended 31 December 2010, 31,300 HKEx shares (2009: 29,800 shares) were acquired by the Scheme through reinvesting dividends received at a total cost (including related transaction costs) of \$4 million (2009: \$4 million), of which 26,392 shares (2009: 26,878 shares) were subsequently allocated to awardees.

During the year ended 31 December 2010, 42,544 HKEx shares (2009: 38,339 shares) (including 951 shares (2009: 303 shares) for the former Chief Executive of HKEx) at a cost of \$6 million (2009: \$4 million) acquired from reinvesting dividends received were vested and transferred to the employees at nil consideration.

33. 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:

	2010	2009
	Number of shares awarded/ allocated	Number of shares awarded/ allocated
Outstanding at 1 Jan	574,408	876,813
Awarded ¹	1,265,993	59,900
Forfeited	(123,086)	(26,288)
Vested	(274,628)	(322,410)
Dividends reinvested:		
– allocated to awardees	26,392	26,878
– allocated to awardees but subsequently forfeited	(10,533)	(2,146)
– vested	(42,544)	(38,339)
Outstanding at 31 Dec	1,416,002	574,408

¹ Average fair value per share was \$145.11 (2009: \$81.96)

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

	At 31 Dec 2010		At 31 Dec 2009	
	Remaining vesting period	Number of shares awarded/ allocated outstanding	Remaining vesting period	Number of shares awarded/ allocated outstanding
Fair value				
\$31.20	–	–	0.97 year	217,550
\$72.28	0.95 year	46,470	0.95 year to 1.95 years	122,904
\$81.33	–	–	0.29 year to 2.29 years	5,250
\$102.29	0.47 year to 1.47 years	2,750	0.47 year to 2.47 years	4,125
\$163.72	0.95 year to 1.95 years	59,817	0.95 year to 2.95 years	104,974
\$144.18	–	–	1.13 years to 3.13 years	4,200
\$81.96	0.00 year to 3.00 years	59,900	1.00 year to 4.00 years	59,900
\$123.29	1.37 years to 2.37 years	672,306	N/A	–
\$121.88	1.44 years to 2.44 years	6,900	N/A	–
\$120.32	1.50 years to 2.50 years	21,000	N/A	–
\$176.75	1.95 years to 2.95 years	518,039	N/A	–
Dividends reinvested	0.00 year to 3.00 years	28,820	0.29 year to 4.00 years	55,505
		1,416,002		574,408

- (iv) At 31 December 2010, 239,991 forfeited or unallocated shares (31 December 2009: 101,357 shares) were held by the Scheme and would be allocated to awardees in future.

34. Investment Revaluation Reserve

	Group 2009 \$m
At 1 Jan	97
Change in fair value of available-for-sale financial assets up to maturity	(113)
Gains on available-for-sale financial assets reclassified to profit or loss on disposal	(3)
Deferred tax for available-for-sale financial assets (note 30(b))	19
At 31 Dec	–

35. Designated Reserves

Clearing House Funds reserves (note 28(d))

	Group			Total \$m
	HKSCC Guarantee Fund reserve \$m	SEOCH Reserve Fund reserve \$m	HKCC Reserve Fund reserve \$m	
At 1 Jan 2009	119	107	326	552
Surplus of net investment income net of expenses of Clearing House Funds transferred from retained earnings (note 37)	3	2	6	11
At 31 Dec 2009	122	109	332	563
At 1 Jan 2010	122	109	332	563
Surplus of net investment income net of expenses of Clearing House Funds transferred from retained earnings	3	2	7	12
Reversal of provision for closing-out losses caused by a defaulting Clearing Participant transferred from retained earnings	–	–	5	5
Transfer from retained earnings (note 37)	3	2	12	17
At 31 Dec 2010	125	111	344	580

36. Merger Reserve

The Group has taken advantage of the merger relief available under section 48C of the Hong Kong Companies Ordinance and treated the premium created by the issuance of shares on 6 March 2000, the date HKEx became the holding company of the Stock Exchange and the Futures Exchange and their subsidiaries, as a merger reserve.

37. Retained Earnings (Including Proposed Dividend)

	Group		HKEx	
	2010 \$m	2009 \$m	2010 \$m	As restated 2009 \$m
At 1 Jan	6,021	5,241	1,967	1,547
Profit attributable to shareholders (note (a))	5,037	4,704	3,724	4,333
Transfer to Clearing House Funds reserves (note 35)	(17)	(11)	–	–
Dividends:				
2009/2008 final dividend	(2,251)	(1,935)	(2,251)	(1,935)
2010/2009 interim dividend	(2,034)	(1,978)	(2,034)	(1,978)
Unclaimed dividends forfeited (note 26(b))	16	4	16	4
Vesting of shares of Share Award Scheme	(6)	(4)	(6)	(4)
At 31 Dec	6,766	6,021	1,416	1,967
Representing:				
Retained earnings	4,280	3,773	(1,070)	(281)
Proposed dividend	2,486	2,248	2,486	2,248
At 31 Dec	6,766	6,021	1,416	1,967

- (a) Profit attributable to shareholders included a profit of \$3,724 million, of which \$3,688 million was dividends from subsidiaries (2009: \$4,333 million, of which \$4,309 million was dividends from subsidiaries), which has been dealt with in the accounts of HKEx, the holding company of the Group.
- (b) In February 2011, HKEx received dividends of \$4,427 million from its subsidiaries which were paid out of the subsidiaries' prior year retained earnings and 2010 profits.

38. Notes to the Consolidated Statement of Cash Flows

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

	2010 \$m	As restated 2009 \$m
Profit before taxation	5,954	5,542
Adjustments for:		
Net interest income	(133)	(288)
Dividend income	(5)	(2)
Net fair value gains and interest income on financial assets measured at fair value through profit or loss, and financial assets and financial liabilities at fair value through profit or loss	(337)	(330)
Losses on disposal of financial assets measured at amortised cost of Corporate Funds	4	–
Depreciation	107	101
Employee share-based compensation benefits	36	21
Gain on disposal of fixed assets	(1)	–
Reversal of provision for impairment losses of receivables	(4)	(2)
Provision for impairment losses of fixed assets	–	1
Changes in provisions	(5)	(2)
Net (increase)/decrease in Margin Fund financial assets	(2,447)	21,508
Net increase/(decrease) in Margin Fund financial liabilities	2,459	(21,597)
Net increase in Clearing House Fund financial assets	(901)	(506)
Net increase in Clearing House Fund financial liabilities	1,045	497
Net (increase)/decrease in financial assets of cash collateral	(162)	168
Net increase/(decrease) in cash collateral received from HKSCC Clearing Participants	162	(168)
Net increase in financial assets measured at fair value through profit or loss, and financial assets and financial liabilities at fair value through profit or loss	(455)	(42)
Decrease/(increase) in accounts receivable, prepayments and deposits	2,133	(2,809)
(Decrease)/increase in other current liabilities	(1,833)	2,940
Net cash inflow from operations	5,617	5,032
Dividends received	5	2
Interest received from bank deposits	115	111
Interest received from financial assets measured at fair value through profit or loss and financial assets at fair value through profit or loss	110	111
Interest paid	(4)	(3)
Hong Kong Profits Tax paid	(857)	(711)
Net cash inflow from operating activities	4,986	4,542

39. Commitments

(a) Commitments in respect of capital expenditures:

	Group		HKEx	
	At	At	At	At
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
	\$m	\$m	\$m	\$m
Contracted but not provided for	149	1	–	1
Authorised but not contracted for	1,926	65	22	26
	2,075	66	22	27

The commitments in respect of capital expenditures of the Group mainly related to the upgrade and enhancement of trading and clearing systems and, at 31 December 2010, the construction of a new data centre in Tseung Kwan O with hosting service capabilities and other new business initiatives.

In order to provide room for the Group's new strategic initiatives such as hosting services, the planned total floor area of the data centre was increased from the initial plan of 13,300 square metres to about 31,400 square metres, and the total estimated costs were increased from \$0.7 billion to about \$1.8 billion, of which \$0.8 billion relates to the hosting services. The data centre is scheduled to be completed in 2013. At 31 December 2010, \$26 million has been spent as lease premium for land and \$24 million had been incurred for the construction of the new data centre and hosting services.

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

	Group		HKEx	
	At	At	At	At
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
	\$m	\$m	\$m	\$m
Land and buildings				
– within one year	160	173	2	1
– in the second to fifth years	303	170	1	–
	463	343	3	1
Computer systems, software and equipment				
– within one year	6	5	4	3
	469	348	7	4

At 31 December 2010, in respect of computer systems, software and equipment, the leases would mature within one year (2009: one year) and the Group did not have any purchase options.

39. Commitments (continued)

- (c) Commitments in respect of financial contributions to Financial Reporting Council

The Financial Reporting Council (FRC) is an independent statutory body established to receive and investigate complaints concerning irregularities of auditors and reporting accountants of listed companies and non-compliances in the financial reports of listed companies. Since the establishment of the FRC in 2006, the Group has been providing funding for the FRC's operations.

Under a memorandum of understanding signed in December 2009, the Group has agreed to make recurrent contributions to the FRC from 2010 to 2014. The first two contributions of \$4 million each were made in January 2010 and January 2011 respectively. The contributions shall be increased by 5 per cent per annum starting from 2012.

40. Contingent Liabilities

At 31 December 2010, the Group and HKEx's material contingent liabilities were as follows:

- (a) Group

- (i) The Group had a contingent liability in respect of potential calls to be made by the SFC to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$71 million (31 December 2009: \$72 million). Up to 31 December 2010, no calls had been made by the SFC in this connection.
- (ii) The Group had undertaken to indemnify the Collector of Stamp Revenue against any underpayment of stamp duty by its Participants of up to \$200,000 for each Participant (note 27(b)(i)). In the unlikely event that all of its 484 trading Participants covered by the indemnity at 31 December 2010 (31 December 2009: 462) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$97 million (31 December 2009: \$92 million).
- (iii) The Group and HKEx are currently being served a number of legal claims by certain independent parties. The Group and HKEx received legal advice and do not anticipate any material liabilities arising from the legal claims.

- (b) HKEx

- (i) HKEx had given an undertaking in favour of HKSCC to contribute up to \$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 liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs of winding up (note 27(b)(ii)).
- (ii) In December 2010, HKEx issued two guarantees to two banks in respect of banking facilities granted to three wholly-owned subsidiaries amounting to \$4,000 million which would be subject to review in December 2011. At 31 December 2010, the banking facilities had not been drawn down.

41. Future Operating Lease Arrangements

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

	Group	
	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
Land and buildings		
– within one year	1	1
– in the second to fifth years	–	1
	1	2
Trading booths and related facilities		
– within one year	13	15
– in the second to fifth years	–	13
	13	28
Total	14	30

42. Connected Transactions and Material Related Party Transactions

(a) Connected transactions and material related party transactions

Certain Directors of HKEx may be directors and/or shareholders of (i) Stock Exchange Participants and Futures Exchange Participants (Exchange Participants) and Clearing Participants; (ii) companies listed on the Stock Exchange; and (iii) Exchange Participants for buying shares on behalf of HKSCC. Securities and derivatives contracts traded by, and fees levied on, these Exchange Participants and Clearing 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, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

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

(b) Material related party transactions

In addition to the above, the Group or HKEx entered into the following material related party transactions which are not regarded as connected transactions as defined under the Main Board Listing Rules:

(i) Transactions with subsidiaries

	HKEx	
	2010 \$m	2009 \$m
Dividend income	3,688	4,309
Management fees and equipment rental fees charged	481	381
Expenses recharged	932	926

(ii) Key management personnel compensation

	Group		HKEx	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Salaries and other short-term employee benefits	87	82	72	67
Employee share-based compensation benefits	10	7	8	5
Retirement benefit costs	6	7	5	5
	103	96	85	77

(iii) Balances with related parties

	HKEx	
	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
Amounts due from subsidiaries (note 31(b))	3,684	2,798
Amounts due to subsidiaries (note 31(b))	(2,030)	(484)
Financial guarantee granted to a subsidiary (maximum amount guaranteed) (note 40(b)(i))	50	50

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

(b) Material related party transactions (continued)

(iv) Post-retirement benefit plans

The Group has sponsored an ORSO Plan and a MPF Scheme as its post-retirement benefit plans (note 9(a)).

The retirement benefit costs charged to the consolidated income statement represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees. The contribution payable to the MPF Scheme at 31 December 2010 was less than \$1 million (31 December 2009: less than \$1 million) and no contribution to the ORSO Plan was outstanding at 31 December 2010 and 31 December 2009.

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

43. Banking Facilities with Assets Pledged

The Group did not have any assets pledged at 31 December 2010 and 31 December 2009.

44. Capital Management

The Group's objectives when managing capital are:

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

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group adopts a dividend policy of providing shareholders with regular dividends with a normal target payout ratio of 90 per cent of the Group's profit of the year, while retaining 10 per cent of the profit as capital of the Group for future use. At 31 December 2010, the Group had set aside \$3,100 million of shareholders' funds (31 December 2009: \$3,100 million) for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

As in prior years, the Group monitors capital by reviewing the level of capital that is at the disposal of the Group (adjusted capital). Adjusted capital comprises all components of shareholders' equity other than designated reserves. The adjusted capital of the Group at 31 December 2010 was \$8,097 million (31 December 2009: \$7,464 million).

45. 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 prices and interest rates. The Group is exposed to market risk primarily through its investments held.

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

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

Investment and fund management is governed by the HKEx Investment Policy, Restrictions and Guidelines, which is approved by the Board and reviewed regularly and at least once every three years. Investment restrictions and guidelines form an integral part of risk control. Fund-specific restrictions and guidelines are set according to the investment objectives of each fund. Investments are diversified to minimise risks and no investments are made for speculative purposes. In addition, specific limits are set for each fund to control risks (eg, permissible asset type, asset allocation, liquidity, credit requirement, counterparty concentration, maturity, foreign exchange exposures and interest rate risks) of the investments.

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

45. Financial Risk Management (continued)

(a) Market risk management (continued)

(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 economically hedge the currency exposure of the Group's non-HKD investments and liabilities to mitigate risks arising from fluctuations in exchange rates.

Under the Group's investment policy, the investment in non-HKD instruments is subject to the following restrictions:

- up to 20 per cent of the externally-managed Corporate Funds may be invested in non-HKD and non-USD investments without economic hedging;
- For internally-managed Corporate Funds, Clearing House Funds, Margin Funds and cash collateral, unhedged investments in currencies other than HKD or USD must fully match the respective liabilities or forecast payments for the funds. Unhedged investments in USD may not exceed 20 per cent of the respective funds. Holdings in RMB are permitted if the currencies have been received in connection with the trading, clearing, settlement or services in respect of the Group's RMB products.

Details of the Group's and HKEx's financial assets and financial liabilities denominated in foreign currencies and the net open foreign currency positions (ie, gross positions less forward foreign exchange contracts and other offsetting exposures (economic hedges)) at 31 December in HKD equivalents were as follows:

45. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

		Group		
		At 31 Dec 2010		
	Foreign currency	Gross open position \$m	Economic hedges \$m	Net open position \$m
Financial assets/(financial liabilities)				
Cash and cash equivalents ¹	AUD	5	-	5
	EUR	2	-	2
	GBP	4	-	4
	JPY	102	(96)	6
	RMB	22	-	22
	SGD	1	-	1
	USD	997	(969)	28
Financial assets measured at fair value through profit or loss ²	AUD	250	(215)	35
	CAD	58	-	58
	CHF	14	-	14
	EUR	475	(379)	96
	GBP	95	(74)	21
	JPY	41	(12)	29
	NZD	15	-	15
	RMB	24	-	24
	SGD	46	-	46
	USD	2,503	(480)	2,023
Margin deposits from Clearing Participants on derivatives contracts ¹	JPY	(96)	96	-
	USD	(969)	969	-
Accounts payable, accruals and other liabilities	RMB	(3)	-	(3)
	USD	(25)	-	(25)
Total net open positions for the Group	AUD			40
	CAD			58
	CHF			14
	EUR			98
	GBP			25
	JPY			35
	NZD			15
	RMB			43
	SGD			47
	USD			2,026
				2,401

¹ Foreign currency margin deposits received by the Group are economically hedged by investments in the same currencies.

² Forward foreign exchange contracts have been used as economic hedges for the currency exposures of the Group's investments by external fund managers.

45. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

	Foreign currency	Group		
		At 31 Dec 2009		
		Gross open position \$m	Economic hedges \$m	Net open position \$m
Financial assets/(financial liabilities)				
Cash and cash equivalents ¹	AUD	1	-	1
	CAD	1	-	1
	EUR	3	-	3
	GBP	1	-	1
	JPY	545	(541)	4
	RMB	1	-	1
	SGD	1	-	1
	USD	784	(31)	753
Financial assets measured at fair value through profit or loss ²	AUD	145	(119)	26
	CAD	9	-	9
	CHF	6	-	6
	EUR	384	(321)	63
	GBP	129	(100)	29
	JPY	31	-	31
	RMB	18	-	18
	USD	2,378	(357)	2,021
Financial assets measured at amortised cost	RMB	1	-	1
	USD	220	-	220
Margin deposits from Clearing Participants on derivatives contracts ¹	JPY	(541)	541	-
	USD	(31)	31	-
Accounts payable, accruals and other liabilities	RMB	(2)	-	(2)
	USD	(39)	-	(39)
Non-financial assets/(non-financial liabilities)				
Net non-financial liabilities	USD	(8)	-	(8)
Total net open positions for the Group				
	AUD			27
	CAD			10
	CHF			6
	EUR			66
	GBP			30
	JPY			35
	RMB			18
	SGD			1
	USD			2,947
				3,140

¹ Foreign currency margin deposits received by the Group are economically hedged by investments in the same currencies.

² Forward foreign exchange contracts have been used as economic hedges for the currency exposures of the Group's investments by external fund managers.

45. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

	Foreign currency	HKEx	
		Gross and net open position	
		At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
Financial assets/(financial liabilities)			
Cash and cash equivalents	RMB	1	1
Financial assets measured at amortised cost	RMB	1	1
Accounts payable and other liabilities	RMB	(3)	(2)
	USD	(18)	(11)
Total net open positions for HKEx	RMB	1	-
	USD	18	11
		19	11

(ii) Equity and commodity price risk management

The Group is exposed to equity price risk as mutual funds, equities, equity index futures and options contracts may be held as part of the externally-managed 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. 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 the investments and on the fixed and floating 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). VaR is monitored on a weekly basis and the Board sets a limit on total VaR for the Group, as well as individual limit for each respective fund under management (Clearing House Funds, Margin Funds, cash collateral and Corporate Funds).

45. Financial Risk Management (continued)

(a) Market risk management (continued)

(iv) Risk management techniques (continued)

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

The VaR for each risk factor and the total VaR of the investments and related economic hedges of the Group and HKEx during the year and at 31 December were as follows:

	Group					
	2010			2009		
	Average \$m	Highest \$m	Lowest \$m	Average \$m	Highest \$m	Lowest \$m
Foreign exchange risk	5	8	4	10	15	5
Equity price risk	15	21	11	21	32	10
Interest rate risk	28	56	15	48	66	28
Total VaR	31	56	20	49	70	31

	HKEx					
	2010			2009		
	Average \$m	Highest \$m	Lowest \$m	Average \$m	Highest \$m	Lowest \$m
Interest rate risk	< 1	< 1	< 1	< 1	< 1	< 1
Total VaR	< 1	< 1	< 1	< 1	< 1	< 1

	Group		HKEx	
	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
	Foreign exchange risk	8	5	–
Equity price risk	21	17	–	–
Interest rate risk	22	55	< 1	< 1
Total VaR	31	54	< 1	< 1

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

45. Financial Risk Management (continued)

(b) Liquidity risk management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset, and it results from amount and maturity mismatches of assets and liabilities.

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.

Surplus cash of the Group is invested by the Treasury team, and the investments of the Group are kept sufficiently liquid to meet the operating needs and possible liquidity requirements of the Clearing House Funds, Margin Funds and cash collateral. 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 for the Clearing House Funds, Margin Funds and cash collateral.

The table below analyses the Group's and HKEx's financial assets into the relevant maturity buckets based on the following criteria:

- the expected amounts, subject to costs to liquidate that are expected to be immaterial, that could be realised from the investments, bank deposits and cash and cash equivalents within one month to meet cash outflows on financial liabilities if required are allocated to the up to 1 month bucket;
- other financial assets are allocated based on their contractual maturity dates.

	Group				
	At 31 Dec 2010				
	Up to 1 month ¹ \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	Total \$m
Cash and cash equivalents	19,361	-	-	-	19,361
Financial assets measured at fair value through profit or loss	11,190	-	-	-	11,190
Financial assets measured at amortised cost	7,756	-	17	31	7,804
Accounts receivable and deposits ²	9,140	48	-	-	9,188
	47,447	48	17	31	47,543

45. Financial Risk Management (continued)**(b) Liquidity risk management (continued)**

	Group				
	At 31 Dec 2009				
	Up to 1 month ¹ \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	Total \$m
Cash and cash equivalents	14,738	-	-	-	14,738
Financial assets measured at fair value through profit or loss	14,025	-	-	-	14,025
Financial assets measured at amortised cost	4,876	-	-	49	4,925
Accounts receivable and deposits ²	11,271	48	-	-	11,319
	44,910	48	-	49	45,007

¹ Amounts included \$7,474 million (31 December 2009: \$9,618 million) of financial assets with contractual maturity over one year. They could readily be liquidated whenever liquid funds are required.

² Amounts excluded prepayments of \$18 million (31 December 2009: \$18 million).

	HKEx				
	At 31 Dec 2010				
	Up to 1 month ³ \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	Total \$m
Cash and cash equivalents	45	-	-	-	45
Financial assets measured at amortised cost	98	-	-	1	99
Accounts receivable and deposits ⁴	1	-	-	-	1
Amounts due from subsidiaries	3,684	-	-	-	3,684
	3,828	-	-	1	3,829

	HKEx				
	At 31 Dec 2009				
	Up to 1 month ³ \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	Total \$m
Cash and cash equivalents	27	-	-	-	27
Financial assets measured at amortised cost	101	-	-	2	103
Amounts due from subsidiaries	2,798	-	-	-	2,798
	2,926	-	-	2	2,928

³ Amounts included \$14 million (31 December 2009: \$8 million) of financial assets with contractual maturity over one year. They could readily be liquidated whenever liquid funds are required.

⁴ Amounts excluded prepayments of \$17 million (31 December 2009: \$18 million).

45. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

In addition, banking facilities have been put in place for contingency purposes. During the year, \$4,000 million of committed banking facilities which provide for same day borrowing in HKD and/or RMB have been obtained to further enhance the liquidity of the Group and its clearing houses. The Group's total available banking facilities amounted to \$13,010 million at 31 December 2010 (31 December 2009: \$9,050 million), which include these \$4,000 million of committed banking facilities and \$9,000 million (31 December 2009: \$9,000 million) of repurchase facilities.

The table below analyses the Group's and HKEx's non-derivative financial liabilities at 31 December into relevant maturity buckets based on their contractual maturity dates. Derivative financial liabilities are included in the analysis where their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Group				
	At 31 Dec 2010				
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	Total \$m
Margin deposits from Clearing Participants on derivatives contracts	22,702	-	-	-	22,702
Cash collateral from HKSCC Clearing Participants	3,594	-	-	-	3,594
Accounts payable, accruals and other liabilities	9,836	4	106	-	9,946
Other financial liabilities:					
Other financial liabilities of Clearing House Funds	25	-	-	-	25
Other financial liabilities of Corporate Funds:					
Financial guarantee contract (maximum amount guaranteed) (note 40(a)(ii))	97	-	-	-	97
Participants' contributions to Clearing House Funds	1,575	418	46	-	2,039
Total	37,829	422	152	-	38,403

45. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	Group				
	At 31 Dec 2009				
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	Total \$m
Margin deposits from Clearing Participants					
on derivatives contracts	20,243	–	–	–	20,243
Cash collateral from HKSCC Clearing Participants	3,432	–	–	–	3,432
Accounts payable, accruals and other liabilities	11,719	3	104	1	11,827
Other financial liabilities:					
Other financial liabilities of Clearing House Funds	20	–	–	–	20
Other financial liabilities of Corporate Funds:					
Financial guarantee contract (maximum amount guaranteed) (note 40(a)(ii))	92	–	–	–	92
Participants' contributions to Clearing House Funds	547	124	52	276	999
Total	36,053	127	156	277	36,613
	HKEx				
	At 31 Dec 2010				
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m		Total \$m
Accounts payable, accruals and other liabilities	194	3	4		201
Amounts due to subsidiaries	2,030	–	–		2,030
Other financial liabilities:					
Other financial liabilities of Corporate Funds:					
Financial guarantee contract (maximum amount guaranteed) (note 40(b)(i))	50	–	–		50
Total	2,274	3	4		2,281
	HKEx				
	At 31 Dec 2009				
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m		Total \$m
Accounts payable, accruals and other liabilities	175	2	4		181
Amounts due to subsidiaries	484	–	–		484
Other financial liabilities:					
Other financial liabilities of Corporate Funds:					
Financial guarantee contract (maximum amount guaranteed) (note 40(b)(i))	50	–	–		50
Total	709	2	4		715

45. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

At 31 December 2010, the maximum gross nominal value of outstanding forward foreign exchange contracts held by the Group was \$3,749 million (31 December 2009: \$3,405 million). The table below analyses the Group's outstanding forward foreign exchange contracts at 31 December (which include all contracts regardless of whether they had gains or losses at the year end) that would be settled on a gross basis into relevant maturity buckets based on their contractual maturity dates. The amounts disclosed in the table are contractual undiscounted cash flows, which are different from the carrying amounts (ie, fair values) in the consolidated statement of financial position.

	Group					
	At 31 Dec 2010			At 31 Dec 2009		
	Up to 1 month \$m	>1 month to 3 months \$m	Total \$m	Up to 1 month \$m	>1 month to 3 months \$m	Total \$m
Forward foreign exchange contracts						
- outflows	2,373	1,376	3,749	2,048	1,342	3,390
- inflows	2,371	1,378	3,749	2,050	1,355	3,405

(c) Credit risk management

(i) Investment and accounts receivable-related risk management

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 accounts 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. At 31 December 2010, 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 2009: Aa2). 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.

45. Financial Risk Management (continued)

(c) Credit risk management (continued)

(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 collateral and contribute to the Clearing House Funds set up by HKSCC, SEOCH and HKCC. After the default of Lehman Brothers Securities Asia Limited 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.

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. As of 31 December 2010, bank guarantees of \$1,832 million (31 December 2009: \$2,003 million) were accepted for such purpose.

In addition to the above, the Group had set aside \$3,100 million of shareholders' funds (31 December 2009: \$3,100 million) for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

45. Financial Risk Management (continued)

(c) Credit risk management (continued)

(iii) Exposure to credit risk

At 31 December, the maximum exposure to credit risk of the financial assets of the Group and HKEx were equal to their carrying amounts. The maximum exposure to credit risk of the financial guarantee contracts held by the Group and HKEx were as follows:

	Group			
	At 31 Dec 2010		At 31 Dec 2009	
	Carrying amount in consolidated statement of financial position \$m	Maximum exposure to credit risk \$m	Carrying amount in consolidated statement of financial position \$m	Maximum exposure to credit risk \$m
Financial guarantee contract Undertaking to indemnify the Collector of Stamp Revenue (note 40(a)(ii))	(20)	97	(20)	92
	HKEx			
	At 31 Dec 2010		At 31 Dec 2009	
	Carrying amount in statement of financial position \$m	Maximum exposure to credit risk \$m	Carrying amount in statement of financial position \$m	Maximum exposure to credit risk \$m
Financial guarantee contract Financial guarantee granted to HKSCC (note 40(b)(i))	(11)	50	(11)	50

45. Financial Risk Management (continued)

(c) Credit risk management (continued)

(iv) Collateral held for mitigating credit risk

Certain debtors were required to place cash deposits and bank guarantees with the Group to mitigate the Group's exposure to credit risk. The financial effect of the collateral, which is capped by the amount receivable from each debtor, was as follows:

	Group			
	At 31 Dec 2010		At 31 Dec 2009	
	Carrying amount in consolidated statement of financial position \$m	Collateral held for mitigating credit risk \$m	Carrying amount in consolidated statement of financial position \$m	Collateral held for mitigating credit risk \$m
Accounts receivable and deposits	9,188	2,482	11,319	2,000

No collateral was held by HKEx to mitigate its exposure to credit risk.

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

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

	Group	
	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
Up to six months	324	295

No financial assets of HKEx were past due at 31 December 2010 and 31 December 2009.

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

At 31 December 2010, receivables of the Group amounting to \$158 million (31 December 2009: \$164 million) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days at the end of the reporting period or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired are disclosed in note 2(p)(vi).

No financial assets of HKEx were impaired at 31 December 2010 and 31 December 2009.

45. Financial Risk Management (continued)

(c) Credit risk management (continued)

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

As soon as a receivable becomes impaired, the Group may continue to allow the debtors concerned to participate in its markets but no further accounts receivable will be recognised in the consolidated statement of financial position as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when cash is received. At 31 December 2010, the amount of doubtful deferred revenue amounted to \$62 million (31 December 2009: \$45 million).

At 31 December 2010 and 31 December 2009, HKEx did not have any doubtful deferred revenue.

(d) Fair values of financial assets and financial liabilities

(i) Financial assets and financial liabilities carried at fair value

The following tables present the carrying value of financial assets and financial liabilities measured at fair value at 31 December according to the levels of the fair value hierarchy defined in HKFRS 7: Financial Instruments: Disclosures, with the fair value of each financial asset and financial liability categorised based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

45. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities (continued)

(i) Financial assets and financial liabilities carried at fair value (continued)

	Group		
	At 31 Dec 2010		
	Level 1 \$m	Level 2 \$m	Total \$m
Assets			
Financial assets measured at fair value through profit or loss:			
– equity securities	265	–	265
– debt securities	–	10,797	10,797
– mutual funds	115	–	115
– forward foreign exchange contracts	13	–	13
	393	10,797	11,190
Liabilities			
Other financial liabilities of Corporate Funds:			
Financial liabilities at fair value through profit or loss:			
– forward foreign exchange contracts	13	–	13
	13	–	13
	Group		
	At 31 Dec 2009		
	Level 1 \$m	Level 2 \$m	Total \$m
Assets			
Financial assets measured at fair value through profit or loss:			
– equity securities	180	–	180
– debt securities	–	11,646	11,646
– mutual funds	75	–	75
– equity index futures contracts	1	–	1
– forward foreign exchange contracts	17	–	17
– bank deposits with embedded derivatives	–	2,106	2,106
	273	13,752	14,025
Liabilities			
Other financial liabilities of Corporate Funds:			
Financial liabilities at fair value through profit or loss:			
– forward foreign exchange contracts	2	–	2
	2	–	2

During 2010 and 2009, no financial assets or financial liabilities were classified under Level 3 and there were no transfers of instruments between Level 1 and Level 2.

45. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities (continued)

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

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

	Group			
	At 31 Dec 2010		At 31 Dec 2009	
	Carrying amount in consolidated statement of financial position \$m	Fair value \$m	Carrying amount in consolidated statement of financial position \$m	Fair value \$m
Financial assets				
Financial assets measured at amortised cost:				
– debt securities ¹	950	958	1,296	1,294
– other financial assets maturing over one year ²	213	212	1,100	1,088
Financial liabilities				
Financial guarantee contract ³	20	42	20	45
Participants' contributions to Clearing House				
Funds included in non-current liabilities ²	–	–	276	274

45. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities (continued)

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

	HKEx			
	At 31 Dec 2010		At 31 Dec 2009	
	Carrying amount in statement of financial position \$m	Fair value \$m	Carrying amount in statement of financial position \$m	Fair value \$m
Financial assets				
Financial assets measured at amortised cost:				
– debt securities ¹	91	91	72	72
– other financial assets maturing over one year ²	1	1	2	2
Financial liabilities				
Financial guarantee contract ³	11	22	11	24

¹ The fair values are provided by the custodian of the investments, a reputable independent third party custodian bank, or by the banks from whom the investments were purchased.

² The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets/liabilities, adjusted by an estimated credit spread. Assets/liabilities without a contractual maturity date are assumed to mature exactly one year after the end of the reporting period. The discount rates used ranged from 0.65 per cent to 1.01 per cent at 31 December 2010 (31 December 2009: 0.62 per cent to 1.42 per cent).

³ The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate was 2.85 per cent at 31 December 2010 (31 December 2009: 2.58 per cent).

GLOSSARY

2010 AGM	Annual general meeting held on 22 April 2010
2011 AGM	Annual general meeting to be held on 20 April 2011
AGM	Annual general meeting of HKEx
AMS/3	The Automatic Order Matching and Execution System/Third Generation
Awarded Shares	Shares awarded under the Share Award Scheme
BBS	Bronze Bauhinia Star
Board	Board of HKEx
Cash Market	HKEx's securities related business excluding stock options
CBBC(s)	Callable Bull/Bear Contract(s)
CCASS	The Central Clearing and Settlement System
CCASS/3	The Latest Generation of CCASS
CG Code	Code on Corporate Governance Practices
CNS	Continuous Net Settlement
CSR	Corporate Social Responsibility
CSRC	China Securities Regulatory Commission
DCASS	The Derivatives Clearing and Settlement System
Derivatives Market	HKEx's derivatives related business including stock options
Director(s)	Director(s) of HKEx
DI	Disclosure of Interests
DW(s)	Derivative Warrant(s)
eIPO	Electronic IPO
Elected Director(s)	Director(s) elected by the Shareholders at general meetings
ELIs	Equity Linked Instruments
EP(s) or Participant(s)	Exchange Participant(s)
ETF(s)	Exchange Traded Fund(s)
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of the HKSAR
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
FSTB	Financial Services and the Treasury Bureau
GBM	Grand Bauhinia Medal
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKAS	Hong Kong Accounting Standard
HKATS	The Hong Kong Futures Automated Trading System
HKCC	The HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKEx's Articles	HKEx's Articles of Association
HKFRS(s)	Hong Kong Financial Reporting Standard(s)
HKICL	Hong Kong Interbank Clearing Limited
HKICPA	Hong Kong Institute of Certified Public Accountants
HKICS	The Hong Kong Institute of Chartered Secretaries
HKIoD	The Hong Kong Institute of Directors
HKMA	The Hong Kong Management Association
HKSAR	Hong Kong Special Administrative Region of the People's Republic of China
HKSCC	The Hong Kong Securities Clearing Company Limited
HKSI	Hong Kong Securities Institute
Hong Kong Government or Government	HKSAR Government
H-shares Index or HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index

ICAC	Independent Commission Against Corruption
INED(s)	Independent Non-executive Director(s)
IP(s)	Investor Participant(s)
IPO(s)	Initial Public Offering(s)
ISIs	Investor SIs
IT	Information Technology
IV(s)	Information Vendor(s)
JP	Justice of the Peace
Listing Committees	Listing Committee and GEM Listing Committee
Listing Rules or Rule	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDF	The Market Datafeed
MDS	The Market Data System
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MOU	Memorandum of Understanding
NGDC	Next Generation Data Centre
Post-Listing Scheme	Post-Listing Share Option Scheme approved by the Shareholders on 31 May 2000 which was subsequently amended by the Shareholders on 17 April 2002
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by the Shareholders on 31 May 2000
OTC	Over-the-counter
OTEPs	Options Trading Exchange Participants
PRC	People's Republic of China
PRS	The Price Reporting System
REITs	Real Estate Investment Trusts
RMB	Renminbi
ROM	Register of Members
Senior Management	Senior executives of HKEx as referred to in the section "Senior Management" as set out on pages 29 to 31 of this Annual Report
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
SIs	Settlement Instructions
Shareholders	Shareholders of HKEx
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006 and 13 May 2010
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
UK	United Kingdom
US	United States
USD	United States dollar
\$/HKD	Hong Kong dollar
\$bn/bn	Hong Kong dollar in billion/billion
\$m/m	Hong Kong dollar in million/million

Hong Kong Exchanges and Clearing Limited

12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong

Tel: +852 2522 1122

Fax: +852 2295 3106

Website: www.hkex.com.hk

E-mail: info@hkex.com.hk

