



2011 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 determination and perseverance 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

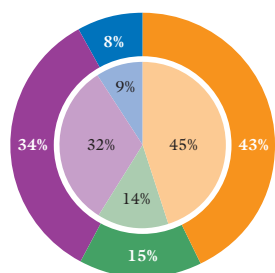
	2011	2010	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange (\$bn)	69.7	69.1	1%
Average daily number of derivatives contracts traded on the Futures Exchange	269,525	221,487	22%
Average daily number of stock options contracts traded on the Stock Exchange	302,750	246,474	23%
	2011 \$m	2010 \$m	Change
RESULTS			
Revenue and other income	7,855	7,566	4%
Operating expenses	1,823	1,612	13%
Profit before taxation	6,032	5,954	1%
Taxation	(939)	(917)	2%
Profit attributable to shareholders	5,093	5,037	1%
Basic earnings per share	\$4.73	\$4.68	1%
Diluted earnings per share	\$4.72	\$4.67	1%
Interim dividend per share	\$2.16	\$1.89	14%
Final dividend per share	\$2.09	\$2.31	(10%)
	\$4.25	\$4.20	1%
Dividend payout ratio	90%	90%	–
	2011	2010	Change
KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds (\$m)	9,159	8,677	6%
Total assets ¹ (\$m)	54,028	47,884	13%
Net assets per share ² (\$)	8.50	8.06	5%

Notes:

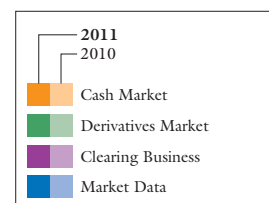
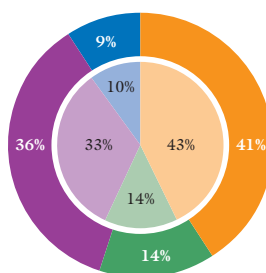
- The Group's total assets include the Margin Funds received from Participants on futures and options contracts.
- Based on 1,077,670,473 shares as at 31 December 2011, being 1,079,906,640 shares issued and fully paid less 2,236,167 shares held for the Share Award Scheme (2010: 1,076,436,353 shares, being 1,078,092,346 shares issued and fully paid less 1,655,993 shares held for the Share Award Scheme)

BY BUSINESS SEGMENT*

Revenue and Other Income



Reportable Segment Profit before Taxation



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

With its vertically integrated model, the Group has maintained diverse and stable source of revenue from its business segments.

HIGHLIGHTS OF THE YEAR

Corporate News

19 January

Shang Fulin, the then Chairman of the CSRC, visited HKEx

8 February

Held the ground breaking ceremony for the new Data Centre

17 April

Dmitry Medvedev, Russia's President, visited HKEx



13 May

Jointly organised a conference on the development of ETFs and other index products with the Shanghai Stock Exchange

13 June

Wang Guangya, Director of the Hong Kong and Macao Affairs Office of the State Council, visited HKEx

11 July

Held the foundation stone laying ceremony for the new Data Centre with Donald Tsang, Chief Executive of the HKSAR, as the guest of honour



17 August

Li Keqiang, Vice Premier of the State Council, visited HKEx



18 August

Announced a potential joint venture with the Shanghai Stock Exchange and the Shenzhen Stock Exchange

12 October

Announced a joint initiative of exchanges from the BRICS economies



Year-end

Ranked first globally in terms of IPO funds raised for the third consecutive year *

Market Infrastructure

7 March

Implemented the first phase of new trading hours

9 May

Introduced a standard combination trading function for stock options

* According to the statistics from Dealogic and the WFE at the end of 2011

25 July

Launched T+2 Finality

5 December

Upgraded the securities market trading system from the AMS/3.5 version to AMS/3.8

Products and Services**1 April**

Launched BMP Service

11 April

Introduced PRS Plus, the faster real-time derivatives market datafeed

14 April

SBI Holdings, Inc became the first Japan-incorporated company to list Hong Kong Depository Receipts on SEHK

29 April

Hui Xian REIT, Hong Kong's first RMB-denominated IPO and REIT, listed on SEHK

25 May

Glencore International plc became the first company headquartered in Switzerland to list on SEHK

24 June

Prada SpA became the first Italy-incorporated company listed on SEHK

29 June

Kazakhmys PLC became the first company from Kazakhstan listed on SEHK

October

Launched issuer services aimed at boosting the visibility of listed companies and improving their communication with the investment community

1 December

Coach, Inc –RS became the first US-incorporated company to list Hong Kong Depository Receipts on SEHK

Regulatory Framework**21 January**

Published consultation conclusions on proposed change to minimum number of shareholders for the market capitalisation/revenue test, and proposed changes to requirements for qualified property acquisitions and formation of joint ventures

20 May

Published consultation conclusions on entitlement trading and shareholder approval

May to July

Organised seminars and workshops on ESG reporting for listed companies to raise ESG awareness and encourage listed companies to start ESG reporting

8 July

Published a consultation paper on HKEx's clearing house risk management reform measures

20 October

Published joint consultation conclusions with the SFC on proposed changes to property valuation requirements

21 October

Published consultation conclusions on proposed changes to requirements for the listing of debt issues to professional investors only

28 October

Published consultation conclusions on review of the Corporate Governance Code and associated Listing Rules

9 December

Published a consultation paper on ESG Reporting Guide

15 December

Published consultation conclusions on after-hours futures trading

CHAIRMAN'S STATEMENT

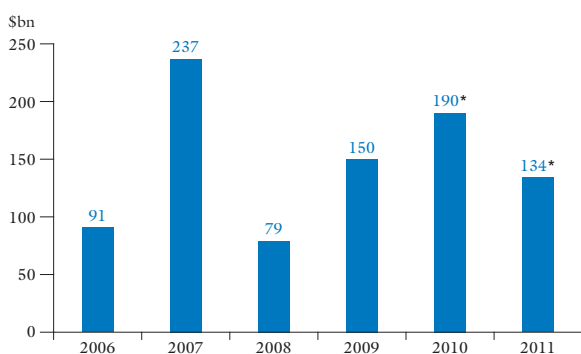


“I am honoured to have served as your Chairman in the past 6 years during which HKEx continued to grow in the midst of severe and unprecedented global economic and financial turmoil. HKEx has also been improving its platform infrastructure and market structure to remain competitive because of the changing exchange landscape. Notwithstanding these challenges, I am pleased to see that 2011 was another year of positive results for our Shareholders.”

HKEx's Performance

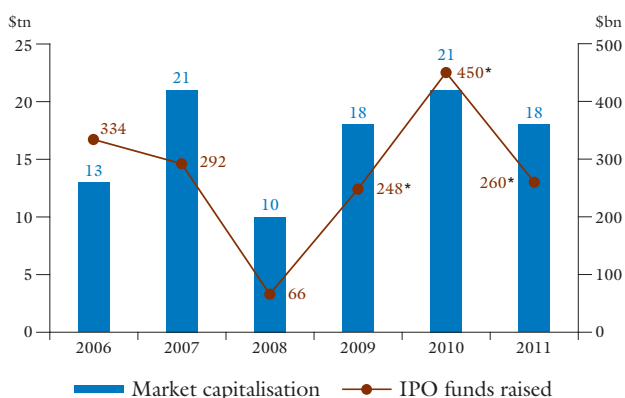
While our markets were not immune to the impact of the unstable and shrinking global economy, it is encouraging to note that the Hong Kong securities market remained as the world's biggest IPO centre for the third consecutive year, and had a record high of about 40 trillion shares traded and 215 million deals in 2011. Many new records were also set in the derivatives market, notably in the total options contracts traded. Against this backdrop, HKEx's profit attributable to Shareholders in 2011 was about \$5.1 billion, a rise of 1 per cent from a year ago. Based on a payout ratio of 90 per cent, the Board is recommending a final dividend of \$2.09 per share, which adds up to a total dividend of \$4.25 per share for 2011, an increase of 1 per cent against that for 2010.

HKEx's market capitalisation (as at 31 December)



* ranked first among the world's listed exchanges

Market capitalisation of companies listed (as at 31 December) and IPO funds raised on the Exchange



* ranked first among the world exchanges

Note: Figures have been rounded.

Source: WFE Monthly Statistics and Reuters

Economic Slowdown and Global Competition

Last year was a challenging one marked by events of local and global significance. The world financial order was disrupted by cross-border uncertainties – the absence of a credible and speedy solution to the Eurozone sovereign debt crisis, the risk of a double dip recession in the US, and, as a consequence, concerns of an economic hard-landing in the Mainland – and resulting in a profound adverse impact on investor sentiment as well as the performance of the global financial markets. Confronted by the global financial instability, Hong Kong experienced a slowdown in market activities, particularly in the second half of 2011. Other than the macroeconomic issues, regulated exchanges also have to contend with the proliferation of alternative trading platforms as well as mergers of leading exchanges, which have intensified competition in the global arena. In this respect, HKEx may not be immune to the fragmentation of trading of securities that has taken significant market share from some global exchanges.

In the midst of political and economic uncertainties around the world, reinforcing investors' confidence is of utmost importance. The WFE, of which I have the privilege to be the chairman, will continue to maintain close contact with the International Organization of Securities Commissions to focus on regulatory matters to ensure fair, transparent, and efficient markets can be maintained world-wide. The WFE will also remind global policy makers, regulators and stakeholders of the important role of its 54 member exchanges play in capital formation, particularly for small and medium enterprises, and the creation of employment.

Despite the moves by central banks to ease liquidity, aversion to risk is likely to persist. Individuals and institutions will understandably, be cautious in making investment decisions. The Hong Kong stock market is likely to remain volatile. Nevertheless, HKEx will continue to be vigilant about global financial development trends, responsive to market views, and flexible whilst making further progress in strengthening its core capabilities and enhancing its competitiveness in the implementation of its strategic plan.

Exploring Global Opportunities

The listing of Mainland enterprises in Hong Kong since 1993 has remained a win-win situation for them and HKEx. During my term, the growth of international listings has propelled HKEx to the rank of a global exchange in the Asian time zone. Apart from over 600 Mainland enterprises, there are over 140 enterprises from different parts of the world, including Brazil, France, Germany, Italy, Japan, Mongolia, Russia, and Switzerland listed on the Exchange. Indeed, the acceptable jurisdictions as an issuer's place of incorporation have been increased to 23. Furthermore, overseas issuers can opt to list through Depositary Receipts or seek a secondary listing. More international listings are in the pipeline.

We will continue with our global marketing effort to promote the Exchange as a platform for Mainland and overseas companies to showcase themselves, their products, and their technologies worldwide, and to participate in the growing Mainland and Asian economies and markets. The issuer services that we launched in October 2011 can further assist listed issuers raise their visibility and improve their communication with the investment community.

International listings on the Exchange



Notes:

- a A company from Macau is also classified as one from Australia as it is jointly controlled by shareholders from both places.
- b A company from Taiwan is also classified as one from France as it is jointly controlled by shareholders from both places.

According to the World Economic Forum's 4th annual Financial Development Report released in 2011, Hong Kong overtook the US and the UK to top the Financial Development Index for the first time, due to strong scores in non-banking financial services such as IPO activity and insurance.

In order to improve cooperation with our peers, HKEx has been entering into a number of MOUs on cooperation and exchange of information with other exchanges and regulators. As the world is repositioning itself towards multipolar sources of growth with economic power more broadly distributed than before, HKEx made 2 major strategic moves in 2011. We are in discussion with the Shanghai Stock Exchange and the Shenzhen Stock Exchange on the establishment of a joint venture company in Hong Kong for the development of index and other equity derivatives products, and the compilation of new indices. In addition, letters of intent were signed in October 2011 with exchanges from Brazil, Russia, India, and South Africa to form the BRICS Exchanges Alliance, aiming to cross-list benchmark equity index derivatives on the boards of each of the other alliance members to be traded in the currency of the host exchange and to further develop innovative products to track the BRICS exchanges. This alliance points to the growing relevance of the BRICS' economies and financial markets in the coming decade and further underlines the raison d'être for the BRICS relationship.



MOUs signed in 2011

- Inner Mongolia's Office of Financial Affairs
- Taiwan Stock Exchange Corporation
- Dalian Commodity Exchange
- Jiangsu Province's Office of Financial Affairs
- Guangxi Zhuang Autonomous Region's Financial Affairs Office
- Kazakhstan's Eurasian Trading System Commodity Exchange Joint Stock Company
- Administrative Committee of Zhongguancun Science Park
- Zhengzhou Commodity Exchange
- Taiwan Depository & Clearing Corporation
- Sichuan Province's Financial Affairs Office

MOU signed in January 2012

- China Financial Futures Exchange

Reinforcing the Role as Mainland's Gateway

For decades, Hong Kong has been the gateway to the Mainland and its window to the world. The Exchange's role as China's international capital formation centre has also grown with the Mainland's robust economic growth. The acceleration of the RMB's internationalisation presents great opportunities to Hong Kong in its role as a gateway to the Mainland and a channel for capital destined to and from the Mainland.

In the National 12th Five-Year Plan, Hong Kong was designated to be a major offshore RMB centre and the testing ground to broaden the RMB's role in the world. Furthermore, with the launch of the RQFII (RMB Qualified Foreign Institutional Investors) Pilot Scheme in December 2011, eligible applicants under the Scheme can make use of the RMB raised in Hong Kong to invest in the Mainland securities markets. This marked a significant step for Hong Kong to reinforce its position as the preferred offshore RMB centre.

In response to the opportunities, HKEx has changed our systems to support the growing offshore RMB business in Hong Kong. In April 2011, the successful listing of Hui Xian REIT on the Exchange set an important milestone, as it was the first IPO and listing of RMB-denominated securities in Hong Kong. Apart from RMB-denominated debt securities and REITs, HKEx is well prepared for the introduction of other products such as RMB-denominated shares, futures and options. We have introduced the Dual Tranche Dual Counter (RMB/HKD) model and developed the RMB Equity Trading Support Facility to facilitate listing and trading in RMB-denominated securities. Given the strong market interest in RMB stocks in Hong Kong, it is likely that we will soon see the first IPO of RMB-denominated shares.

Since the debut of A-share industry sector ETFs in 2009, more cross-listings of ETFs on the Exchange, including the first cross-listing from the Taiwan Stock Exchange, were seen. Another noteworthy development is the listing of the world's first RMB-denominated gold ETF on the Exchange on 14 February 2012. Currently, we are exploring cross-market ETFs with the Shanghai Stock Exchange, which would offer Mainland investors exposure to the Hong Kong stock market and vice versa. We believe that ETFs tracking Hong Kong stocks could soon start trading on the Mainland.

By the end of 2011, we had 77 ETFs on the Exchange. Their turnover grew to more than \$545 billion, accounting for 3 per cent of our total market turnover.

To promote the further growth of ETFs, our website, which was awarded the Most Informative ETF Website (Asia-Pacific region) in the 7th Annual ETF Global Awards for the 3rd consecutive year in 2011, was enhanced to promote greater transparency.

Strengthening HKEx's Core Capabilities

The rollout of AMS/3.8 in December last year significantly improved our securities market's efficiency and transparency, and it paved the way for future market growth. Our MDS has also been upgraded for better dissemination of quality market data. The NGMDS to be introduced in the middle of 2013, will enable us to launch new market data products and distribute our market data on the Mainland. Meanwhile, we are also considering upgrading HKATS/DCASS to a new technology platform. All these initiatives are important steps in raising the capacity, reducing the latency, and further enhancing the overall performance of our market infrastructure.

Another milestone in HKEx's development is the establishment of our new Data Centre which highlights our strategy and future development. To increase HKEx's competitiveness in the world of advanced information technology, we must stay ahead of the game to ensure that our system infrastructure is in line with the latest developments in technology and standards, and subject to prudent risk management. The new Data Centre at Tseung Kwan O is being built to meet the best international standards for reliability and environmental protection. The project has achieved precertification under the US Green Building Council's Leadership in Energy and Environmental Design (LEED) at gold level. With its completion in 2012, we will be able to improve our efficiency by consolidating many key operations under one roof, and contribute to our service offerings by the provision of Hosting Services.

Enhancing HKEx's Competitiveness

Our market infrastructure has been evolving over time to meet the ever-changing demand in the financial services industry. We are pleased that the first phase of extension of trading hours was implemented smoothly. The second phase will take effect on 5 March 2012. Thereafter, the gap in trading hours between our markets and our competitors will be reduced further. HKEx's attractiveness to investors will again be enhanced by the introduction of after-hours futures trading in 2012.

We recognise the importance of our clearing houses to Hong Kong as an international financial centre. Therefore, we will continue to respond swiftly to the changing regulatory landscape to ensure the robustness of our risk management measures. We are grateful to our Participants for their support to our proposed risk management measures which are aimed to reinforce the long-term stability and competitiveness of Hong Kong.

In addition, HKEx, in support of the Group of Twenty, or G-20, is working on the formation of a clearing house for the clearing and settlement of derivatives traded in the OTC market. While this is part of our effort to minimise systemic risk and promote transparency in the OTC derivatives market, it has its strategic value as well, particularly in line with the trend towards wider use of RMB in international transactions.

The future prosperity of the Hong Kong financial market hinges on its competitiveness. Your Board and the management have been working closely with the Government to modify our market infrastructure. Nevertheless, the market reform initiatives can never be completed without market participants' support. We look forward to continue partnering with them as we proceed along the road of reform.

Developing a Sustainable Marketplace

As an exchange operator, our primary responsibility is to ensure the sustainability of our securities and derivatives markets. Building an informed investment community with quality and integrity is always one of our main goals.

The Exchange is committed to advocating high corporate governance standards among listed companies. The current economic and business environment underscores the need for good corporate governance. In addition to supporting the statutory backing to the price-sensitive disclosure rules, we announced changes in 2011 with respect to the CG Code and other Listing Rules to highlight best corporate governance practices and help sustain market integrity. Most of the changes took effect on 1 January 2012; the others will be introduced in phases.

On our journey towards sustainability, the past few years have proved rewarding. A remarkable milestone is the establishment of the CSR management system to ensure systematic development of our CSR practices within the Group. Since 2009, we have published a standalone CSR Report that reaches the Global Reporting Initiative application level A+ standard annually. Our CSR Report, which delineates our activities as a socially responsible corporate citizen, is available on the HKEx website. I am happy to report to you that our CSR work is recognised, as exemplified by HKEx's inclusion in the Hang Seng Corporate Sustainability Index Series and the Dow Jones Sustainability Asia Pacific Index since 2010.

In the coming decades, environmental and community issues will be of growing importance, and both are likely to demand swift actions at times. As a frontline regulator, we strongly advocate the integration of sustainability into a company's business practices. In 2011, we introduced an ESG programme to all listed companies to encourage and support their participation in this important area. Through our joint efforts with our listed companies and market participants, we hope to establish a culture that embraces ESG factors. We welcome market views on our proposed ESG Reporting Guide, which aims to raise ESG awareness and encourage listed companies to start ESG reporting. The consultation will end in April 2012.

Acknowledgments

My term as your Chairman will end after the 2012 AGM. I am honoured to have been given the opportunity to serve on the Board for 6 years which I have thoroughly and immensely enjoyed. In all the work I have done and in every decision that I have made for the Company, I have been guided by 3 complementary objectives: first, upholding public interest; second, working for the Shareholders' interest; and third, reinforcing Hong Kong's position as an international financial centre. I am profoundly grateful to my fellow Board and Committee members, including Dr the Honourable Marvin Cheung, who retired from the Board after the 2011 AGM, and Mr John Harrison, who joined us in April 2011, for their unstinting support and dedication which contribute significantly to HKEx's success. In particular, I would like to thank my colleagues who will also retire after the conclusion of the 2012 AGM, the Honourable Mrs Laura Cha and Dr Moses Cheng, for their devotion and invaluable advice during their 6 years of service on the Board.

On behalf of the Board, I would like to extend our deepest appreciation for our Shareholders' continued support to and confidence in your Board members. I believe that every member will remain committed to delivering the best results for our Shareholders. The Board also wishes to thank our Participants, the community, and all other stakeholders for their unwavering support and understanding. Last, but by no means least, it remains for me to thank the management team and every employee for their hard work and commitment.

I have every confidence that HKEx will continue to play an integral role in the Hong Kong economy, keep up its good work, be mindful of its mission to operate an open, fair, and vibrant marketplace, and contribute to the success of Hong Kong as an international financial centre.

Ronald Joseph ARCULLI
Chairman

Hong Kong, 29 February 2012



CHIEF EXECUTIVE'S REVIEW



“As the world’s economic order and the competitive landscape for exchanges are going through significant structural changes, we not only need to preserve and grow our core businesses but also must proactively consider our strategic direction for the future. We have looked into the potential strategic opportunities available to us and begun to take the initiatives that I believe will lead Hong Kong markets to new horizons.”

If 2010 was the incubation year of our Strategic Plan 2010-2012, then 2011 was the important development year. In spite of high uncertainty in the world economy, we continued to make significant progress on many fronts, including attracting international companies to list in Hong Kong, laying down the regulatory and infrastructure foundation for the listing and trading of RMB products, undertaking important market structural enhancement, and completing a number of major IT platform upgrades. We also made important breakthroughs in 2011 with regards to cross-exchange cooperation and alliances for product development.

Looking ahead, 2012 will be a critical implementation year. While we will continue carrying out initiatives already under way in our current strategic plan, we have also begun critical reviews of future opportunities in new asset classes because we think the accelerated opening of the Mainland market will present opportunities that are substantial yet fleeting. As our new slogan puts it, HKEx is proactively preparing itself to “lead Hong Kong markets to new horizons”.

Market Performance

In 2011, our primary market performed competitively despite challenging market conditions globally. For the third year in a row, we achieved world number 1 ranking¹ in terms of total IPO funds raised, as IPOs in Hong Kong generated \$260 billion.

Secondary market trading in 2011 was unusually volatile, mainly due to the Japan earthquake in March and the European sovereign debt crisis that began making headlines in the third quarter. Since its launch in February 2011, the VHSI has had an average level of 26.37 points, with a high of 51.97 on 9 August 2011².

Cash Market turnover varied from quarter to quarter in 2011. Impacted by the second round of quantitative easing announced by the US Federal Reserve in late 2010, turnover was strong in the first three months of 2011, with average daily turnover value of \$75.9 billion. Daily turnover reached a 52-week high following the Japan earthquake in March and high turnover continued into April. Trading activities slowed in the middle of the year then picked up again in August when Europe's sovereign debt situation deteriorated. As a result, average daily turnover value reached \$73.2 billion by the end of the third quarter. Turnover fell substantially in the fourth quarter, mainly due to a decline in market value. In terms of shares traded, average daily turnover reached a record high of 162.2 billion shares in 2011. Looking ahead, with uncertainty still high overseas, we expect market conditions to remain challenging.

Turnover in the Derivatives Market rose to its best level ever. Full-year turnover reached an all-time high of 140,493,472 contracts, a 21 per cent increase from 2010. The growth was mainly driven by increased trading of Stock Options, H-shares Index Futures, HSI Options, and Mini-HSI Futures. Trading of HSI/HSCEI Dividend Point Index Futures³ and Flexible HSI/H-shares Index Options⁴, 4 relatively new products, also recorded significant increases in 2011 (average daily turnover of these products was up 81 per cent from 2010).

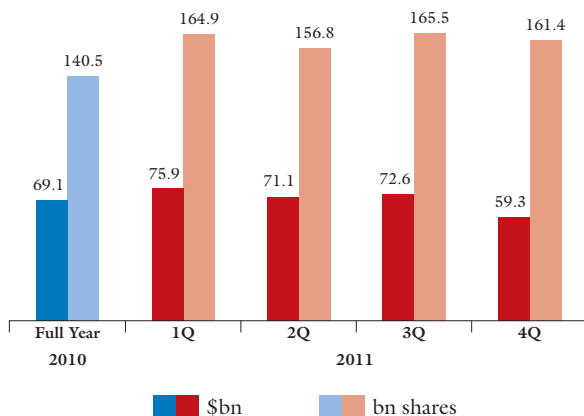
1 Source: WFE Monthly Statistics

2 In the 12 months of 2006 – before the financial crisis – the US's benchmark volatility index moved between a low of around 10 and a high of less than 24.

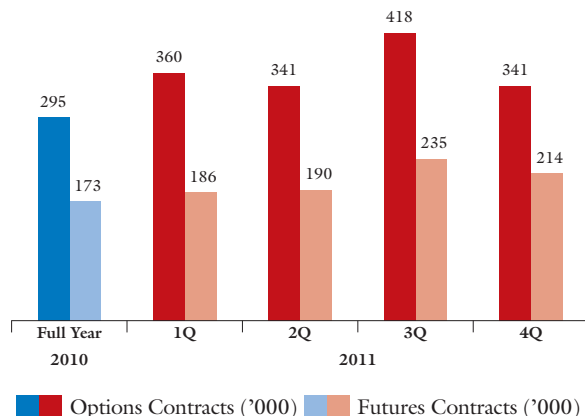
3 Launched on 1 November 2010

4 Launched on 8 February 2010

Average daily turnover of Cash Market



Average daily number of contracts traded in Derivatives Market



Business Development Review

Promoting International Listings

In 2011, we continued our efforts to diversify our listed companies. We visited potential issuers in 17 countries/regions, including Europe, Japan, Korea, Malaysia, Mongolia, and Russia. We also increased recognised jurisdictions of incorporation for the purpose of eligibility for listing by 4, bringing the total number of recognised jurisdictions to 23.

The momentum of international listings in Hong Kong continued to grow in 2011, with shares of 18⁵ overseas companies trading on the Exchange for the first time. IPOs by overseas companies raised \$134 billion, which accounted for 52 per cent of total IPO funds raised, compared to 45 per cent in 2010.

Cross-Market Collaboration

To expand our market reach and product offering, we started 2 major strategic cross-market initiatives. In mid-2011, we started discussions with the Shanghai Stock Exchange and the Shenzhen Stock Exchange with a view to establishing a joint venture in Hong Kong to develop index and other equity derivatives products and compile new indices.

In October, we announced the BRICS Exchanges Alliance (the Alliance) with the leading exchanges from Brazil, Russia, India, and South Africa. Our goal is to enable investors from the 5 countries/regions to gain exposure to the BRICS bloc of emerging economies. The first phase of the Alliance is to cross-list benchmark equity index derivatives on the boards of each of the other alliance members.

5 Excluding 1 company that transferred from GEM to the Main Board

Platform Infrastructure Upgrade

Improving platform infrastructure and market structure is critical to our business as it lays the foundation for future growth and expansion. Some of our initiatives in this area began to bear fruit in 2011. In terms of IT platform infrastructure, we focused on the following goals:

- **Achieve higher trading capacity and lower latency:** We completed an upgrade of our Cash Market trading system (known as AMS/3.8) in December. As a result of the upgrade, the trading system's processing capacity has been increased by about 10-fold to 30,000 orders per second, scalable to 150,000 orders per second, and latency has been reduced to 2 milliseconds on an average trading day, about 70 times faster than before.
- **Increase market transparency and efficiency:** AMS/3.8 displays the 10 best price levels compared to the 5 best price levels in the previous version of the trading system. In addition, the market data broadcast rate has doubled.
- **Provide flexibility for future expansion and market needs:** The construction of our Next Generation Data Centre (NGDC) in Tseung Kwan O Industrial Estate is on track and will be completed in the second half of 2012.
- **Build an ecosystem for global connection:** We continued to develop our Hosting Services within the NGDC. They will be launched by the end of 2012.
- **Support future business growth and models:** We started a programme to prepare for the next generation of our various IT platforms and began developing our NGMDS, which will enable us to consolidate market data distribution for all our asset classes through a single platform.



Market Structure Reform

- **Maintain competitiveness and position HKEx for further cross-border developments:** We implemented the first phase of our new trading hours in March 2011, aligning our morning open with the Mainland market. The second phase of our new trading hours, which will begin on 5 March 2012, will align our afternoon open with the Mainland market.
- **Broaden our market reach:** We completed our market consultation on after-hours futures trading (AHFT). We received majority support for our AHFT proposal and will implement it in the second half of 2012.
- **Strengthen our risk management framework:** We completed a market consultation on clearing house risk management reform measures. We received overwhelming support in the market consultation. This is a long overdue market reform which will allow our clearing houses to significantly enhance their risk management capabilities through substantially enhanced margin collection and guarantee and reserve funds. We expect to begin implementing the reform in the second and third quarters of 2012.



2010-2012 Strategic Plan Review

As stated in our Strategic Plan 2010-2012, we believe the internationalisation of the RMB and further opening up of the Mainland market will have a significant bearing on our business opportunities. We recognise that this process will take time to complete and our value proposition must evolve at different stages of the process. While the essential substance of our Strategic Plan has remained the same, we have further refined the way we articulate the dynamic relationships among the various key components of the Strategic Plan along the following 3 themes:

- Chapter 1 –
China's Offshore Capital Formation Centre;
- Chapter 2 –
China's Offshore RMB Centre; and
- Chapter 3 –
China's Comprehensive International Financial Centre

In all 3 "Chapters", we will stay true to our central mission: to be the international exchange of choice for our Chinese clients and the China exchange of choice for our international clients.

Chapter 1 – China's Offshore Capital Formation Centre

In our Chapter 1, we have worked to provide a platform for Mainland issuers to meet international investors and raise funds in Hong Kong. Our business thrived in the past decade as a result of Chapter 1 and this chapter continues to be a critical component of our business today. In 2011, a total of 101 companies (including 12 transfers from GEM) were newly listed in Hong Kong, including 54 (including 9 transfers from GEM) from the Mainland. In terms of funds raised through IPOs, 36 per cent went to Mainland issuers. At the end of 2011, Mainland enterprises accounted for nearly 56 per cent of our total market capitalisation and 66 per cent of our average daily turnover value.

Although we have a strong track record, our IPO-driven primary market growth has become more mature, largely because the market capitalisation on the Exchange has grown to today's scale. Meanwhile, the Mainland's stock markets have become more established and competitive. While there are still large and growing numbers of Mainland enterprises yet to tap into the offshore capital market, more transformative growth in our primary market is likely to be driven by majority shareholders of Mainland enterprises listed in Hong Kong further monetising their stakes. At the end of 2011, for example, H-share companies represented 23 per cent of the market capitalisation of all our listed companies, but large state-owned holdings in the companies were not included in the calculation because they were not part of the free float. We expect the large holdings will become part of the free float over time, either through add-on share issues or sell-downs by the majority shareholder. As that occurs, it will significantly increase the market capitalisation as well as the average daily turnover on the Exchange.

Chapter 2 – China's Offshore RMB Centre

For Hong Kong's offshore RMB market, 2011 was a year of rapid growth. We expect growth will continue to be strong, particularly as China accelerates the opening of its capital account and further internationalises the RMB. We see this as a strategic opportunity for us to achieve our long-term goal of building a currency-neutral offshore market for Mainland investors seeking to diversify their investments beyond their home market.

We began to lay down important foundations in 2011 for our part of the offshore RMB market. We have to date undertaken 3 key initiatives:

- We completed RMB Readiness Testing in our Cash Market in March – 365 EPs and 35 CPs (representing about 90 per cent of market turnover value) confirmed they are ready to participate in the trading and clearing of RMB products.
- To ensure the development of our RMB equity market will not be completely dependent upon offshore RMB liquidity, we launched our RMB Equity Trading Support Facility in January 2012 to enable investors to buy RMB-traded shares using their readily available currency, HKD.
- To facilitate the listing and trading of RMB equities, we introduced our DTDC model to allow the listing and trading of a company's shares in both RMB and HKD.

We had our first RMB product IPO in April 2011. It was by Hui Xian REIT and raised RMB10.5 billion. We also saw growth of listed RMB bonds continue, as a total of 9 RMB bonds issued by 7 companies were listed on the Exchange during the year. We expect more RMB products will be listed with us when market conditions turn more favourable.

Chapter 3 – China's Comprehensive International Financial Centre

With the significant structural shift of the global economic balance towards Asia, coupled with the increased pace of China's further opening, we felt it was critical for us to review our strategy to ensure that we are positioned appropriately to take advantage of opportunities from these trends.

We therefore began to accelerate our evaluation of asset classes beyond our traditional focus on equity. More specifically, we believe that the rapid pace of RMB internationalisation and China's long-term demand for natural resources present substantial opportunities for an exchange such as HKEx to develop trading, clearing, and risk management solutions for financial derivatives and commodities. Although financial derivatives and commodities are globally competitive businesses in which we have had a limited track record to date, we believe HKEx is uniquely positioned to develop first-mover advantages by focusing primarily on an Asia-time-zone, RMB-enabled, and China-benchmarked product and service offering.

We first started developing OTC derivatives clearing as a new business line in 2011, initially focusing on interest rate and foreign exchange products relating to RMB. We will next look into exchange-traded financial derivatives on offshore RMB (CNH) related products such as CNH bond index products.

In late 2011, we intensified our analysis of the feasibility of developing an offshore platform for trading and clearing commodities with a particular focus on providing Asia-time-zone and RMB-enabled solutions that are not yet available.

These initiatives are still in their early days, but we believe urgent action is required because the opportunities described above and others like them will be available only to those who are prepared.

Outlook

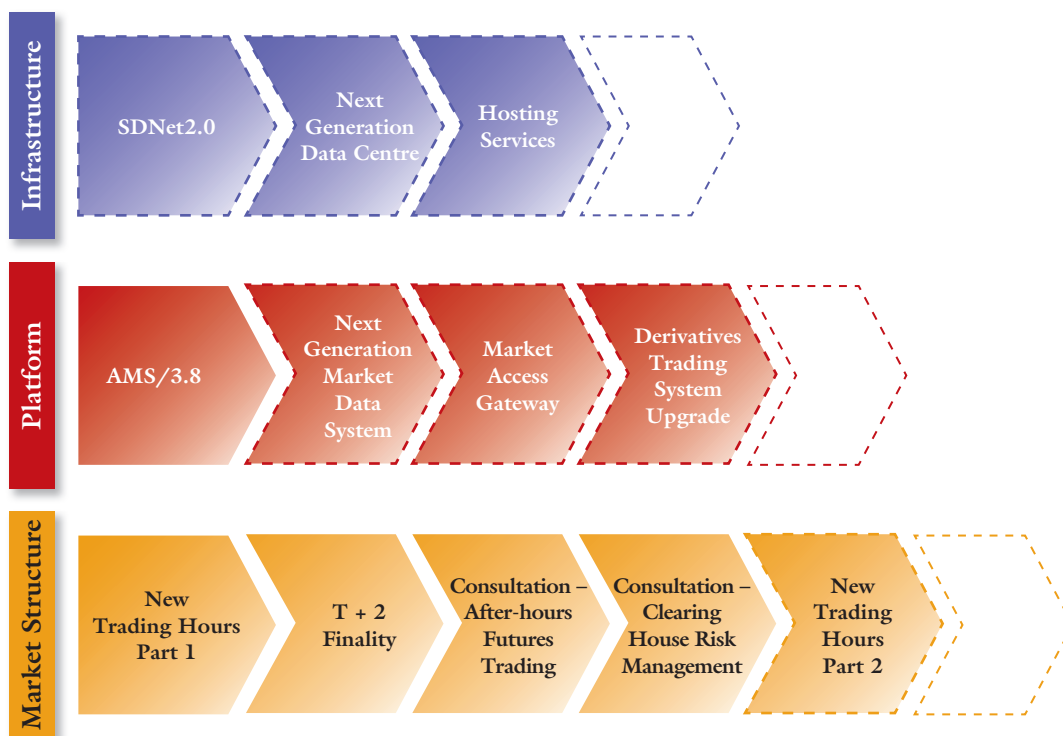
The rest of 2012 will be a critical time for us as we will be implementing a number of important initiatives. Platform infrastructure and market structure enhancements to be launched by the end of the year include the NGDC, Hosting Services, and AHFT.

From HKEx's perspective, these initiatives will position us to capture future opportunities while increasing our total revenue incrementally. Some initiatives may require longer payback periods than others and hence could have an impact on our margin structure and cash flow in the interim so we will continue to strengthen our project management and apply stringent fiscal discipline.

From our market participants' perspective, corresponding changes to their systems and operations may be needed when we implement some of our initiatives. We are very aware of the potential impact on the market and will continue to communicate with market participants.

In the long run, we believe our initiatives will create a better business environment and benefit the market as a whole.

HKEx's essential infrastructure investment – a comprehensive plan



Although the rollout of our Chapter 3 strategy will take place over a number of years into the future, we plan to do substantive preparatory work in 2012, including recruiting and feasibility studies of trading and clearing of financial derivatives and commodities.

Appreciation

I would like to express my great appreciation to the HKEx staff, who maintained our high standard of operational stability in 2011 while working hard to make all the new initiatives possible.

I would also like to thank our market participants and other stakeholders for their continuous support for our new initiatives under our Strategic Plan 2010-2012.

Last but not least, I would like to thank my fellow members of the Board for their tremendous support and guidance. On behalf of the Company, I would like to express everyone's gratitude to our Chairman, the Honourable Mr Ronald Arculli, who will step down in April 2012. During his 6 years of service on the Board and as Chairman, Mr Arculli has set our strategic direction, upheld shareholder value, and devoted himself to promoting HKEx as the first-choice international listing venue. His work has had and will continue to have a far-reaching impact on HKEx.

LI Xiaojia, Charles

Director and Chief Executive

Hong Kong, 29 February 2012



BOARD AND COMMITTEES



Board

Independent Non-executive Chairman

Ronald Joseph ARCULLI * GBM, GBS, JP

Executive Director, Chief Executive

LI Xiaojia, Charles

INEDs

CHA May-Lung, Laura * GBS, JP
CHAN Tze Ching, Ignatius BBS, JP
CHENG Mo Chi, Moses * GBS, JP
CHEUNG Kin Tung, Marvin *¹ GBS, JP
John Barrie HARRISON *²
HUI Chiu Chung, Stephen *³ JP
KWOK Chi Piu, Bill *⁴ JP
LEE Kwan Ho, Vincent Marshall *⁴
LEE Tze Hau, Michael *³
John Estmond STRICKLAND GBS, JP
John Mackay McCulloch WILLIAMSON
WONG Sai Hung, Oscar

Committees

Audit Committee

John Barrie HARRISON *⁵ (Chairman)
CHEUNG Kin Tung, Marvin *¹ (ex-Chairman)
LEE Kwan Ho, Vincent Marshall *⁶ (Deputy Chairman)
CHAN Tze Ching, Ignatius
KWOK Chi Piu, Bill *⁶
John Mackay McCulloch WILLIAMSON

Environmental, Social and Governance Committee⁷

(formerly known as Corporate Social Responsibility Committee)
Ronald Joseph ARCULLI *⁵ (Chairman)
LI Xiaojia, Charles *⁸ (ex-Chairman)
CHA May-Lung, Laura *⁵
CHAN Tsan Fai, David *⁹
John Barrie HARRISON *⁵
LEE Kwok Keung, Roger *⁹
LEE Tze Hau, Michael *⁵
MAU Kam Shing, Joseph *⁹
YEN Tai Mui, Brenda *⁹

Notes:

- * Government Appointed Director
- ** Appointed by the Financial Secretary
- Δ Established under Section 65 of the SFO
- 1 Retired on 20 April 2011
- 2 Appointment effective 20 April 2011
- 3 Re-appointment effective 20 April 2011
- 4 Re-elected on 20 April 2011
- 5 Appointment effective 21 April 2011

- 6 Re-appointment effective 21 April 2011
- 7 Change of name effective 21 April 2011
- 8 Ceased chairmanship and appointed as member effective 21 April 2011
- 9 Appointment ceased effective 21 April 2011
- 10 By virtue of being HKEx's Chairman
- 11 Appointment ceased effective 1 July 2011
- 12 Appointment effective 1 July 2011



Executive Committee

Ronald Joseph ARCULLI (Chairman)
 KWOK Chi Piu, Bill ⁶
 LEE Kwan Ho, Vincent Marshall ⁶
 LI Xiaojia, Charles
 John Mackay McCulloch WILLIAMSON

Investment Advisory Committee

John Estmond STRICKLAND (Chairman)
 WONG Sai Hung, Oscar (Deputy Chairman)
 HUI Chiu Chung, Stephen ⁶
 LEE Tze Hau, Michael ⁶
 LUI Yin Tat, David

Nomination Committee

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

Panel Member Nomination Committee

CHA May-Lung, Laura (Chairman)
 KWOK Chi Piu, Bill ⁶
 LEE Kwan Ho, Vincent Marshall ⁶
 LEE Tze Hau, Michael ⁶
 WONG Sai Hung, Oscar

Remuneration Committee

Ronald Joseph ARCULLI (Chairman)
 CHA May-Lung, Laura
 CHENG Mo Chi, Moses
 John Barrie HARRISON ⁵
 LEE Kwan Ho, Vincent Marshall ¹
 John Mackay McCulloch WILLIAMSON

Risk Management Committee ^Δ

Ronald Joseph ARCULLI (Chairman) ¹⁰
 CHAN Ka-lok ^{** 11}
 CHAN Ngai Hang ^{** 12}
 CHEUNG Kin Tung, Marvin ¹
 FONG Hup ^{** 11}
 HE Guangbei ^{** 13}
 KWOK Chi Piu, Bill ⁶
 LAU Ying Pan, Edmond ^{** 14}
 LEE Tze Hau, Michael ⁵
 LIU Swee Long, Michael ^{** 12}
 LUI Kei Kwong, Keith ^{** 15}
 Mark Seumas McCOMBE ^{** 16}

Company Secretary

MAU Kam Shing, Joseph

¹³ Appointment effective 20 January 2012 by virtue of being the Chairman of Hong Kong Interbank Clearing Limited

¹⁴ Re-appointment (ad personam) effective 1 July 2011 and by virtue of being the HKMA's Executive Director (Monetary Management) effective 20 January 2012

¹⁵ By virtue of being the SFC's Executive Director (Supervision of Markets) effective 20 January 2012 (formerly ad personam)

¹⁶ Appointment ceased effective 8 September 2011

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Board of Directors



Ronald Joseph ARCULLI
GBM, GBS, JP

Independent Non-executive Chairman
Aged 73

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 Environmental, Social and Governance Committee, 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 * – 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~)
WFE – chairman and director (2010~)

Past offices

Arculli and Associates – senior partner (2000-2005)
Sun Hung Kai Securities Limited – executive director (1974-1975)
Woo Kwan Lee & Lo – partner (retired in 2000)

Public service

Executive Council of the Government – non-official member (2005~) and convenor of the non-official members (2011~)¹
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 and Solicitor (Hong Kong, England & Wales, and Victoria of Australia)
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 (The Hong Kong Management Association)

* Currently listed on the Stock Exchange

¹ Appointment effective 3 October 2011



LI Xiaojia, Charles

Executive Director, Chief Executive
Aged 50

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	<p>HKEx – member of Environmental, Social and Governance Committee, and Executive Committee SEHK – member of Listing Committee and GEM Listing Committee HKCC, HKFE, HKSCC, SEHK and SEOCH – chairman HKEx's subsidiaries – director</p>
Other major office	<p>China Entrepreneurs Forum – director (2005~)</p>
Past offices	<p>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)</p>
Qualifications	<p>Bachelor of Arts in English Literature (Xiamen University, China) Master of Arts in Journalism (University of Alabama, US) Juris Doctor (Columbia University, US)</p>



CHA May-Lung, Laura

GBS, JP

INED
Aged 62

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

Other positions held within the Group	<p>HKEx – chairman of Panel Member Nomination Committee, and member of Environmental, Social and Governance Committee, and Remuneration Committee SEHK – member of Listing Nominating Committee</p>
Other major offices	<p>China Telecom Corporation Limited * – non-executive director (2008~) HSBC Holdings plc * – non-executive director (2011~) 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~)</p>
Past offices	<p>Bank of Communications Co Ltd * – non-executive director (2006-2010) 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)</p>
Public service ¹	<p>CSRC – vice-chairman of International Advisory Council (2004~) Executive Council of the 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~)</p>
Qualifications	<p>Bachelor of Arts (University of Wisconsin, US) Juris Doctor (Santa Clara University, US) State Bar of California (US) Honorary fellow (HKSI)</p>

* Currently listed on the Stock Exchange

¹ Appointment as the chairman of the University Grants Committee ceased effective 20 September 2011



CHAN Tze Ching, Ignatius
BBS, JP

INED
Aged 55

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~)
Mongolian Mining Corporation * – non-executive director (2010~)
Rizal Commercial Banking Corporation (listed on The Philippine Stock Exchange, Inc.) – non-executive director (2011~)¹
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~)
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 28 November 2011



CHENG Mo Chi, Moses
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 – member of Nomination Committee and Remuneration Committee

Other major offices

ARA Asset Management Limited (listed on the Singapore Exchange)
– non-executive director (2007~)

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)

China COSCO Holdings Company Limited *
– non-executive director (2005-2011)

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)

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~)

Aviation Development Advisory Committee – member (2011~) ¹

Education Commission – chairman (2009~)

Financial Reporting Council – member (2006~)

Steering Committee on Strategic Review on Healthcare Manpower Planning and Professional Development – member (2012~) ²

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 effective 1 September 2011

² Appointment effective 31 January 2012



John Barrie HARRISON

INED
Aged 55

Director since 20 April 2011
Term of office: 20 April 2011
(appointed) to 2013 AGM

* Currently listed on the Stock Exchange

Other positions held within the Group	HKEx – chairman of Audit Committee, and member of Environmental, Social and Governance Committee, and Remuneration Committee
Other major offices	AIA Group Limited * – non-executive director (2011~) BW Group Ltd – non-executive director (2010~) The Hong Kong Cricket Club – president (2007~)
Past offices	KPMG (1977-2010: deputy chairman of KPMG International (2008-2010), chairman of KPMG’s Asia Pacific region and chairman of KPMG China and Hong Kong (2003-2009), and partner of KPMG Hong Kong (1987-2009))
Qualifications	Bachelor of Science (Mathematics) (Durham University, UK) Fellow (Institute of Chartered Accountants in England & Wales) Member (HKICPA)



HUI Chiu Chung, Stephen JP

INED
Aged 64

Director since 23 April 2009
Term of office: 20 April 2011
(re-appointed) to 2013 AGM

* Currently listed on the Stock Exchange

1 Appointments effective 20 October 2011

2 Re-designated from independent non-executive director to non-executive director effective 1 October 2011

3 Appointment ceased effective 15 September 2011

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	China South City Holdings Limited * – non-executive director (2011~) Chun Wo Development Holdings Limited * – non-executive director (2006~) Frasers 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 Financial Services Limited – chairman and chief executive officer (2011~) ¹ Luk Fook Holdings (International) Limited * – non-executive director (1997~) ²
Past offices	HKSCC – director (1992-1996 and 1997-2000) OSK Holdings Hong Kong Limited – vice-chairman (2011) ³ and chief executive officer (2005-2011) 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	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, and HKSI)

**KWOK Chi Piu, Bill**

JP

INED

Aged 59

Director since 3 April 2000

Term of office: 20 April 2011
(re-elected) to 2014 AGM**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)**HKFE** – director (1991-2000) and vice-chairman (1997-2000)**Public service****SFC** – member of Committee on Real Estate Investment Trusts (2011~)**Qualifications****Bachelor of Science (Chemistry)** and **Bachelor of Arts (Economics)** (Stanford University, US)**Doctor of Philosophy (Biochemistry)** (University of Chicago, US)**Fellow (HKSI)**

* Currently listed on the Stock Exchange

**LEE Kwan Ho, Vincent Marshall**

Officer of the Order of the Crown (Belgium)

INED

Aged 56

Director since 3 April 2000

Term of office: 20 April 2011
(re-elected) to 2014 AGM**Other positions held within the Group****HKEx** – deputy chairman of Audit Committee, member of Executive Committee and Panel Member Nomination 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~)**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)**Public service****Brewin Trust Fund Committee** – member (2006~)**Correctional Services Children's Education Trust Committee**

– member (2011~)

Qualifications**Bachelor of Science in Accounting and International Finance (Magna Cum Laude)** (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)

* Currently listed on the Stock Exchange

**LEE Tze Hau, Michael**

INED
Aged 50

Director since 23 April 2009
Term of office: 20 April 2011
(re-appointed) to 2013 AGM

Other positions held within the Group

HKEx – member of Environmental, Social and Governance Committee, Investment Advisory Committee, Panel Member Nomination Committee and Risk Management 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 72

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

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

** 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.



**John Mackay McCulloch
WILLIAMSON**

INED
Aged 53

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

SAIL Advisors Limited – chief executive officer (2011~)¹
Search Investment Group Limited – senior managing director (2012~)² 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)
Search Investment Group Limited – managing director (2007-2012)²

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)

1 Appointment effective 3 November 2011

2 Appointment effective 27 February 2012, prior to that, Mr Williamson was the managing director.



WONG Sai Hung, Oscar

INED
Aged 56

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 – business adviser (2012~)¹

Past offices

BOCI-Prudential Asset Management Limited – chief executive officer (2001-2005)
ICBC (Asia) Investment Management Company Limited – chief executive and executive director (2008-2011)²
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

1 Appointment effective 18 January 2012

2 Appointments ceased effective 7 December 2011

Senior Management

 <p>Gerald Dale GREINER</p> <p>Chief Operating Officer Aged 55</p> <p>Joined in May 2004</p>	<p>Other positions held within the Group</p> <p>SEHK – chief executive, and member of Compensation Committee HKFE – chief executive HKSCC – chief executive, and member of Risk Management Committee</p> <hr/> <p>Past offices</p> <p>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)</p> <hr/> <p>Qualifications</p> <p>Bachelor of Science in Economics (Allegheny College, US) Juris Doctor (University of Toledo College of Law, US)</p>
 <p>Mark Francis DICKENS JP</p> <p>Head of Listing (Effective 1 March 2009) Aged 59</p> <p>Joined in January 2009</p>	<p>Past offices</p> <p>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)</p> <hr/> <p>Public service</p> <p>SFC – member of advisory committee (2009~) Standing Committee on Company Law Reform – member (2010~)</p> <hr/> <p>Qualifications</p> <p>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)</p>
 <p>FOK Kwong Man, Lawrence</p> <p>Chief Marketing Officer Aged 62</p> <p>Joined in February 1992</p>	<p>Other major office</p> <p>Tracker Fund of Hong Kong * – member of Supervisory Committee (2000~)</p> <hr/> <p>Past offices</p> <p>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)</p> <hr/> <p>Qualifications</p> <p>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)</p>

* Currently listed on the Stock Exchange



Kevin Thomas KING

Head of Risk Management
Aged 57

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 48

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 57

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 49

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
Aged 50

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)
Fellow (HKIoD)

Company Secretary

**MAU Kam Shing, Joseph**

Company Secretary and
Head of Secretarial Services
Aged 53

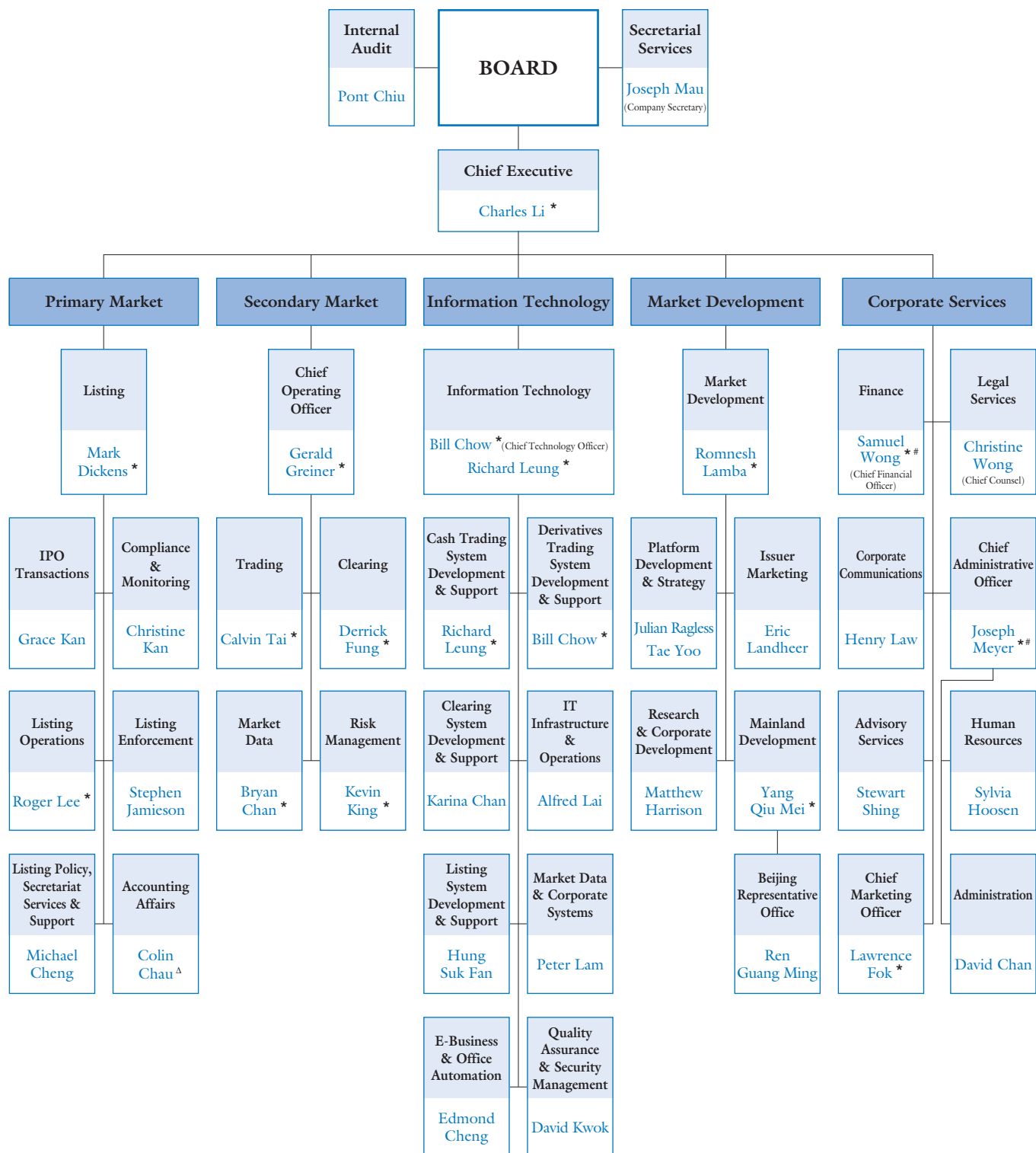
Joined in June 2000

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 (The Hong Kong Institute of Chartered Secretaries,
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 HKEx's subsidiaries.

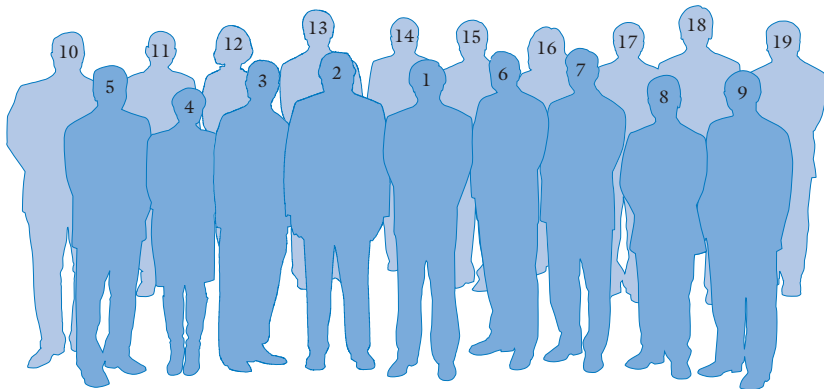
ORGANISATIONAL CHART



* Members of HKEx Senior Management Committee

Δ Mr Chau will retire on 1 March 2012.

The resignations of Messrs Meyer and Wong will take effect on 9 and 20 March 2012 respectively.



- | | |
|------------------|-------------------|
| 1 Charles Li | 10 Kevin King |
| 2 Gerald Greiner | 11 Pont Chiu |
| 3 Mark Dickens | 12 Sylvia Hoosen |
| 4 Yang Qiu Mei | 13 Derrick Fung |
| 5 Roger Lee | 14 Richard Leung |
| 6 Romnesh Lamba | 15 Samuel Wong |
| 7 Calvin Tai | 16 Christine Wong |
| 8 Bryan Chan | 17 Lawrence Fok |
| 9 Bill Chow | 18 Joseph Mau |
| | 19 Henry Law |

BUSINESS REVIEW

Major Achievements (2011) and Key Initiatives (2012)

Listing

- Completed the 5th review of listed companies' corporate governance practices and a review of 283 financial reports
- Published consultation paper on ESG Reporting Guide
- Published conclusions on the following consultations:
 - 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;
 - ex-entitlement trading and shareholder approval;
 - proposed changes to requirements for the listing of debt issues for professional investors only;
 - proposed changes to property valuation requirements; and
 - review of the Corporate Governance Code and associated Listing Rules
- Provided input and ongoing support to the Government's initiative to give statutory backing to the continuing disclosure obligations
- Increased the number of jurisdictions accepted for listing on the Exchange to 23, including Hong Kong, the PRC, Bermuda and the Cayman Islands
- Developed closer regulatory cooperation with other exchanges
- Organised 5 seminars and 10 workshops for listed companies on ESG reporting
- Launched SPRINTS
- Organised 11 seminars in Hong Kong and 2 seminars in the Mainland on corporate governance Rule amendments and 11 meet and greet sessions as part of the education programme and market outreach to issuers
- Offered issuers and advisors additional communication channels with the Listing Division through email or the newly enhanced e-submission system

2011

2012

- Publish consultation paper on the following topics:
 - consequential amendments to the Listing Rules from the proposed statutory backing to continuing disclosure obligations; and
 - review of overseas listings
- Publish consultation conclusions on ESG Reporting Guide
- Issue guidance on connected transaction Rules
- Review and consult on trading halt policy
- Review the listed structured products regime consequential to the SFC's consultations on structured products and selling practices, and reforms to the prospectus regime
- Work with the SFC to publish revised Joint Policy Statement and guidance on recognition of overseas Primary Exchanges
- Continue developing closer regulatory cooperation with other exchanges
- Pursue further simplification of prospectuses and related documents
- Modernise Reporting Accountant's Report
- Review Business Trusts
- Review Hong Kong Depositary Receipt regime
- Develop XBRL (eXtensible Business Reporting Language) taxonomy
- Explore enhancement of issuers' information dissemination model
- Review operation of Chapter 18 of the Main Board Listing Rules (Mineral Companies)

Cash Market

- Implemented Phase 1 changes to the trading hours in the Cash Market
- Reviewed trade reporting requirements for alternative liquidity pools
- Implemented AMS/3.8
- Reviewed securities trading network charges
- Enriched the ETF section on the HKEx website

2011

2012

- Implement Phase 2 changes to the trading hours in the Cash Market
- Implement trade reporting requirements for alternative liquidity pools
- Implement revised selection criteria for designation of securities eligible for short selling
- Study and develop the Central Gateway to pave way for the next generation trading system
- Identify functions and features of the next generation trading system

Derivatives Market

- Implemented Phase 1 changes to the trading hours in the Derivatives Market
- Conducted market consultation on after-hours futures trading
- Enriched the trading information of standard combination trades by including last, high/low traded prices and turnover
- Introduced standard combination trading function in the stock options market
- Extended Bulletin Board function to facilitate strategy trading of Mini-HSI and H-shares Index Futures and Options
- Enhanced HKATS execution risk control measures to facilitate EPs to decide appropriate central order size limits for different markets according to their own business need
- Worked with the Hang Seng Indexes Company Limited on launching VHSI
- Extended the contract months availability of the HSI Dividend Point Index Futures and HSCEI Dividend Point Index Futures from 3 years to 5 years
- Introduced new option classes on the following underlying stocks on 21 November 2011 – Anhui Conch Cement Company Limited; Belle International Holdings Limited; and China National Building Material Company Limited

2011

2012

- Implement Phase 2 changes to the trading hours in the Derivatives Market
- Introduce after-hours futures trading
- Upgrade the capacity of HKATS to cope with the growth of options business
- Introduce VHSI Futures for trading
- Introduce benchmark stock index futures of BRICS exchanges for trading
- Revamp the stock options market

Clearing

- Advanced CCASS services by 30 minutes, from 10:00 am to 9:30 am to align with changes to the trading hours with effect from 7 March 2011
- Implemented T+2 Finality for CCASS money settlement
- Admitted 1 new equities and 2 new depositary receipts of international issuers from Italy, Japan and the US into CCASS
- Admitted 8 new ETFs, 5,334 new CBBCs, 6,917 new DWs, 1 RMB REIT and 1 Business Trust into CCASS
- Signed an MOU with the Taiwan Depository & Clearing Corporation

2011

2012

- Support the SFC's preparation of the subsidiary legislation for a scripless securities market in Hong Kong
- Continue working on the clearing and settlement arrangements to facilitate the listing of international issuers in Hong Kong
- Further enhance the processing of SIs in CCASS

RMB Business Development

- Rolled out the DTDC model for RMB equity offering and listing
- Launched electronic inter-counter transfer of shares under the DTDC model through CCASS
- Released the RMB Equity Trading Support Facility (TSF) system to support the trading of RMB stocks on the Exchange
- Enhanced clearing capabilities of HKCC and SEOCH to support RMB-settled futures and options, including stock options

2011

2012

- Introduce RMB-denominated futures and options when opportunities arise
- Continue responding to market demand and enhance CCASS to support RMB initiatives, including the RMB Equity TSF and the DTDC model
- Continue working with CPs and other market participants in their preparation for RMB derivatives business

Participant Services

- Organised 16 Continuous Professional Training (CPT) courses jointly with HKSI on the HKATS terminal or derivatives
- Organised 10 training courses related to AMS and 32 related to CCASS or DCASS
- Held 53 briefings and 12 seminars on derivatives

2011

2012

- Conduct CPT courses jointly with HKSI on HKEx's products and services
- Organise training courses and briefings related to HKEx's products and services for EPs

Market Data

- Implemented the Single Licence Regime and migrated all legacy vendor licence agreements to a single licence agreement
- Rolled out PRS Plus and an End-user Licence for derivatives market data products
- Launched MDS/3.8
- Launched the BMP Service
- Extended the Market Data Collaboration Programmes with the Shanghai Stock Exchange and the Shenzhen Stock Exchange until the end of 2013
- Finalised the requirements for the NGMDS
- Enriched the data content and features of Investment Service Centre for supporting the initiative of online Investor Relations platform
- Provided more real-time Shanghai Stock Exchange and China Securities Index Co Ltd indices via MDF

2011

2012

- Implement the NGMDS Phase 1 – Cash Market (in around mid-2013)
- Finalise the requirements for the NGMDS Phase 2 – Derivatives Market
- Review and propose to roll out the End-user Licence Agreement for securities market data products
- Introduce commercial package for non-display usage of the Cash and Derivatives Markets
- Continue to promote the market data business in the Mainland
- Enrich the historical data products
- Review the reference data products
- Promote the BMP Service to the Mainland and other countries

Risk Management

- Conducted comprehensive benchmarking of key risk management measures of international clearing houses
- Conducted market consultation on HKEx's clearing house risk management reform measures
- Enhanced HKCC's and SEOCH's margining protection by updating the short option minimum charge and volatility scan range parameters
- Managed several CP financial performance breaches without any default declarations or losses
- Conducted the review of clearing house emergency liquidity planning supported by daily liquidity stress testing data
- Assessed pending changes in industry standards for clearing houses as referenced in the 2011 consultative report "Principles for Financial Market Infrastructures" published by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions
- Conducted the Senior Management Committee sub-committee level review of the HKEx Enterprise Risk Management (ERM) Framework and applied approved enhancements to methodology and reporting
- Delivered risk management measures to support:
 - changes to the trading hours in the Cash and Derivatives Markets
 - the planned introduction of volatility index futures, after-hours futures trading, RMB-cleared products, and BRICS futures contracts

2011

2012

- Publish consultation conclusions on HKEx's clearing house risk management reform measures and implement the following measures:
 - introduce a standard margin system and a Dynamic Guarantee Fund at HKSCC;
 - revise price movement and counterparty default assumptions in the clearing houses' stress testing;
 - revise the collateral assumptions at HKCC and SEOCH;
 - apply margin and Dynamic Guarantee Fund credits for HKSCC;
 - introduce Contingent Advance Capital support for HKCC; and
 - any other measures deemed appropriate in response to consultation feedback
- Conduct a feasibility analysis for the introduction of a Risk Management Fund
- Review the control measures applicable to HKCC and SEOCH counterparty concentration risk and capital-based position limits
- Propose enhancements to the risk management policy and control measures on acceptance of bank guarantee collateral
- Propose further enhancements to the HKEx ERM Framework
- Present recommendations from the HKEx Market Contingency Plan Framework review and implement approved enhancements
- Continue to deliver appropriate risk management support and solutions to facilitate the successful delivery of HKEx's new products and services

Information Technology

- Implemented AMS/3.8 and MDS/3.8 to increase system capacity by 10-fold to 30,000 orders per second and reduce order processing latency by 70-fold to 2 milliseconds
- Implemented DCASS software design enhancement by Nasdaq OMX to support 475,000 account positions
- Completed the planning study for HKATS/DCASS migration to a new technology platform
- Implemented the PRS Plus system to achieve a 5-fold increase of the price update rate
- Completed the core and shell construction of the new Data Centre
- Implemented further functional enhancements for various systems to support trading and clearing of RMB products

2011

2012

- Complete the 1st phase relocation of IT office and primary data centre for the Cash Market to the new Data Centre
- Complete the 1st phase migration of Cash Market EPs and IVs to SDNet2.0
- Achieve technical readiness for the NGMDS (Cash Market Data Feed) for external testing
- Implement a brand new OTC clearing system required for the operation of the new OTC clearing house
- Commence the technology platform upgrade for the Derivatives Market
- Implement Central Gateway for high performance access of the Cash Market by Participants
- Further enhance IT infrastructure and functionalities to support RMB products

Market Development

Platform Development & Strategy

- **BRICS**
 - Formed the BRICS Exchanges Alliance
- **Hosting Services**
 - Completed detailed design of the Hosting Services
 - Held more than 30 meetings with EPs, IVs, and technology and connectivity providers to generate initiate interests and collect user input
 - Presented in 3 data centres and financial industry conferences to promote the services
 - Issued Requests for Proposals on procurement of IT and network infrastructure to support the hosting ecosystem
- **OTC Clearing House**
 - Established OTC Clearing Risk Management and OTC Clearing Operations Department for OTC clearing business and commenced the platform system implementation work
 - Met individually with over 30 financial institutions and licensed corporations to seek input and ascertain interest in becoming CPs
 - Co-chaired the sub-group on Central Counterparty in the Treasury Markets Association with the International Swaps and Derivatives Association to organise discussion forums to gather input from market players
 - Issued a response to the consultation paper published by the HKMA and the SFC on the roadmap of the new regulatory framework regime for the OTC derivatives market in Hong Kong
- **IT Platform Development**
 - Established a roadmap for the future evolution of HKEx's core platforms
 - Conducted a tender for the supply of a new platform for market data dissemination, and initiated the project implementation

2011

2012

- **BRICS**
 - Cross-list benchmark equity index futures and/or forward contracts amongst the BRICS exchanges
 - Consider the development of an index representing the equity markets of the BRICS exchanges
- **Hosting Services**
 - Develop commercial offerings and launch the Hosting Services in the 4th quarter of 2012
- **OTC Clearing House**
 - Pending completion of the legislative process, commence OTC clearing house operations
- **IT Platform Development**
 - Initiate new platforms to support market access
 - Define and scope the project for the next generation trading system for the Cash Market

Market Development

Issuer Marketing

- Organised 16 seminars and conferences in the Mainland and 10 in Hong Kong to promote listing in Hong Kong to Mainland and overseas companies
- Co-organised a seminar in Hong Kong with The Chamber of Hong Kong Listed Companies to promote RMB follow-on fund raising
- Conducted 74 trips to the Mainland and 27 trips to the overseas markets to attract potential companies to list in Hong Kong
- Co-organised 3 listing training sessions for Mainland companies
- Participated in listing promotional activities in particular those for mining and energy companies
- Launched issuer services to listed companies – visibility services that include “Know the Listed Companies” conferences

2011

2012

- Continue promotional activities in Hong Kong, the Mainland and selected overseas markets to attract more quality companies to list in Hong Kong
- Continue promotional activities of RMB fund-raising
- Establish and strengthen relationship with regulators and stock exchanges of selected overseas markets
- Continue to identify industry-specific potential issuers
- Continue to 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

Mainland Development

- Signed 7 MOUs on cooperation and the exchange of information with the Mainland authorities
- Organised 4 Hong Kong exchange programmes for key Mainland regulators

2011

2012

- Sign MOUs with other relevant entities in line with HKEx’s Mainland strategy
- Continue to organise Hong Kong exchange programmes for relevant Mainland authorities as appropriate tailored to their professional needs

Research & Corporate Development

- Conducted the annual Cash Market Transaction Survey and Derivatives Market Transaction Survey and published the survey findings in HKEx’s annual *Fact Book* and the full survey reports on the HKEx website
- Published 6 research articles on the newsletter *Exchange* to share intelligence about the Hong Kong and global markets

2011

2012

- Continue to collect market intelligence about the Hong Kong, Mainland and overseas securities and derivatives market development for the better development of the HKEx markets

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 conform to international best practice, and also represent acceptable standards which help strengthen investor confidence.

List of consultation conclusions issued in 2011	Issue date	Effective date of Listing Rule amendments
• Reduction of the Minimum Shareholder Requirement for the Market Capitalisation/Revenue Test from 1,000 to 300 Shareholders	Jan	1 Feb 2011
• Changes to Requirements for Qualified Property Acquisitions and Formation of Joint Ventures	Jan	1 Feb 2011
• Trading Ex-entitlement Only after Shareholder Approval	May	20 Jun 2011
• Changes to Requirements for the Listing of Debt Issues to Professional Investors Only	Oct	11 Nov 2011
• Changes to Property Valuation Requirements (Joint Consultation with the SFC)	Oct	1 Jan 2012
• Changes to the Corporate Governance Code (Code) and Associated Listing Rules	Oct	
– most Rule amendments;		1 Jan 2012
– the Code and certain Rule amendments; and		1 Apr 2012
– new Rule requiring issuers to appoint independent non-executive directors representing at least one-third of the board		31 Dec 2012

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

List of proposals under review in 2012

- Review of overseas listings
- Review of trading halt policy
- Possible changes to the Listing Rules arising from the SFC's consultations on structured products and selling practices, and reforms to the prospectus regime
- Consequential amendments to the Listing Rules from the proposed statutory backing to continuing disclosure obligations
- Further review of the connected transaction Rules
- Further simplification of prospectuses and related documents
- Review of the operation of Chapter 18 of the Main Board Listing Rules
- Consultation on ESG Reporting Guide

Development of ESG Reporting Guide

HKEx organised 5 seminars and 10 workshops on ESG reporting for issuers between May and July 2011, with a view to raising ESG awareness and encouraging issuers to start ESG reporting. Over 800 participants from 498 issuers attended the seminars and over 500 participants from 348 issuers attended the workshops. HKEx received positive feedback from the participants.

HKEx published a consultation paper on ESG Reporting Guide on 9 December 2011 and subject to market comments, the ESG Reporting Guide may be implemented as a recommended best practice.

Enhanced Service for Structured Product Issuers

In May 2011, the Exchange implemented SPRINTS, a new web-based system, to automate and streamline the listing application of structured products. It allows issuers to submit term sheet data electronically to the Exchange in a standardised format (Extensible Markup Language, XML) or to enter term sheet data on a pre-defined screen provided by the system one sheet at a time. The new system serves to enhance the communication and workflow between issuers and the Exchange.

To help structured product issuers prepare for the new system, the Exchange organised briefing sessions, trial tests and user training sessions prior to system implementation. A help desk function is also setup to address any system operational questions that issuers may have.

As at 31 December 2011, 18 out of 22 structured product issuers used SPRINTS for term sheet submissions. It is anticipated that all structured product issuers will submit term sheets via SPRINTS by March 2012.

Enhancement of Continuing Disclosure among Listed Companies

The Exchange continues to provide input and support to the Government on an on-going basis regarding the proposed statutory codification of certain requirements to disclose price-sensitive information by listed corporations as formulated in the Securities and Futures (Amendment) Bill 2011. At an appropriate stage, HKEx will conduct a consultation on consequential amendments to the relevant parts of the Listing Rules.

IPO Processing

The Exchange has continued to process applications for new equity listings, including transactions by issuers deemed to be new listings, and handled pre-IPO enquiries. The relevant statistics relating to its IPO work in 2011 are set out in the following table.

Record of IPO work

	2011	2010
Number of listing applications vetted	286 ¹	235
Number of first comment letters issued to new listing applicants	212 ²	156
Average time (in calendar days) between receipt of application and issuance of first comment letter	16	20
Number of applications brought to the Listing Committees (or their delegates) for decisions	147	135
Number of applications reviewed by Listing Committees (or their delegates) within 120 calendar days	85	107
Number of applications reviewed by Listing Committees (or their delegates) within more than 180 calendar days	17	9
Number of applications to which approval was granted in principle	167 ³	164
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	165	110
Average response time (in calendar days)	7	6
Number of listing applications for transfer of listing from GEM to Main Board accepted	14	15

Notes:

- 1 247 were new applications and 39 applications were brought forward from 2010.
- 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 of the Main Board Listing Rules 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 2011, 51 approved applications had not yet been listed, and 21 of them lapsed during the year.

Number of IPO transactions

	2011	2010	2009	2008	2007
New listing applications accepted	247	204	123	137	125
Applications listed	112	141	93	57	96
Companies listed on Main Board under Chapter 8	75	94	64	29	78
Investment vehicles listed on Main Board	10	27	19	7	11
Transfer of listing from GEM to Main Board	12	12	4	18	4
Companies listed on GEM	13	7	5	2	2
Deemed new listings	2	1	1	1	1
New listing applications rejected	3	2	0	1	0
New listing applications withdrawn	1	9	3	8	3
Applications in process as at year-end	64	39	31	27	42
Active applications with approval granted but not yet listed at year-end	51	23	12	24	9

Compliance and Monitoring

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

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

	2011	2010	2009	2008	2007
Announcements of issuers vetted	32,508	32,099	27,588	20,784	19,025
Pre-vetted	151	188	1,589	4,266	5,215
Post-vetted ¹	32,357	31,911	25,999	16,518	13,810
Circulars of issuers vetted	1,565	1,782	1,731	2,849	3,048
Pre-vetted	1,228	1,344	1,275	2,761	3,023
Post-vetted	337	438	456	88	25
Share price and trading volume monitoring actions undertaken	4,507	5,091	8,112	8,439	10,083
Clarification announcements published by issuers in response to share price and trading volume monitoring actions undertaken ²	360 ³	328	840	2,627	5,597
Press enquiries raised	156	221	311	536	495
Clarification announcements published by issuers in response to press enquiries raised	35	55	81	43	50
Complaints handled	657	630	599	516	512
Cases (including complaints) referred to Listing Enforcement Department for investigation	58	59	54	86	90

Notes:

- 1 Included clarification announcements published by issuers in response to share price and/or trading volume movements in their securities
- 2 In 2011, there were 693 enquiries (2010: 802) on unusual share price and trading volume and 59 resumption announcements (2010: 104).
- 3 Comprising 184 qualified announcements (2010: 186) and 176 standard negative announcements (2010: 142)

Since January 2010, the Exchange only pre-vets issuers' announcements on very substantial disposals/acquisitions, reverse takeovers, cash companies, and transactions or arrangements which would result in a fundamental change in an issuer's principal activities after listing. All other categories of issuers' announcements are subject to post-vetting. The Exchange's experience with the post-vetting regime continued to be positive as issuers' compliance with the Rules maintained at a satisfactory level. In 2011, post-vetted announcements which required follow-up actions by the Exchange remained at 4 per cent (2010: 4 per cent).

During 2011, the Exchange 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 to Rule compliance. As a result of an exercise performed in mid-2010 to shift certain categories of announcements with high compliance rates from detailed post-vetting to high-level review

only, a decrease in detailed post-vetting on announcements was noted in 2011. The Exchange will continue to reduce the scope of detailed post-vetting as issuers' compliance with the Rules improves.

Post-vetted announcements

	2011	2010
Subject to detailed post-vetting *	9,448	11,615
Required follow-up actions by issuers (eg, clarification announcements)	22%	22%
Involved Rule non-compliance	15%	14%

* Representing 29 and 36 per cent of all post-vetted announcements in 2011 and 2010 respectively

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. In 2011, the Exchange took follow-up actions with issuers on about 15 per cent (2010: 16 per cent) of the share price and trading volume alerts generated, 8 per cent (2010: 10 per cent) of these cases involved unpublished price-sensitive information and suspension in trading of those issuers concerned.

In 2011, 58 cases (2010: 59) of suspected breaches of the Listing Rules were subject to investigation by the Exchange's enforcement section. 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 2011, the Exchange handled 393 written enquiries (2010: 430) on Rule interpretations and related matters, and processed 262 waiver applications (2010: 622) for a particular section of the Listing Rules. The reduction in waiver applications was attributable to the Rule amendments in 2010 which simplified circular publication requirements.

In 2011, the Exchange published a series of listing decisions and frequently asked questions providing further guidance on Listing Rules matters. The Exchange also issued periodic letters to issuers on Rule amendments and to provide guidance on current topics including disclosure obligations, trading suspensions and administrative arrangements. Following a thematic review of issuers' compliance with website publication requirements, the Exchange provided general guidance highlighting areas with high rates of non-compliance. The Exchange also circulated to issuers a detailed contingency arrangement for the HKExnews website dissemination system.

To discharge part of its regulatory function, the Exchange has a Financial Statements Review Programme under which the periodic financial reports published by issuers were reviewed by sampling. The objective of the programme is to monitor compliance with the disclosure requirements of the Listing Rules and accounting standards. In order to enhance transparency and encourage high standards of financial disclosure, key findings and observations from its review were regularly released. In January 2012, the Exchange published the third report of key findings and observations from its reviews of 100 periodic financial reports released by issuers between October 2009 and April 2011. The report is available on the HKEx website. The Exchange encourages directors and other persons responsible for financial reporting to take note of the matters discussed in the report and to review their existing financial reporting systems to ensure the information presented in their financial reports is specific, relevant and material, in compliance with the disclosure requirements, and will be useful to users in making economic decisions.

Communication with Issuers

The Exchange continued its programme of issuer education and market outreach to issuers and other stakeholders with a view to promoting issuers' self-compliance with the Rules and facilitating mutual understanding of regulatory issues through dialogue. In 2011, the Exchange organised a series of 10 issuer seminars in Hong Kong on corporate governance Rule amendments and practical compliance issues which attracted almost 1,800 participants. The same issuer seminars in Putonghua were held in Hong Kong, Shanghai and Beijing in January 2012 which attracted almost 600 participants. The Exchange also conducted 11 meet and greet sessions with over 400 issuers' representatives and market practitioners to discuss controversial and evolving issues.

As part of the Exchange's effort to enhance its communication channels and to reduce its paper burden, the Exchange offered issuers and advisors additional communication channels through email or the newly enhanced e-submission system in December 2011.

Operational Efficiency

To streamline its information management process, the Listing Division implemented a new content management system in December 2011. The new system supports the electronic submission of documents and text recognition technology, helps reduce the need for hard copies of documents, and makes searches for information easier. The text recognition technology and file management tools support a central information repository which allows the Listing Division to maintain a centralised knowledge management database.

To improve transparency, quality and predictability of service, the Compliance and Monitoring Department has progressively established, reviewed and refined service standards to measure the timeliness of its monitoring and guidance actions as well as its subsequent responses to issuers' actions. The Department also tracks the overall response time and efficiency in bringing cases to resolution.

Service standards set for initial responses in 2011

	Service standard	% of cases meeting the service standard	
		2011	2010
Pre-vetting activities			
Initial response to pre-vetted announcements	Same day	77%	66%
Initial response to pre-vetted circulars (very substantial acquisition) *	10 business days	95%	94%
Initial response to pre-vetted circulars (other than very substantial acquisition) *	5 business days	98%	98%
Issuer enquiries			
Initial response to issuer's enquiries	5 business days	96%	91%
Waiver applications			
Initial response to waiver applications (other than application for delay in despatch of circulars)	5 business days	93%	89%
Post-vetting activities			
Initial response to post-vetted results announcements	5 business days	99%	94%
Initial response to post-vetted announcements (other than results announcements)	1 business day	96%	93%

* In 2010, the Exchange heightened the level of scrutiny of circulars on complex transactions including very substantial acquisitions and potential reverse takeovers, and required better quality of disclosure in issuers' circulars. New service standards were established for these circulars. Figures for 2010 have been restated accordingly.

In 2011, the rates of compliance with the service standards for initial responses were comparable to 2010 and remained at a satisfactory level.

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

	Main Board		GEM	
	2011	2010	2011	2010
Resumption of trading of securities during the year	10	5	2	6
Cancellation of listings during the year	2	0	0	0
Companies in the 3 rd stage of delisting	4	12	N/A	N/A
Companies notified of Exchange's intention to cancel their listing	0	0	2	2
Companies suspended for 3 months or more	39	39	11	9

Listing Enforcement

In 2011, the Exchange continued its strategy of enforcement of the Listing Rules as set out in the October 2004 edition of the *Exchange* newsletter. 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 9 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 9 ongoing disciplinary actions at various stages of the disciplinary process.

Number of disciplinary actions (as at year-end)

	2011	2010	2009	2008	2007
Investigations ¹	142	133	147	171	167
Public censures ²	6	7	4	10	9
Public statements/criticisms ²	3	1	4	5	7
Private reprimands	0	1	1	0	0
Warning/caution letters ³	42	27	28	68	63

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 2011, 8 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 the Listing Division's staff in 2011. Improvements continue to be 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 5.6 months for cases in which the investigation commenced in 2010 and 2011. There is hence an improvement of 2.1 months over the average time for investigation completion of 7.7 months for cases in which the investigation commenced in 2009 and 2010, as reported last year.

As at 31 December 2011, there were 31 cases under investigation, all of which commenced in 2011. By comparison, as at 31 December 2010, 90 per cent of the 51 cases then under investigation had been initiated in the same year.

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 in the management of the issuer. For example, when they are in possession of specific information of certain events or developments that might materially affect the business affairs of an issuer and fail to ensure disclosure as soon as reasonably practicable, this can give rise to a breach of the Rules by the issuer. Compliance with these substantive obligations can be achieved through the creation of compliance systems and with sufficient controls to ensure that the directors collectively can discharge that responsibility. Directors may be subject to disciplinary sanctions should they be held liable for substantive breaches of Listing Rules by the issuer, and if they fail to create and maintain adequate internal controls by which compliance can be achieved.

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

	2011	2010	2009	2008
Executive directors	17	30	20	67
Non-executive directors	7	4	10	17
INEDs	15	18	16	26
Total	39	52	46	110

As at 31 December 2011, 65 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.

Number of contested or settlement cases

	2011	2010	2009	2008
Involving "Internal Control Review" direction	1	1	6	4
Involving "Retention of Compliance Adviser" direction	1	5	5	5
Involving "Training of Directors" direction	7	6	7	4

Work is also being undertaken to revise and improve the existing procedures for the disposal of disciplinary matters by the Listing Committees. The proposals will be put forward to the Listing Committees for consideration in 2012.

Listing Operations

During the year, a total of 7,089 DW listing applications (2010: 8,236) were processed, of which 6,917 were new issues (2010: 7,826) and 172 further issues (2010: 410). Moreover, 5,394 CBBC listing applications (2010: 6,634) were processed, of which 5,334 were new issues (2010: 6,541) and 60 further issues (2010: 93). A total of 50 new debt securities (2010: 38), including Exchange Fund Notes and Government Bonds, were listed in 2011.

Number of DWs

	2011	2010	2009	2008	2007
Newly listed DWs	6,917	7,826	4,230	4,822	6,312
Delisted DWs	8,038	6,045	3,874	6,294	3,788
DWs listed as at year-end	4,027	5,148	3,367	3,011	4,483
Percentage change in number of listed DWs	(22%)	53%	12%	(33%)	129%

Number of CBBCs

	2011	2010	2009	2008	2007
Newly listed CBBCs	5,334	6,541	8,072	4,231	391
CBBC knockouts	4,087	4,835	5,899	2,837	250
Delisted CBBCs	1,410	2,334	1,795	211	34
CBBCs listed as at year-end	901	1,064	1,692	1,314	131
Percentage change in number of listed CBBCs	(15%)	(37%)	29%	903%	446%

During the year, the Latest Listed Company Information section remained one of the most popular sections on the HKExnews website. 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 2011, the HKExnews website housed a total of 1,299,255 archived issuer documents for public access free of charge. During the year, it recorded over 35 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). The Exchange 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.

Primary market information *

	2011	2010	2009	2008	2007
Number of issuer news filings processed	201,597	202,492	191,266	143,410	120,622
Hit rates for issuer news website (m)	288	235	176	121	151
Number of DI filings processed by the Exchange	53,480	49,958	46,574	54,965	62,211
Hit rates for DI filings (m)	117	38	27	28	31

* Statistics cover Main Board and GEM issuers.

On 10 August 2011, the Exchange experienced malicious attacks on its HKExnews website, causing disruption to issuers' news dissemination and the suspension of 7 equity securities and their related debt/derivative products. The Exchange has, since the malicious attacks, announced revised issuers' information dissemination and suspension arrangements in the event of a similar failure of the HKExnews dissemination system in the future.

Cash Market

Market Performance

In 2011, 88 companies were newly listed on the Main Board (including 12 transfers from GEM), and 13 on GEM. Total capital raised, including post-listing funds, reached \$490.4 billion. As at 31 December 2011, 1,326 and 170 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about \$17,537.3 billion. In addition, there were 4,027 DWs, 901 CBBs, 9 REITs, 77 ETFs and 192 debt securities listed on 31 December 2011. The average daily turnover value in 2011 was \$69.5 billion on the Main Board and \$256 million on GEM.

Closing indices (as at year-end)

	2011	2010	Change
HSI	18434	23035	(20%)
HSCEI	9936	12692	(22%)
Hang Seng China-affiliated Corporations Index	3682	4170	(12%)
S&P/HKEx LargeCap Index	22252	27392	(19%)
S&P/HKEx GEM Index	474	810	(41%)

HSI (01/2007 – 12/2011)



S&P/HKEx GEM Index (01/2007 – 12/2011)

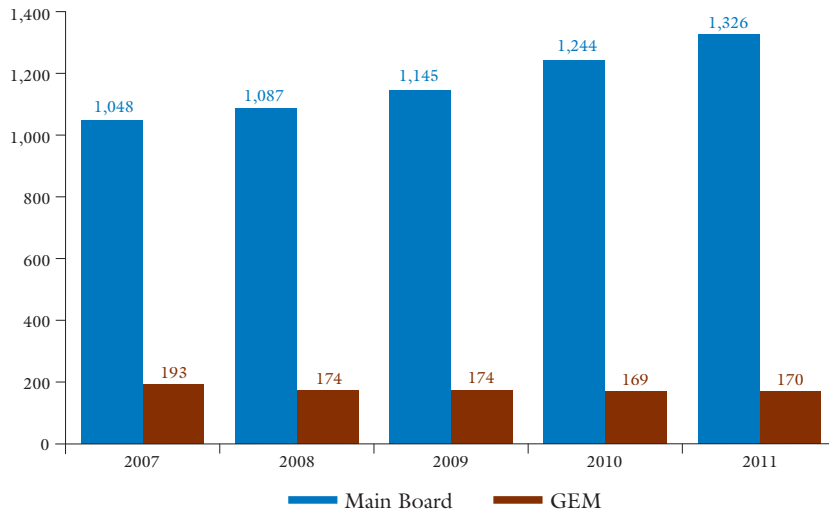


Market performance of Main Board and GEM

	Main Board			GEM		
	2011	2010	Change	2011	2010	Change
IPO funds raised (\$bn)	259	449	(42%)	1.3	0.7	86%
Market capitalisation as at year-end (\$bn)	17,453	20,942	(17%)	85	135	(37%)
Number of listed companies as at year-end	1,326	1,244	7%	170	169	1%
Number of listed securities as at year-end	6,551	7,730	(15%)	172	170	1%
Total turnover (\$bn)	17,091	17,076	0%	63	134	(53%)
Average daily turnover (\$m)	69,476	68,580	1%	256	537	(52%)

Note: Figures have been rounded.

Number of listed companies (as at year-end)

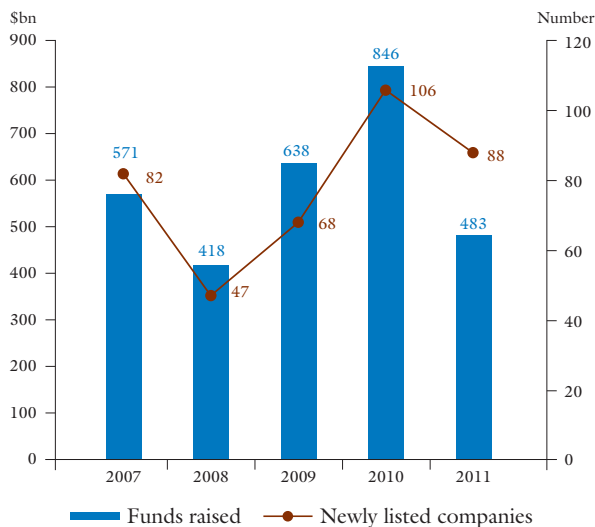


Number of listed companies by industry classification * – Main Board and GEM (as at year-end)

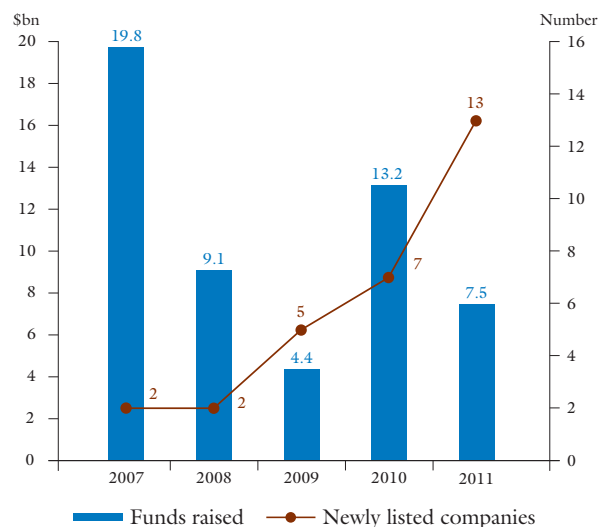
	2011	2010	2009	2008	2007
Energy	63	52	44	34	28
Materials	132	123	105	93	81
Industrial Goods	119	120	111	113	114
Consumer Goods	388	359	330	327	336
Services	230	212	209	198	188
Telecommunications	18	18	18	17	18
Utilities	43	39	32	24	20
Financials	117	109	102	100	103
Properties & Construction	203	198	191	174	166
IT	161	160	154	158	161
Conglomerates	22	23	23	23	26
Total	1,496	1,413	1,319	1,261	1,241

* According to the Hang Seng Indexes Company Limited

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

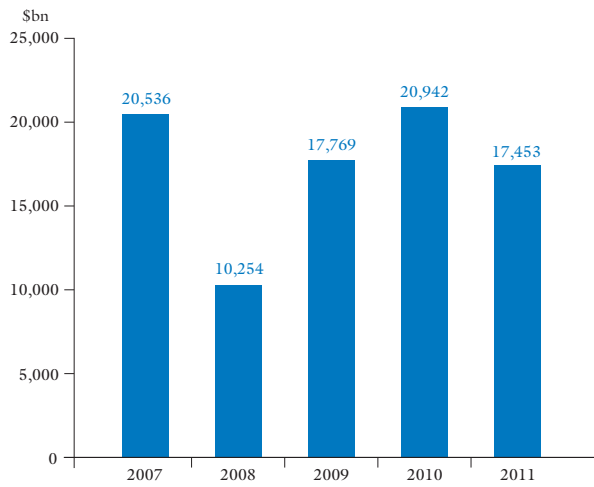


GEM – Total equity funds raised and number of newly listed companies

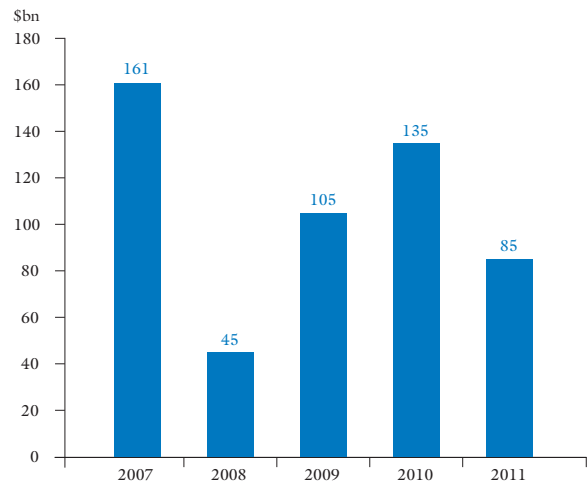


Note: Figures have been rounded.

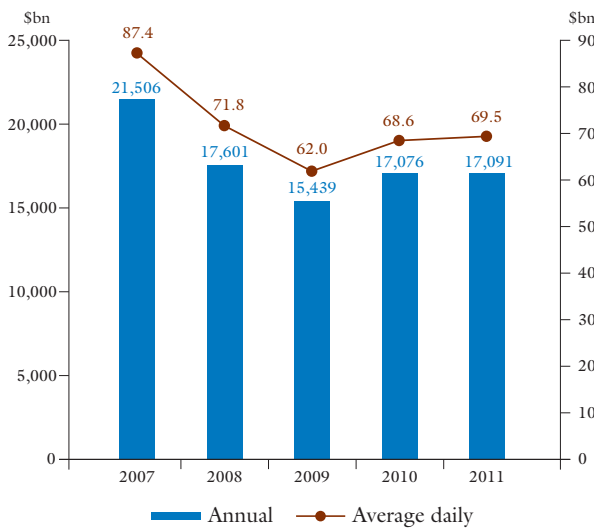
Main Board – Market capitalisation (as at year-end)



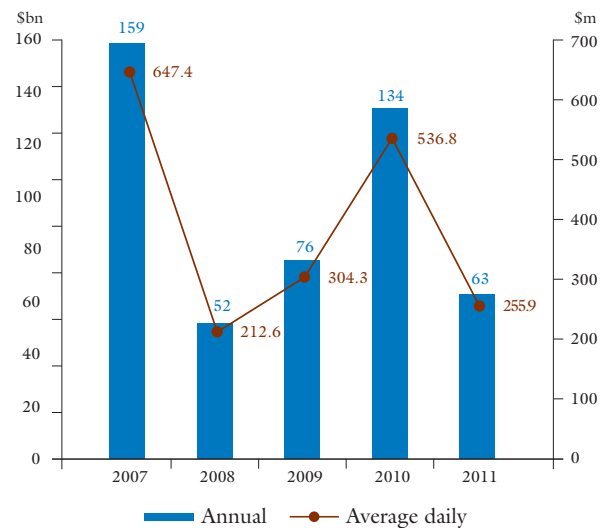
GEM – Market capitalisation (as at year-end)



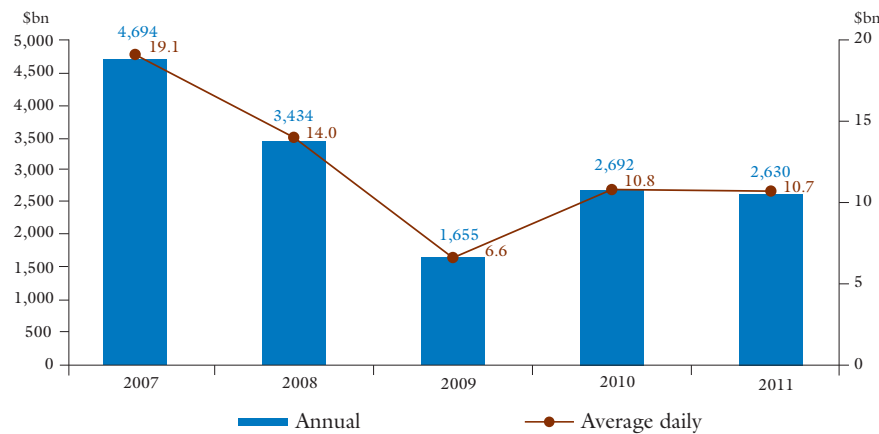
Main Board – Total annual and average daily trading value



GEM – Total annual and average daily trading value

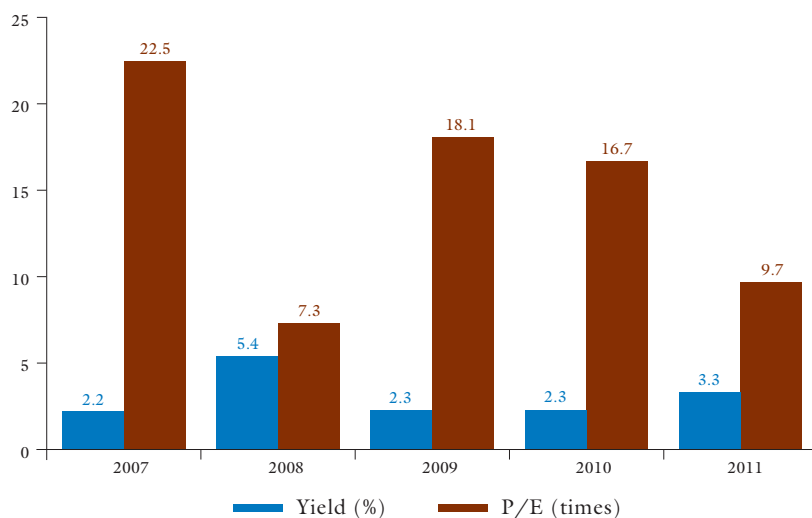


Main Board – Total annual and average daily trading value of DWs



Note: Figures in the above diagrams have been rounded.

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



Main Board – New listings

	2011	2010	2009	2008	2007
Listed Companies *	88	106	68	47	82
Preference Shares	0	1	0	0	0
Warrants	6,924	7,838	4,241	4,840	6,329
Equity Warrants	7	12	11	18	17
DWs	6,917	7,826	4,230	4,822	6,312
CBBCs	5,334	6,541	8,072	4,231	391
ELIs	0	0	0	0	0
Debt Securities	50	38	23	20	26
Unit Trusts and Mutual Funds	9	27	19	7	11

* Included the number of companies transferred from GEM

Extension of Trading Hours

Following a series of market simulations in the middle of February 2011 to assist EPs and IVs in verifying their readiness, the first phase of the extended trading hours in the Cash and Derivatives Markets was implemented on 7 March 2011. The second phase will be implemented on 5 March 2012 in which the trading hours will be further extended for another half-an-hour and the duration of continuous trading in the Cash Market in a trading day will become 5.5 hours. The objectives of the extension are to improve the price discovery function for Mainland-related securities listed in Hong Kong by increasing the overlap of its trading hours with the Mainland exchanges' trading hours as well as to enhance the regional competitiveness of the Hong Kong market by narrowing the gaps between its trading hours and those of its regional competitors.

ETF Market Development

2011 was a challenging year for Hong Kong's ETF market. Turnover of ETFs decreased 10 per cent from 2010 to \$545 billion (2010: \$604 billion), whilst ETF trading maintained at 3 per cent of the total market turnover (2010: 4 per cent). A total of 8 ETFs were newly listed (2010: 26), increasing the total number of ETFs listed on the Exchange by 12 per cent from 69 to 77. With the entry of 2 new ETF managers from the Mainland and Korea respectively in 2011, there are now 15 managers. However, 1 ETF manager already announced its delisting of ETFs in March 2012, making it the first delisting in ETF history in Hong Kong. HKEx has established procedures to handle and protect investors' interest.

ETFs newly listed in 2011	Number
• Tracking Korea stocks	1
• Tracking Hong Kong listed Mainland China stocks	3
• Tracking Hong Kong stocks	1
• Tracking Taiwan stocks	1
• Tracking Greater China Region	1
• Tracking Mainland China stocks listed globally outside Mainland China	1

In August 2011, the SFC imposed a requirement on domestic synthetic ETFs to achieve at least 100 per cent collateralisation to ensure that there would not be any uncollateralised counterparty risk exposure. The new requirements also include a prudent haircut policy, where the market value of equity collateral should be equivalent to at least 120 per cent of the related gross counterparty risk exposure.

To promote HKEx's ETF market, we enriched the ETF section on the HKEx website in October 2011 by adding an ETF search engine which allows investors to search and compare ETFs, and introducing new functionalities which enable investors to find actively traded ETFs, browse daily/monthly statistics and view other useful reference information.

Derivatives Market

Market Performance

The Derivatives Market turnover reached an all-time high of 140,493,472 contracts in 2011, surpassing the previous high of 116,054,377 contracts in 2010 (up 21 per cent).

Products	% increase in turnover year on year
Stock Options	22
H-shares Index Futures	21
HSI Options	25

Record high daily volume and open interest achieved in 2011

Products	Daily volume		Open interest	
	Date	Number of contracts	Date	Number of contracts
HSI Futures	9 Aug	235,385	–	–
Mini-HSI Futures	9 Aug	86,812	17 Jun	21,682
H-shares Index Futures	27 Sept	220,600	28 Sept	177,892
H-shares Index Options	–	–	28 Dec	380,344
Mini H-shares Index Futures	9 Aug	19,556	17 Jun	6,030
HSI Dividend Point Index Futures	2 Feb	1,600	29 Dec	6,008
HSCEI Dividend Point Index Futures	14 Sept	15,000	29 Dec	36,441
HSI Options	5 Aug	116,835	28 Sept	483,835
Mini-HSI Options	5 Aug	10,618	29 Aug	22,086
Flexible HSI Options	–	–	29 Dec	8,310
Flexible H-shares Index Options	26 Sept	5,770	3 Nov	12,074
Stock Futures	–	–	25 Aug	26,482
Stock Options	–	–	28 Nov	9,218,955

Derivatives Market statistics

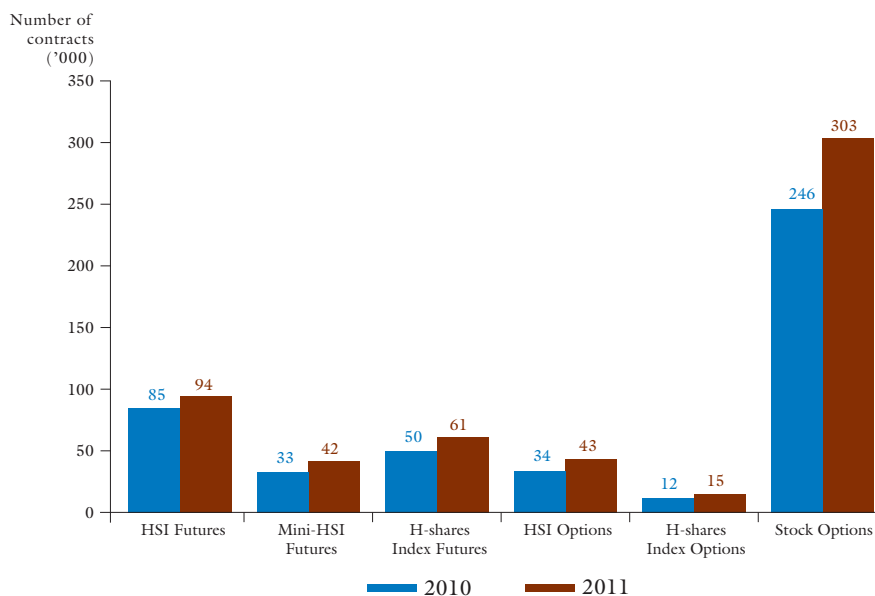
	2011		2010	
	Volume Number of contracts	Period-end open interest Number of contracts	Volume Number of contracts	Period-end open interest Number of contracts
Futures				
HSI Futures	23,085,833	86,409	21,031,085	88,816
Mini-HSI Futures	10,294,537	5,129	8,300,654	7,359
H-shares Index Futures	15,003,870	106,277	12,429,800	94,734
Mini H-shares Index Futures	1,845,116	1,520	992,224	1,867
HSI Dividend Point Index Futures ¹	11,196	4,460	2,123	1,270
HSCEI Dividend Point Index Futures ¹	53,054	34,270	4,667	1,138
Stock Futures	444,014	11,277	239,259	11,514
1-Month HIBOR Futures	245	25	14	0
3-Month HIBOR Futures	414	24	1,055	267
3-Year Exchange Fund Note Futures	0	0	0	0
Gold Futures	3,716	0	5,642	85
Total	50,741,995	249,391	43,006,523	207,050
Options				
HSI Options	10,667,426	184,402	8,515,049	187,784
Mini-HSI Options	954,414	3,873	482,691	4,859
H-shares Index Options	3,771,799	158,628	2,910,713	104,994
Flexible HSI Options ²	9,260	7,510	11,222	500
Flexible H-shares Index Options ²	23,510	3,500	2,532	0
Stock Options	74,325,068	5,329,494	61,125,647	5,381,215
Total	89,751,477	5,687,407	73,047,854	5,679,352
Total Futures and Options	140,493,472	5,936,798	116,054,377	5,886,402

Notes:

1 Launched on 1 November 2010

2 Launched on 8 February 2010

Average daily turnover of major derivatives



Consultation on After-hours Futures Trading

The HKEx Board approved the proposal on the introduction of after-hours futures trading; the consultation conclusion was published on 15 December 2011. The consultation paper published in May 2011 drew 455 responses comprising submissions from EPs/CPs, professional and industry associations, market practitioners and individuals. Among them, 353 respondents (about 78 per cent) supported the proposal, including 67 futures market EPs which accounted for 80 per cent of HSI futures and H-shares Index futures market trading in the first half of 2011. HKEx is preparing for system and market readiness for after-hours futures trading, which is scheduled for launch in the second half of 2012.

Introduction of VHSI and its Futures Contract

On 21 February 2011, the real-time VHSI was launched as a stock market volatility benchmark for Hong Kong. VHSI Futures was introduced for trading on 20 February 2012, which is an innovative tool for investors in hedging volatility risk or obtaining pure volatility exposure with a single futures contract.

Development of Stock Options Market

On 21 November 2011, 3 new stock option classes commenced trading on the Exchange. HKEx obtained regulatory approval of the rule amendments for the introduction of RMB-denominated stock options based on RMB-denominated underlying stocks listed on the Exchange. Participants have confirmed their system readiness following the RMB readiness test conducted on 14 January 2012.

System Enhancements on HKATS to Promote Options Business

HKEx introduced several system enhancements on HKATS to promote its options business in the Derivatives Market in 2011, including the extension of the Bulletin Board function to cover futures and options on Mini-HSI and H-shares index markets in May 2011, introduction of Synthetic Futures trading in selected stock options classes in the first half of 2011, and enrichment of trading information on standard combination series in December 2011.

Clearing

CCASS statistics

	2011	2010	Change
Average daily Exchange Trades handled by CCASS			
Number of trades	873,654	778,877	12%
Value of trades (\$bn)	69.8	69.1	1%
Share quantity involved (bn)	162.2	140.5	15%
Average daily SIs settled by CCASS			
Number of SIs	83,833	80,163	5%
Value of SIs (\$bn)	211.2	187.9	12%
Share quantity involved (bn)	47.8	47.2	1%
Average daily ISIs settled by CCASS			
Number of ISIs	469	574	(18%)
Value of ISIs (\$m)	261.1	273.0	(4%)
Share quantity involved (m)	123.7	117.3	5%
Average daily settlement efficiency of CNS stock positions on due day (T+2)	99.88%	99.87%	–
Average daily settlement efficiency of CNS stock positions on the day following the due day (T+3)	99.99%	99.99%	–
Average daily buy-ins executed on T+3			
Number of brokers involved	6	8	(25%)
Number of buy-ins	7	9	(22%)
Value of buy-ins (\$m)	2.4	3.1	(23%)
Shares deposited in the CCASS depository			
Number of shares (bn)	3,694.2	3,834.1	(4%)
Percentage of total issued shares of the admitted securities	70%	72%	–
Value of shares (\$bn)	9,599.9	11,294.5	(15%)
Percentage of the total market capitalisation of the admitted securities	50%	50%	–

Note: Figures for 2010 have been restated to include transactions in all currencies.

T+2 Finality

On 25 July 2011, HKEx launched the T+2 Finality for CCASS money settlement, which reduces the overnight credit risk of Participants and aligns the money settlement arrangement in Hong Kong with international best practices by bringing finality of securities and money settlement onto the same day.

Scripless Securities Market

The Scripless Securities Market Working Group has completed its study of the operational details of the proposed model which will form the basis for the SFC's consultation on the new subsidiary legislation under the SFO in 2012.

DCASS Service Enhancement

Effective 12 December 2011, DCASS's capital adjustment process for derivatives contracts was enhanced for higher efficiency. Since then, CPs could access historical trades based on unadjusted series. Other service improvements include enhancing the Rectify Trade function to allow further rectification of partially given-up trades.

RMB Business Development

As at 31 December 2011, 11 RMB-denominated debt securities and 1 RMB-denominated REIT were listed for trading on the Exchange. A majority of the EPs had confirmed their readiness for dealing in and/or clearing of RMB securities.

HKEx is ready to support the DTDC model which enables simultaneous offering and listing of both HKD-traded shares and RMB-traded shares on the Exchange by an issuer through an IPO or by an existing issuer with HKD-traded shares that wishes to raise RMB. Regardless of the counter in which the shares will be traded, the shares will rank *pari passu* in respect of shareholders' rights and entitlements. Trades in the HKD and RMB counters will be cleared and settled separately under CCASS. Inter-counter transfer through the share registrar of the issuer or CCASS is permissible.

The RMB Equity TSF system which supports the trading of any RMB stocks on the Exchange was released on 24 October 2011. TSF is designed to serve as a back-up facility to enable investors who wish to buy RMB-traded shares in the secondary market with HKD if they do not have sufficient RMB or have difficulty in obtaining RMB from other channels. While RMB is not fully convertible and is subject to liquidity constraints, the TSF is intended to enable investors to invest in RMB-traded shares using their readily available currency, HKD. As of 31 December 2011, a total of 37 brokers and custodians have registered to provide the RMB Equity TSF service to their clients.

HKCC and SEOCH have enhanced their clearing capabilities to support RMB-settled futures and options, including stock options. HKCC and SEOCH will continue to work with CPs and other market participants in their preparation for RMB business.

Participant Services

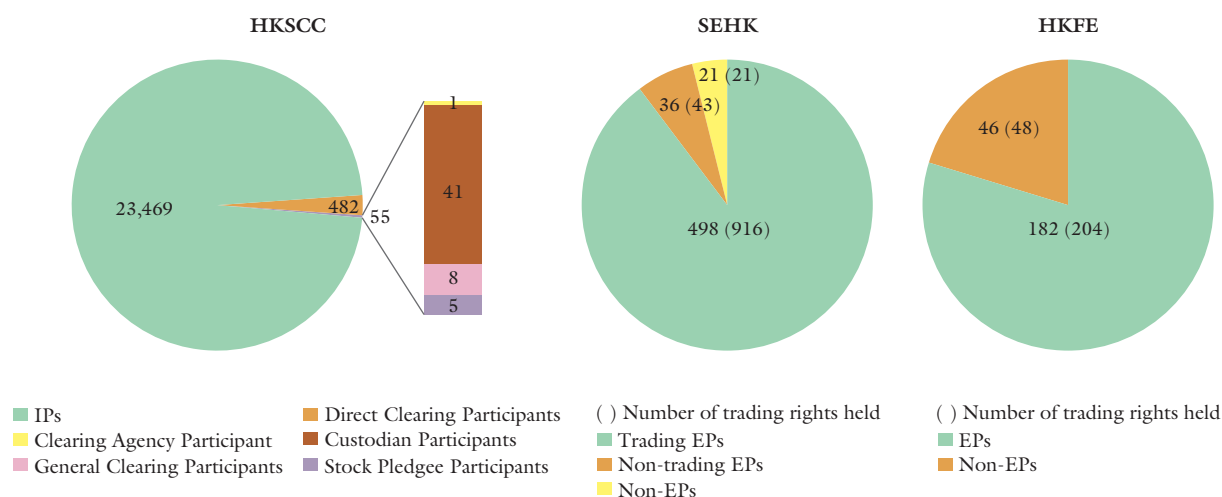
Participant Training and Market Education

Throughout 2011, HKEx and HKSI jointly organised 16 CPT courses on the HKATS terminal or derivatives. There were also 10 training courses related to AMS and 32 related to CCASS or DCASS. Under HKEx's joint promotion programme with EPs, over 5,700 people participated in 53 briefings and 12 seminars on derivatives led by HKEx in 2011.

Participant Recruitment

At the end of December 2011, there were 534 SEHK Participants and 182 HKFE Participants, including 25 SEHK Participants and 12 HKFE Participants admitted in 2011. For HKSCC, there were 24,006 CCASS Participants, including 1,025 IPs admitted in 2011.

Number of Participants (as at the end of 2011)



Market Data

Market Performance

As at the end of 2011, there were 149 and 80 real-time and delayed IV licences respectively. The licensed IVs altogether offered a total of 914 types (2010: 909) of real-time market data services to the market. Despite an increase of 5 delayed IVs in 2011, the total number dropped from 97 to 80 as at the end of 2011, mainly because 13 of them, who are both real-time and delayed products subscribers, were consolidated under the Single Licence Regime and another 9 migrated to real-time.

Products subscribed	Number of real-time IVs	
	2011	2010
• Securities market data	139	129
• Derivatives market data	64	59
• Issuer Information Feed Service	11	12
• More than 1 data product groups	57	54

Single Licence Regime

HKEx completed the implementation of the Single Licence Regime by the end of October 2011, under which all licensed IVs are now under the new regime. The new regime helps streamline the management of market data licence agreements by consolidating the previous 4 separate market data licence agreements for HKEx's securities market data, stock options market data, HKFE's market data and Issuer Information Feed Service into a single agreement with standard contractual terms. The structure of the new agreement could also support the rollout of new and multiple datafeed products by the Exchange like MDS/3.8 and the NGMDS.

Mainland Market Data Collaboration Programmes

The Mainland Market Data Collaboration Programmes with the Shanghai Stock Exchange (SHSE Programme) and the Shenzhen Stock Exchange (SZSE Programme), which were originally due to expire by the end of 2011, have been extended for 2 years until the end of 2013. Under these programmes, HKEx and the Shanghai Stock Exchange/Shenzhen Stock Exchange are allowed to redistribute the other party's basic real-time market data of companies dually listed on the respective markets to their respective authorised IVs for onward transmission to their subscribers for internal display purposes.

At the end of December 2011	Number of IVs
SHSE Programme	19
SZSE Programme	9

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 2011), the discounted monthly fees of \$80 for retail clients and \$120 for corporate clients will continue to be applicable until the end of 2012. 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. The programme benefited more than 13,500 individual investors and 3,000 institutional investors on the Mainland.

Introduction of BMP Service

The BMP Service, based largely on the Free Prices Website Service Pilot Programme introduced in October 2009, was launched on 1 April 2011 to enhance market transparency and raise the profile of the Hong Kong securities and derivatives market. Under the BMP Service, HKEx provides basic Cash and Derivatives Market data to service providers at a flat monthly fee. The BMP Service has been well received by the market and up to date, there are 22 BMP Service providers including IVs, EPs or their affiliates, and mass portals. These service providers together offer services through a total of 32 websites and 16 mobile applications. HKEx expects that the number of BMP service providers will continue to grow with wider varieties of services.

Introduction of PRS Plus

HKEx introduced an enhanced derivatives market datafeed, PRS Plus, on 11 April 2011. The PRS Plus sends market data updates 5 times more frequently than the existing datafeed PRS, which remains as an option to the users. HKEx also introduced an End-user Licence for both PRS and PRS Plus. As at 31 December 2011, there were 28 IVs offering PRS Plus on their services and 24 companies (mainly EPs and market makers) with the End-user Licence for the internal usage of PRS Plus.

Enhancement of Securities Market Data Service of MDS/3.8

After the upgrade of the Derivatives Market data service in April 2011, HKEx also diversified its Cash Market data offerings by introducing an enhanced version of MDF, known as MDF 3.8, following the upgrade of its market data system from MDS/3.5 to MDS/3.8. MDF 3.8 doubles the market depth from 5 price levels to 10, and reduces its data latency by 80 per cent from 0.5 seconds to 0.1 second. Its stock update rate was also doubled from 1,000 updates per second to 2,000 per second. In order to promote usage, the deeper and faster Cash Market data are made available to the market without a change in price. In parallel with the rollout of MDF 3.8, the current version of MDF after necessary modifications to align with AMS/3.8, will be maintained for a period of time to allow IVs to have a smoother and more flexible product migration to MDF 3.8. MDF 3.8 was introduced to the market on 5 December 2011. Most of the direct connection Cash Market data IVs have migrated to MDF 3.8.

Development of NGMDS

In the fourth quarter of 2011, HKEx started to develop a new market data system, NGMDS – the first part of the overall roadmap towards the next generation core platforms. The NGMDS will support multi-asset classes and consolidate the HKEx market data distribution of the Cash Market and Derivatives Market into a single platform. It will enable HKEx to distribute its market data to the Mainland via a Mainland market data hub, and further facilitate the offering of a new suite of market data products across 2 markets, including conflated, streaming, market-by-price, and market-by-order feeds, to better serve HKEx’s customers with diversified business needs.

The design phase of NGMDS was completed in December 2011. The system development work is being conducted by HKEx and its engaged system vendor. The NGMDS is expected to be rolled out in the Cash Market around mid-2013.

Risk Management

Clearing Houses’ Risk Management Reform Measures

On 8 July 2011, HKEx published a consultation paper “HKEx Clearing House Risk Management Reform Measures” to propose several major risk management reform measures which aim to fundamentally strengthen HKEx’s clearing house risk management regime, address certain identified gaps relative to international standards, and contribute to the long-term stability and competitiveness of Hong Kong as an international financial centre.

The key proposals are to (i) introduce a standard margin system and a Dynamic Guarantee Fund at HKSCC; (ii) revise certain price movement assumptions in the clearing houses’ stress testing; (iii) revise the counterparty default assumption in the stress testing; and (iv) revise the collateral assumptions at HKCC and SEOCH. The proposals also include various measures of financial support from HKEx to reduce the impact on CPs.

As part of the overall strengthening of its risk management regime, HKEx also increased the amount of its shareholders’ funds set aside to support the clearing houses’ financial resources from \$3.1 billion to \$4 billion in 2011.

During the consultation period, which closed on 28 October 2011, over 600 responses were received from CPs, brokerage industry associations, professional bodies, other non-CPs as well as individuals. The overall responses were broadly supportive and the consultation conclusions are scheduled to be released in the first quarter of 2012.

Enterprise Risk Management

In 2011, we conducted regular reviews of the previously identified risks across the organisation based on the ERM Framework, as well as identified and assessed new significant risks on different areas such as credit, liquidity, market, operational and strategic, using a common platform and standardised process. All identified significant risks were scored in terms of their potential impact and likelihood, and were reported to the Senior Management Committee with associated action plans and controls designed to mitigate the risks, where applicable, at appropriate levels.

Market Surveillance

Under the MOU between the SFC and HKEx on matters relating to market surveillance, HKEx referred a total of 37 cases (2010: 28) 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 2011.

Information Technology

Production Systems' Stability and Reliability

All major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets continue to perform with high reliability throughout 2011.

On 10 August 2011, the HKExnews website became unstable around midday under malicious intrusion in the form of Distributed Denial of Service (DDoS) attacks. Normal service resumed around 8:00 pm. During the incident, HKEx's other systems, including all market systems, continued to operate normally. HKEx has implemented relevant security enhancements to strengthen protection against further attacks, and will pursue continuous improvements to sustain reliability and stability of its mission critical systems.

Technology Upgrades

In 2011, HKEx allocated substantial resources towards upgrading its systems to increase its competitiveness as an operator of international markets. These included (i) the introduction of PRS Plus in April 2011 to deliver an additional datafeed for the Derivatives Market to support a higher price update frequency of about 6,600 messages per second; (ii) the increase in the DCASS capacity by about 60 per cent in December 2011 to handle 475,000 account positions; (iii) the rollout of AMS/3 upgrade (referred to as AMS/3.8) in December 2011 to increase capacity by 10-fold to 30,000 orders per second (scalable to 150,000 orders per second) with corresponding reduction of one-time throttle charge by half to \$50,000, to reduce order processing latency by 70-fold to 2 milliseconds on an average trading day, and to improve market transparency by displaying the 10 best price levels compared to the 5 best price levels in AMS/3.5; and (iv) the further upgrade of MDS to MDS/3.8 in December 2011 to increase the price update frequency to 2,000 stock pages per second for performance alignment with AMS/3.8.

At the same time, HKEx has started the phased implementation of the next generation market systems according to the established technology roadmap. Initially, these include: (i) launching a market datafeed solution to replace the existing MDS and PRS with a single, common, flexible, and ultra low-latency market data dissemination platform for all asset classes traded on HKEx; (ii) introducing a new OTC platform required for the operation of the new OTC clearing house; (iii) concluding the study for an HKATS/DCASS upgrade to a new technology platform; and (iv) evaluating the Central Gateway solution that will support high performance access of the Cash Market trading system by Participants.

In addition, we have kicked off the migration of EP/IV circuits to the SDNet2.0, which is a new network infrastructure operated by multiple service providers that will support network circuits with higher bandwidth capacity and lower transmission latency for access of all HKEx market systems. Circuit migration for AMS, HKATS/DCASS and CCASS will be carried out by phases between 2012 and 2013.

System Enhancements for RMB Products

System enhancement for RMB Equity TSF was duly completed and implemented on 24 October 2011. Various enhancements were also completed during 2011 to facilitate the clearing and settlement of RMB products, including (i) conversion of HKSCC marks and collateral requirements in RMB and other currencies into HKD equivalent with haircut; (ii) share transfer support for the DTDC model; and (iii) the enhanced DCASS capability to support Stock Options with trading/settlement currencies other than HKD.

Independent Reviews

An independent review of the AMS/3.8 and MDS/3.8 project was completed in October 2011, and concluded that essential controls were in place to mitigate key risks of the project rollout.

HKEx also completed a review with an external security consultant to benchmark its security policy against the best practices in the financial industry, particularly the e-Banking security requirements. HKEx will examine the identified gaps and establish a plan in due course to implement the corresponding improvement actions.

Operational Efficiency

HKEx implemented a number of new systems in 2011 for efficiency improvement, including (i) the SPRINTS to facilitate automation of the approval process for DW and CBBC listing applications; and (ii) the Enterprise Content Management system to streamline the document management process and enhance operational efficiency in the Listing Division. We also completed the upgrade of the corporate personal computers and productivity tools in January 2012 for alignment with the software vendor's product lifecycle.

New Data Centre and IT Office Consolidation

HKEx has received the Certificate of Completion for the foundation site works that were completed in May 2011 for its new Data Centre in Tseung Kwan O. The core and shell construction was also completed by the end of 2011. Other electrical, mechanical and redundancy power works are in progress and it is aimed to deliver a dust free environment by mid-2012. Provisioning of network infrastructure and structured cabling systems will be conducted thereafter to facilitate installation and commissioning of the IT equipment.

The first phase of relocation to the new Data Centre will take place in the fourth quarter of 2012, which includes the IT office and primary data centre for the Cash Market. The consolidation with other data centres will be completed by phases till the end of 2013.

Market Development

BRICS Exchanges Alliance

HKEx led the formation of an alliance among the leading exchanges in the BRICS countries, namely BM&FBOVESPA, MICEX (recently merged with RTS), BSE Limited and the Johannesburg Stock Exchange. This alliance was announced upon the signing of an MOU on 12 October 2011 at the WFE Annual Meeting in Johannesburg, South Africa.

In the first phase of the alliance, each alliance partner will list futures and/or forward contracts on the benchmark equity index of the other alliance members, giving investors worldwide easier access to the dynamic equity markets of the emerging BRICS economies. These cross-listings are planned to take place in the first half of 2012.

The second phase will include the development of products combining exposure to equity markets of all alliance partner exchanges. These products would then be listed and traded in local currencies on the respective alliance exchanges, allowing investors to gain exposure to other emerging markets through a locally listed product.

Issuer Services

HKEx launched a series of services for issuers, which are aimed at enhancing the visibility of listed companies and improving communication between listed companies and the investment community.

HKEx will organise periodically “Know the Listed Companies” conferences at HKEx’s Auditorium where representatives from listed companies of the same industry, sector, or theme will brief the audience on updates to company information. These conferences will be a platform for listed companies to present themselves to analysts, institutional investors and other market professionals in order to raise their profile, keep shareholders informed, and attract new investors. Listed companies may also commemorate their business milestones by participating in market open ceremonies where their representatives and guests will have the unique opportunity to open the market by hitting the gong at the HKEx Trading Hall to mark the start of the trading day. Video clips and photos of the ceremony will be hosted on the HKEx website and distributed to the media.

These issuer services will allow listed companies to gain additional visibility amongst investors, who in turn will have greater awareness of each company’s investment case and commercial activities, and will also help to enhance secondary market liquidity and provide access to additional capital. At a later date, HKEx may offer referral-based market intelligence and communications services to facilitate listed companies’ understanding of their shareholders and how they are perceived by investors.

Hosting Services

HKEx has been developing the operational model and customer offerings of Hosting Services for launch in 2012. The total capacity of the hosting floors inside the new Data Centre can support up to 1,200 cabinets of server space, and the development will be divided into 3 phases. Phase 1, of around 320 cabinets, will be made available in the fourth quarter of 2012.

HKEx’s Hosting Services will further support Hong Kong’s financial markets community using an ecosystem approach. EPs, IVs, technology vendors and telecommunications providers will be able to interact within the ecosystem. This will allow infrastructure and software provisioned by hosted technology vendors. A low latency local area network will also be provided for EPs to access the Cash and Derivatives Markets following the migration of the 2 markets to the new Data Centre in October 2012 and April 2013 respectively.

The Hosting Services Founding Members Programme was launched in February 2012 to allow select hosting ecosystem service providers to participate in the early set-up of the hosting ecosystem. Those companies which enrol in the Founding Members Programme will be invited to participate in joint marketing efforts with HKEx.

OTC Clearing House

In October 2011, the HKMA and the SFC issued a joint consultation paper on the regulatory regime for the OTC derivatives market in Hong Kong. HKEx provided feedback which emphasised the importance of mandating the clearing of HKD and RMB OTC derivatives by a Hong Kong Central Counterparty.

After an in-depth evaluation of proposals submitted by various system vendors, HKEx selected Calypso Technology Inc as the provider for the clearing and risk management platform. Implementation work commenced in November 2011.

During the fourth quarter of 2011, HKEx met with over 30 potential participants, including local banks, Mainland banks and international banks with branches or affiliates in Hong Kong for interactive discussions on the future development.

In 2012, HKEx will finalise the business model, risk management structure, the detailed rulebook and operations manual. Pending completion of the legislative process by the Government, market rehearsals are scheduled to be coordinated in the middle of 2012 before the debut of the clearing house operation.

IT Platform Development

In 2011, a roadmap was established to elevate HKEx's core IT platforms to a level of global competitiveness, and to position HKEx for future challenges. The roadmap defines an incremental approach; the first component being market data. A competitive tender was conducted for the supply of a new system to (i) provide a low latency platform for the dissemination of market data, (ii) expand the range of market data products available to customers, and (iii) support distribution of market data in the Mainland. The project commenced in September 2011, and rollout is scheduled for 2013.

We will focus on market access components and scoping of the core trading system replacement in 2012.

Mainland Development

In August 2011, HKEx announced the potential joint venture with the Shanghai Stock Exchange and the Shenzhen Stock Exchange, which is a milestone development for the Mainland and Hong Kong capital markets. It symbolises the commitment of the 3 exchanges to strengthen cooperation in promoting Chinese securities in international markets.

HKEx has broadened and deepened its relationships with Mainland authorities (at both central and provincial levels), regulators, exchanges, and market participants. We extended our reach to our key Mainland counterparts, including the China Financial Futures Exchange, the Zhengzhou Commodity Exchange, the Dalian Commodity Exchange, the Shanghai Futures Exchange, the China Securities Depository and Clearing Corporation Limited, the Shanghai Clearing House, the China Foreign Exchange Trade System, and the National Association of Financial Market Institutional Investors, etc. With regular dialogue and bilateral meetings at all levels, HKEx aims to explore opportunities for closer cooperation in the interests of our securities markets, such as the OTC clearing project, development of HKEx's market data and issuer services in the Mainland, and strategies on commodities.

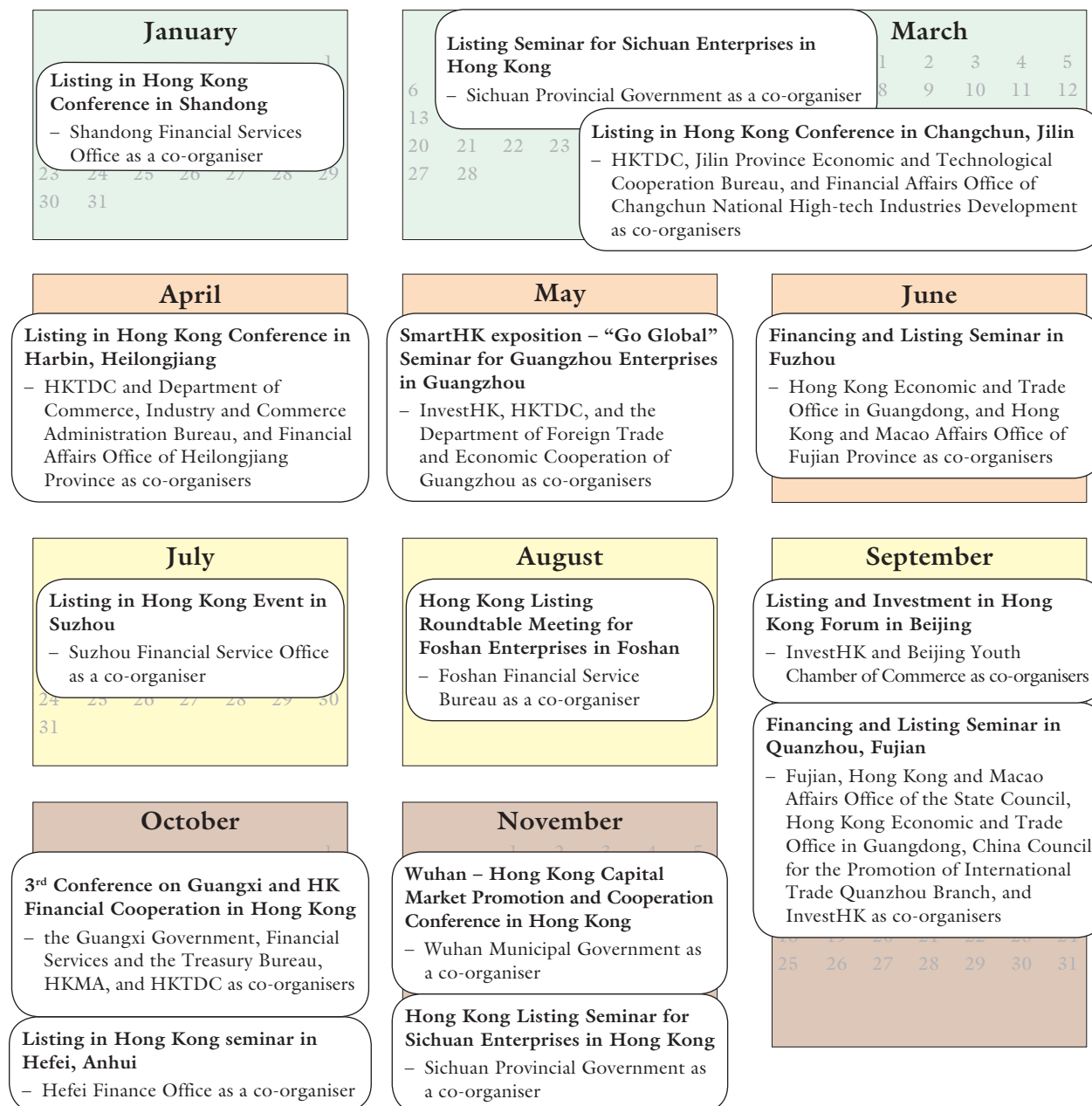
HKEx has organised exchange programmes for Mainland authorities to strengthen their understanding of our businesses and to forge closer working relationships. During 2011, we arranged over 400 hours of exchange programmes for senior officials from the People's Bank of China, the CSRC, the State Administration of Foreign Exchange and the Shanghai Stock Exchange.

Issuer Marketing

In line with our core strategy to generate organic growth, we have continued our work on promoting HKEx as a pre-eminent listing venue for Mainland and international companies seeking capital, profile and a liquid secondary market. Throughout 2011, we maintained a high level of marketing activity including roadshows on the Mainland and in many other countries around the world to identify and meet with potential issuers. In addition, we collaborated closely with the Mainland and Hong Kong governments to organise promotional activities in strategically important Mainland cities and regions to attract companies to list in Hong Kong.

In 2011, HKEx hosted 21 events of different scales ranging from large conferences to small roundtable discussions and workshops in 14 Mainland cities and Hong Kong to potential issuers. We made 74 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 marketing events were organised in Mongolia and Hong Kong where natural resources companies expressed strong interest in raising funds through a Hong Kong listing.

Major events organised by HKEx for Mainland enterprises in 2011



In 2011, we continued to see more overseas companies (from Kazakhstan, Indonesia, Japan, Singapore, and Taiwan in Asia; Switzerland, Luxembourg, Italy and France in Europe; and the US) listed on the Exchange. Riding on the strong economic growth in the Mainland and robust fund-raising activities on the Exchange, we expect more Mainland enterprises and overseas companies, in particular those in the natural resources and consumer goods sectors and those with an Asian business nexus, to continue to view Hong Kong as the ideal platform for fund raising or extending their international reach. 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 operation.

HKEx's Chairman has played a key role in introducing the Exchange to potential issuers, intermediaries and government officials from overseas. In 2011, he visited France, Italy, Mongolia, Russia, South Africa and the US to promote HKEx as their preferred choice.

Major events organised by HKEx in Hong Kong targeting overseas companies in 2011

Date	Event	Co-organiser(s)
Apr	Listing of Italian Companies in Hong Kong	Consulate General of Italy in Hong Kong and Italian Chamber of Commerce in Hong Kong and Macao
Apr	Cocktail for South African high level delegation	The South African Consulate General
Nov	Listing of European Companies in Hong Kong	The European Chamber of Commerce in Hong Kong
Nov	HKEx Deloitte Seminar for Japanese Companies	Deloitte Touche Tohmatsu

Listing Training Sessions

As part of our issuer marketing initiatives in 2011, we co-organised an introductory programme for about 80 participants on China Domestic Financial Markets Conference with an investment bank. In addition, we co-organised 3 training sessions in Hong Kong for over 100 senior executives from Mainland enterprises with The Hong Kong Polytechnic University and the State Council's Office of Hong Kong and Macao 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.

Research and Corporate Development

HKEx published the Cash Market Transaction Survey 2009/10 in February 2011 and the Derivatives Market Transaction Survey 2010/11 in November 2011. The survey findings revealed that the contribution of overseas investors to the total market turnover remained at relatively high levels – 46 per cent in value terms in the securities market in 2009/10, surpassing the contribution from local investors for the first time; and 23 per cent in volume terms in the derivatives market in 2010/11. In addition, HKEx has completed the Retail Investor Survey 2011, a biennial survey to assess the degree of retail participation in, and their views on, the HKEx markets. The survey report will be published in due course.

The published 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

Apart from promoting the Exchange as an international fund-raising platform, HKEx has proactively participated in various events on promoting the Hong Kong financial industry organised by different international and local organisations from time to time. We made use of the opportunities to introduce HKEx and its markets to market participants from different parts of the world. In 2011, HKEx's Chairman participated in the Asian Financial Forum, Latin America Asia-Pacific Investors Forum, 2nd Russia – Capital Raising and Investment Summit Hong Kong, Kazakh Equity Capital Raising & Investment Forum, Bloomberg China Conference, China Daily Asia Leadership Roundtable luncheon, Economic Summit 2012, and HKGCC Business Forum in Hong Kong, as well as the St. Petersburg International Economic Forum 2011 in Russia and the BRICS – Conference 2011 in Austria promoting HKEx's markets.

Major events participated by HKEx in 2011

Date	Event	HKEx's objectives
15 Mar	Seminar on the launch of VHSI & its Application organised by HKEx in Hong Kong	To promote the VHSI Futures to EPs
13 May	Conference on Development of ETFs and Other Index Products organised by HKEx and the Shanghai Stock Exchange in Hong Kong	To provide an opportunity for regulators and industry participants to discuss the development of the ETFs market and other index products in the Mainland, Hong Kong and other markets
7-8 Jun	4 th FIA/FOA International Derivatives Expo organised by The Futures Industry Association (FIA) in London	To promote HKEx's derivatives products to FIA members and international market participants
1 Sept	Seminar to Mainland brokers organised by HKEx in Hangzhou	To recruit new EPs
23 Sept	China's Macroeconomic Forum organised by HKEx and the Renmin University of China's Institute of Economic Research in Hong Kong	To exchange views on the RMB internationalisation and the restructuring of Hong Kong as an international financial centre
11-12 Oct	27 th Annual Futures & Options Expo organised by FIA in the US	To promote HKEx's derivatives products to FIA members and international market participants
7-9 Nov	Asia Pacific Financial Information Conference co-hosted by HKEx and organised by the Financial Information Services Division of the Software and Information Industry Association in Hong Kong	To promote HKEx's market data business
22 Nov	2011 Annual Conference: Hong Kong – Mainland: Synergy & Opportunities organised by The Hong Kong Management Association in Hong Kong	To promote Hong Kong's role as an international financial centre bridging the Mainland and the international markets
29 Nov-1 Dec	7 th Annual FIA Asia Derivatives Conference organised by FIA Asia in Singapore	To promote HKEx's derivatives products and OTC clearing to FIA Asia members and international market participants
2 Dec	Hong Kong: America's Bridge to Asian Growth Business Seminar organised by HKTDC in the US	To promote the Exchange as well as explain HKEx's role in the RMB internationalisation

Treasury

The Group's funds available for investment comprise Corporate Funds, cash collateral, Margin Funds and Clearing House Funds, totalling \$48.2 billion on average in 2011 (2010: \$40.5 billion).

As compared with 31 December 2010, the overall size of funds available for investment as at 31 December 2011 increased by 19 per cent or \$7.4 billion to \$45.7 billion (31 December 2010: \$38.3 billion). Details of the asset allocation of the investments as at 31 December 2011 against those as at 31 December 2010 are set out below.

	Investment Fund Size \$bn		Bonds *		Cash or Bank Deposits *		Global Equities	
	2011	2010	2011	2010	2011	2010	2011	2010
Corporate Funds	9.7	9.4	53%	58%	43%	38%	4%	4%
Cash collateral	3.2	3.6	0%	0%	100%	100%	0%	0%
Margin Funds	31.3	22.7	20%	26%	80%	74%	0%	0%
Clearing House Funds	1.5	2.6	19%	14%	81%	86%	0%	0%
Total	45.7	38.3	25%	31%	74%	68%	1%	1%

* Included certain principal-guaranteed structured notes and deposits

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the cash collateral, Margin Funds and Clearing House Funds. Excluding equities and mutual funds held under the Corporate Funds (\$0.4 billion as at 31 December 2011 and \$0.4 billion as at 31 December 2010), which have no maturity date, the maturity profiles of the remaining investments as at 31 December 2011 (\$45.3 billion) and 31 December 2010 (\$37.9 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	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Corporate Funds	9.3	9.0	20%	19%	4%	4%	42%	27%	17%	34%	17%	16%
Cash collateral	3.2	3.6	72%	72%	0%	7%	28%	21%	0%	0%	0%	0%
Margin Funds	31.3	22.7	14%	27%	26%	24%	54%	26%	4%	23%	2%	0%
Clearing House Funds	1.5	2.6	49%	74%	7%	7%	44%	5%	0%	14%	0%	0%
Total	45.3	37.9	20%	33%	19%	16%	50%	24%	6%	23%	5%	4%

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 2011, had a weighted average credit rating of Aa3 (31 December 2010: Aa2) and a weighted average maturity of 1.8 years (31 December 2010: 2.1 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 2011 and 2010 was as follows:

	Average VaR \$m		Highest VaR \$m		Lowest VaR \$m	
	2011	2010	2011	2010	2011	2010
Corporate Funds	23.9	19.2	27.5	27.1	17.5	15.3
Cash collateral	0.3	0.0	0.3	0.4	0.1	0.0
Margin Funds	5.1	15.3	7.5	34.5	3.2	7.2
Clearing House Funds	0.7	1.9	1.8	2.4	0.1	0.6

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 financial statements of this Annual Report.

FINANCIAL REVIEW

HKEx Group – Overview of 2011 Results and Financial Position

Key Market Statistics and Business Drivers – Cash Market

	2011
Average daily turnover value on the Stock Exchange	\$69.7 bn
Number of newly listed DWs	6,917
Number of newly listed CBBs	5,334
Number of newly listed companies on Main Board	88
Number of newly listed companies on GEM	13
Number of Main Board companies at 31 Dec 2011	1,326
Number of GEM companies at 31 Dec 2011	170
Total equity funds raised on Main Board	\$482.9 bn
Total equity funds raised on GEM	\$7.5 bn
Total equity funds raised	\$490.4 bn

Segment Profit for the Year

	2011				
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Total \$m
Revenue and other income	3,396	1,127	2,692	640	7,855
Operating expenses	936	252	524	111	1,823
Reportable segment profit before taxation	1	2	3	4	6,032
Taxation					(939)
Profit attributable to shareholders					5,093

Key Market Statistics and Business Drivers - Derivatives Market

	2011
Average daily number of derivatives contracts traded on the Futures Exchange	269,525 *
Average daily number of stock options contracts traded on the Stock Exchange	302,750 *

* New record high in 2011

Consolidated Statement of Financial Position

	At 31 Dec 2010
ASSETS	
Cash and cash equivalents	1,945
Cash and cash equivalents of Clearing House Funds and Margin Funds (Funds) and cash collateral	5 17,416
Financial assets	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

Cash Flows for the Year

	2011
	\$m
Net cash inflow from operating activities	11 5,273
Purchases of shares held for Share Award Scheme	10 (80)
Payments for purchases of fixed assets	(456)
Dividends paid	(4,606)
Net decrease in financial assets of Corporate Funds	77
Interest received from financial assets	179
Proceeds from issue of shares	8
Net increase in cash and cash equivalents	395
Cash and cash equivalents at 1 Jan 2011	1,945
Cash and cash equivalents at 31 Dec 2011	2,340

Consolidated Statement of Financial Position

	At 31 Dec 2011
ASSETS	
Cash and cash equivalents	5 2,340
Cash and cash equivalents of Funds and cash collateral	45,821 15,881
Financial assets	27,600
Fixed assets and lease premium for land	6 973
Other assets	7 7,234
Total assets	54,028
LIABILITIES AND EQUITY	
Liabilities	
Cash collateral from HKSCC Clearing Participants	3,233
Participants' contributions to Funds	8 32,239
Other liabilities	9 9,397
Total liabilities	44,869
Equity	
Share capital, share premium and reserves	2,402
Shares held for Share Award Scheme	10 (296)
Retained earnings	7,053
Shareholders' funds	9,159
Total liabilities and equity	54,028

Notes

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

	2011			
	Share capital and share premium \$m	Employee share-based compensation reserve \$m	Designated reserves \$m	Total \$m
At 1 Jan 2011	1,494	56	580	2,130
Issue of shares for employee share options	8	-	-	8
Issue of shares in lieu of cash dividends	215	-	-	215
Employee share-based compensation benefits	-	61	-	61
Transfer to retained earnings	-	-	(3)	(3)
Vesting of shares of Share Award Scheme	-	(9)	-	(9)
Transfer	2	(2)	-	-
At 31 Dec 2011	1,719	106	577	2,402

Movements in Retained Earnings for the Year

	2011 \$m
Profit attributable to shareholders	5,093
Dividends	(4,814)
Unclaimed HKEx dividends forfeited	6
Vesting of shares of Share Award Scheme	(1)
Transfer from reserves	3
Net increase in retained earnings	287
Retained earnings at 1 Jan 2011	6,766
Retained earnings at 31 Dec 2011	7,053
Representing:	
Retained earnings	4,801
Proposed dividend	2,252
	7,053

Profit attributable to shareholders for 2011 increased mainly due to higher turnover-related income and other income. However, this was partly offset by an increase in operating expenses and a drop in net investment income.

Income affected by market turnover rose by \$260 million to \$5,284 million in 2011 mainly due to the higher trading fees and trading tariff of the Derivatives Market driven by the record high number of contracts traded, and an increase in clearing and settlement fees.

The drop in net investment income was primarily attributable to a drop in fair value gains of investments of the Corporate Funds and Margin Funds reflecting market movements but was partly offset by the increase in net interest income.

Total operating expenses rose during the year mainly due to higher staff costs and IT and computer maintenance expenses.

The performance of the Group by operating segment during 2011 was as follows:

- Profit of the Cash Market dropped by \$139 million mainly due to the lower net investment income and higher staff costs and IT and computer maintenance expenses.
- Profit of the Derivatives Market increased by \$51 million mainly due to higher trading fees and trading tariff as a result of the higher level of activity in the Derivatives Market.
- Profit of the Clearing business rose by \$219 million mainly due to the forfeiture of unclaimed cash dividends held by HKSCC Nominees Limited and an increase in clearing and settlement fees.
- Profit of the Market Data business decreased by \$53 million as certain fees charged on a per quote basis dropped.
- Comprised financial assets and cash and cash equivalents of Margin Funds of \$31,352 million (2010: \$22,695 million), Corporate Funds of \$9,750 million (2010: \$9,422 million), cash collateral of \$3,233 million (2010: \$3,594 million) and Clearing House Funds of \$1,486 million (2010: \$2,644 million).
- Fixed assets and lease premium for land increased by \$653 million mainly due to the additions of \$743 million, but was partly offset by depreciation of \$90 million.
- Other assets mainly consisted of money obligations receivable under the CNS System of \$6,482 million (2010: \$8,283 million) and other receivables.
- Represented margin deposits from Clearing Participants of \$31,359 million (2010: \$22,702 million) and Participants' contributions to Clearing House Funds of \$880 million (2010: \$2,039 million). The increase in margin deposits from Clearing Participants at 31 December 2011 against those at 31 December 2010 was due to the increase in open interest in futures contracts and higher margin rates required per contract at the year end. The drop in Participants' contributions to Clearing House Funds at 31 December 2011 against those at 31 December 2010 was mainly due to the decrease in additional contributions from Participants in response to market fluctuations and changes in risk exposure.
- Other liabilities mainly represented money obligations payable under the CNS System of \$6,482 million (2010: \$8,283 million) and other liabilities.
- Shares are held by the Share Award Scheme on behalf of eligible employees before the Awarded Shares become vested. During the year, \$10 million of shares were vested and transferred to employees, \$7 million of shares were issued in lieu of cash dividends and \$80 million of shares were purchased.
- Net inflow from operating activities increased by \$287 million compared with 2010 due to higher profit generated during 2011 and a lower net increase in financial assets measured at fair value through profit or loss.

Overall Performance

	Note	2011 \$m	2010 \$m	Change
RESULTS				
Revenue and other income:				
Income affected by market turnover	(A)	5,284	5,024	5%
Stock Exchange listing fees	(B)	949	945	0%
Market data fees	(C)	637	670	(5%)
Other revenue	(D)	487	455	7%
Net investment income	(E)	390	472	(17%)
Other income	(F)	108	-	N/A
		7,855	7,566	4%
Operating expenses		1,823	1,612	13%
Profit before taxation		6,032	5,954	1%
Taxation		(939)	(917)	2%
Profit attributable to shareholders		5,093	5,037	1%

Profit attributable to shareholders increased to \$5,093 million for the year ended 31 December 2011 against \$5,037 million for 2010 mainly due to higher turnover-related income and other income. However, this was offset by an increase in operating expenses and a drop in net investment income due to the downturn of the markets caused by worries over the Eurozone sovereign debt crisis and economic uncertainty in the second half of the year.

Income affected by market turnover rose by \$260 million to \$5,284 million in 2011 mainly due to the higher trading fees and trading tariff of the Derivatives Market driven by the record high number of contracts traded, and an increase in clearing and settlement fees.

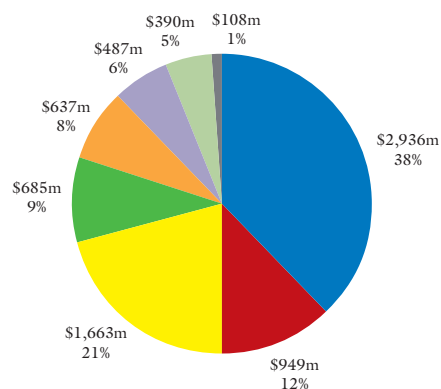
The drop in net investment income was primarily attributable to a drop in fair value gains of investments of the Corporate Funds and Margin Funds reflecting market movements but was partly offset by an increase in net interest income.

Total operating expenses rose during the year mainly due to higher staff costs and IT and computer maintenance expenses.

The consolidated financial statements 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 2011.

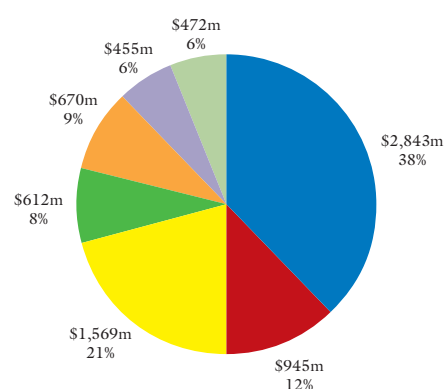
Revenue and Other Income

Analysis of 2011 Revenue and Other Income



Total Revenue and Other Income = \$7,855m

Analysis of 2010 Revenue and Other Income



Total Revenue and Other Income = \$7,566m

- Trading fees and trading tariff
- Stock Exchange listing fees
- Clearing and settlement fees
- Depository, custody and nominee services fees
- Market data fees
- Other revenue
- Net investment income
- Other income

(A) Income Affected by Market Turnover

	2011 \$m	2010 \$m	Change
Trading fees and trading tariff	2,936	2,843	3%
Clearing and settlement fees	1,663	1,569	6%
Depository, custody and nominee services fees	685	612	12%
Total	5,284	5,024	5%

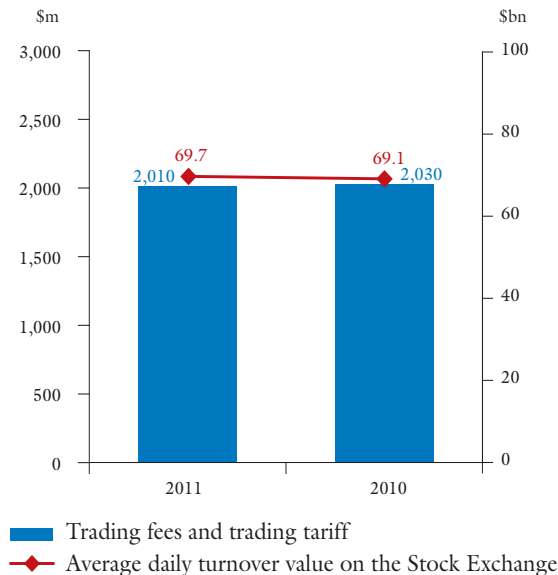
Key Market Indicators

	2011	2010	Change
Average daily turnover value on the Stock Exchange (\$bn)	69.7	69.1	1%
Average daily number of derivatives contracts traded on the Futures Exchange	269,525	221,487	22%
Average daily number of stock options contracts traded on the Stock Exchange	302,750	246,474	23%

Trading Fees and Trading Tariff

Cash Market

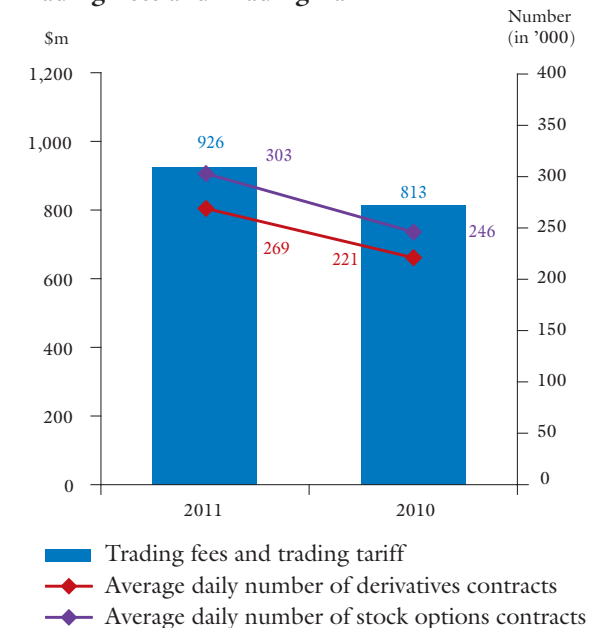
Trading Fees and Trading Tariff



The decrease in trading fees and trading tariff from the Cash Market was mainly due to lower trading fees from new issues on account of less IPO activities and lower funds raised.

Derivatives Market

Trading Fees and Trading Tariff



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 in 2011 was at a record high.

Clearing and Settlement Fees

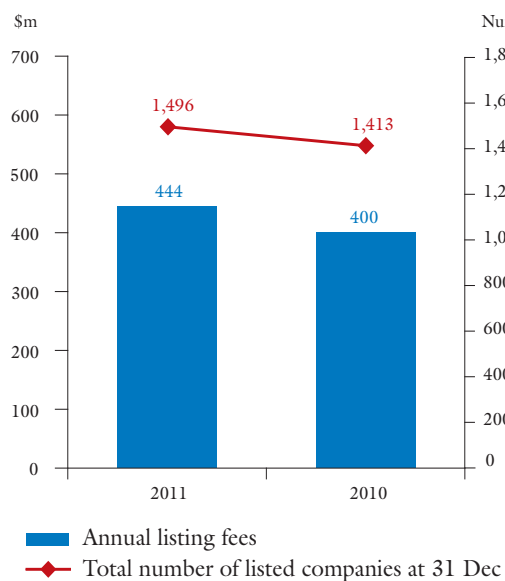
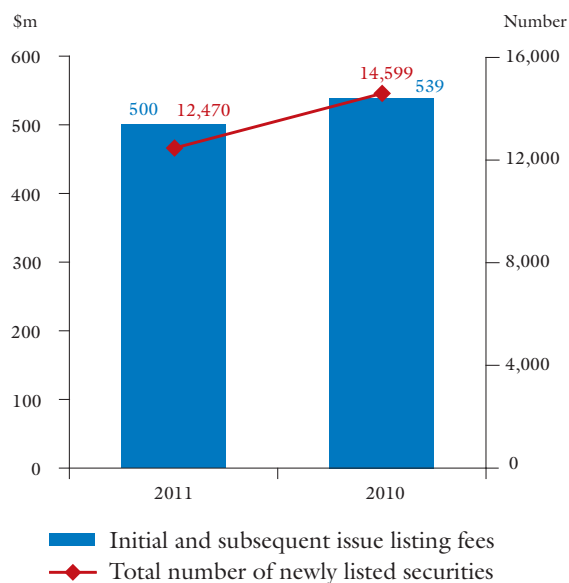
Clearing and settlement fees are derived predominantly from Cash Market transactions. Clearing and settlement fees are also affected by the volume of SIs, and despite being mostly ad valorem, they are subject to a minimum and a maximum per transaction and therefore may not always move exactly with the changes in the turnover of the Cash Market. In 2011, the increase in clearing and settlement fees was mainly due to higher turnover of the Cash Market and a higher proportion of the value of exchange-traded transactions subject to the minimum fee.

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. 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; however, they do not move proportionately with changes in the turnover of the Cash Market as they vary mostly with the number of board lots rather than the value or turnover of the securities concerned and many are subject to a maximum fee. Moreover, scrip fees are only chargeable on the net increase in individual Participants' aggregate holdings of the securities between book closing dates and thus are usually large on the first book closing date after a new listing. Depository, custody and nominee services fees rose mainly due to an increase in scrip fees on account of the high number of IPOs in 2010 which had their first book close in 2011.

(B) Stock Exchange Listing Fees

	2011 \$m	2010 \$m	Change
Annual listing fees	444	400	11%
Initial and subsequent issue listing fees	500	539	(7%)
Others	5	6	(17%)
Total	949	945	0%

Annual Listing Fees**Initial and Subsequent Issue Listing Fees**

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

Initial and subsequent issue listing fees dropped with the decrease in the number of newly listed DWs, CBBCs and listed companies.

Key Drivers for Annual Listing Fees

	At 31 Dec 2011	At 31 Dec 2010	Change
Number of companies listed on Main Board	1,326	1,244	7%
Number of companies listed on GEM	170	169	1%
Total	1,496	1,413	6%

Key Drivers for Initial and Subsequent Issue Listing Fees

	2011	2010	Change
Number of newly listed DWs	6,917	7,826	(12%)
Number of newly listed CBBs	5,334	6,541	(18%)
Number of newly listed companies on Main Board	88	106	(17%)
Number of newly listed companies on GEM	13	7	86%
Number of other newly listed securities on Main Board and GEM *	118	119	(1%)
Total number of newly listed securities	12,470	14,599	(15%)

* Figures included preference shares, equity warrants, unit trusts, debt securities and rights issue.

	2011 \$bn	2010 \$bn	Change
Total equity funds raised on Main Board			
– IPOs	258.5	448.8	(42%)
– Post-IPO	224.4	396.7	(43%)
Total equity funds raised on GEM			
– IPOs	1.3	0.7	86%
– Post-IPO	6.2	12.5	(50%)
Total	490.4	858.7	(43%)

(C) Market Data Fees

	2011 \$m	2010 \$m	Change
Market data fees	637	670	(5%)

Market data fees decreased as there was a decline in certain fees charged on a per quote basis.

(D) Other Revenue

	2011 \$m	2010 \$m	Change
Network, terminal user, dataline and software sub-license fees	370	345	7%
Participants' subscription and application fees	35	34	3%
Brokerage on direct IPO allotments	23	27	(15%)
Trading booth user fees	15	15	0%
Sales of Trading Rights	20	11	82%
Miscellaneous revenue	24	23	4%
Total	487	455	7%

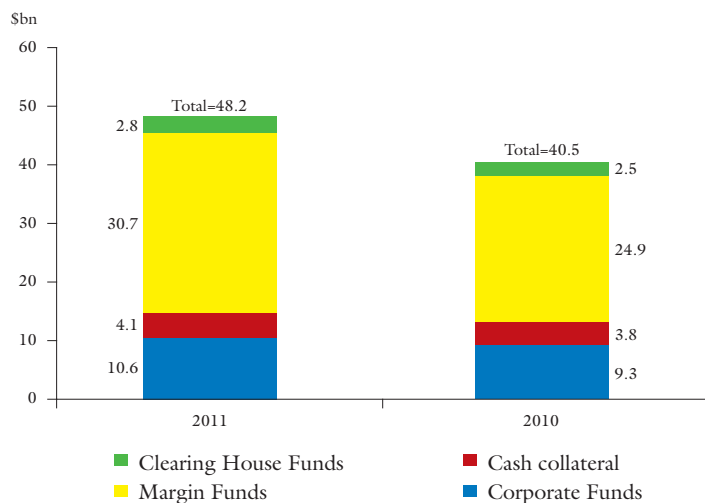
Network, terminal user, dataline and software sub-license fees increased mainly due to an increase in Cash Market trading system line rental income, higher sales of hardware and software, and higher Derivatives Market trading system sub-license fee income.

(E) Net Investment Income

	2011 \$m	2010 \$m	Change
Gross investment income	392	476	(18%)
Interest rebates to Participants	(2)	(4)	(50%)
Net investment income	390	472	(17%)

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

Average Amount of Funds Available for Investment

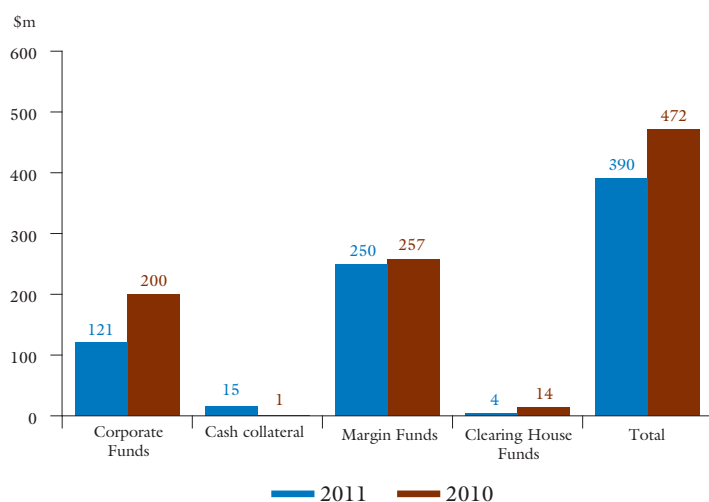


The average amount of Corporate Funds increased mainly due to an increase in profit retained from prior years and the profit generated during the year.

The increase in the average amount of Margin Funds available for investment was primarily caused by the higher average margin rate required per contract and increases in open positions.

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

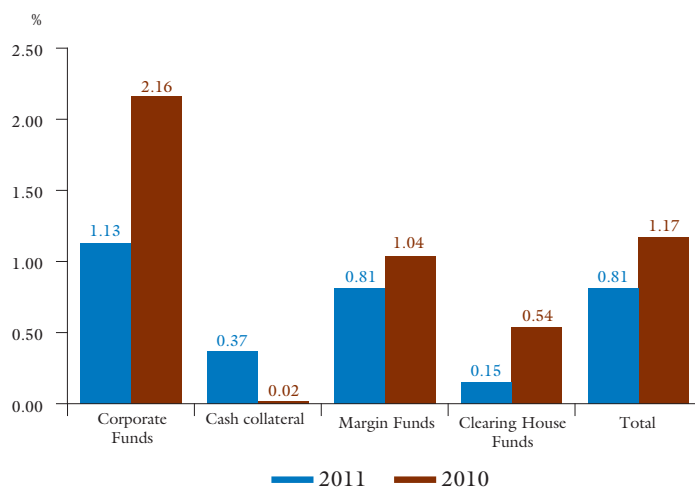
Net Investment Income by Funds



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

The annualised net return by Funds was as follows:

Annualised Net Return on Funds Available for Investment



Investment income of Corporate Funds decreased mainly due to the drop in net fair value gains of investments, including certain principal-guaranteed structured notes and deposits, during the year, which led to a lower yield in 2011. As the valuation of the investments reflects movements in their market prices, fair value gains and losses may fluctuate until the investments are sold or mature.

The increase in net investment income and return of cash collateral was mainly attributable to the allocation of a portion of the funds to longer-term time deposits for yield enhancement.

The lower net investment income and return of Margin Funds were due to the drop in net fair value gains of investments, offset by higher net interest income on account of the increase in Margin Funds.

Net investment income and return of Clearing House Funds declined mainly due to the fair value losses on certain principal-guaranteed structured notes during the year.

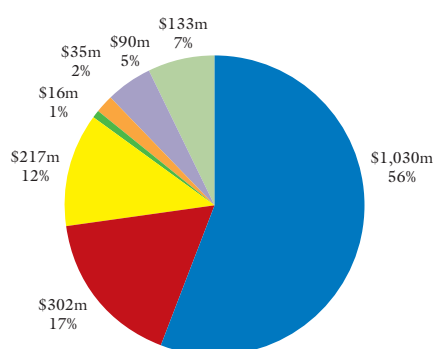
Details of the investment portfolio are set out in the Treasury section under the Business Review.

(F) Other Income

During 2011, the Group exercised its forfeiture right to appropriate \$108 million (2010: \$Nil) of cash dividends held by HKSCC Nominees Limited which had remained unclaimed for a period of more than 7 years and recognised such dividends as other income.

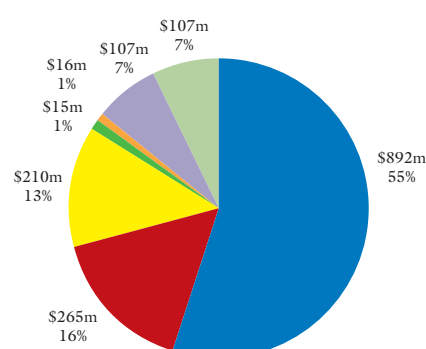
Operating Expenses

Analysis of 2011 Expenses



Total expenses = \$1,823m

Analysis of 2010 Expenses



Total expenses = \$1,612m

- Staff costs and related expenses
- IT and computer maintenance expenses
- Premises expenses
- Product marketing and promotion expenses

- Legal and professional fees
- Depreciation
- Other operating expenses

	2011 \$m	2010 \$m	Change
Staff costs and related expenses	1,030	892	15%
IT and computer maintenance expenses	302	265	14%
Premises expenses	217	210	3%
Product marketing and promotion expenses	16	15	7%
Legal and professional fees	35	16	119%
Depreciation	90	107	(16%)
Other operating expenses	133	107	24%
Total	1,823	1,612	13%

Staff costs and related expenses increased by \$138 million mainly as a result of an increase in permanent headcount (from 866 at 31 December 2010 to 940 at 31 December 2011) primarily for various new initiatives under the Strategic Plan 2010-2012, and salary adjustments to keep up with the market trend, a rise in performance bonus due to the increased headcount, and higher employee share-based compensation expenses arising from the shares granted to employees in 2010.

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by the Participants of \$146 million (2010: \$122 million), were \$156 million (2010: \$143 million). The rise in costs of services and goods directly consumed by the Participants was caused by an increase in Cash Market trading system line rentals due to a bandwidth upgrade and purchases of hardware and software for replacement of obsolete items by the Participants. Costs of services and goods directly consumed by the 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. The increase in IT and computer maintenance expenses consumed by the Group was mainly for the enhancement of IT security.

Legal and professional fees increased on account of various initiatives such as OTC clearing, the RMB Equity TSF, and enhancement of the Group's internet security.

Depreciation decreased as certain fixed assets became fully depreciated.

The increase in other operating expenses was mainly attributable to fees for new bank credit facilities, costs of placing special advertisements in newspapers to inform investors of scheduled results announcements of listed companies following the attack on the HKExnews website in the third quarter, and an increase in index license fees due to the higher number of derivatives contracts traded.

Taxation

	2011 \$m	2010 \$m	Change
Taxation	939	917	2%

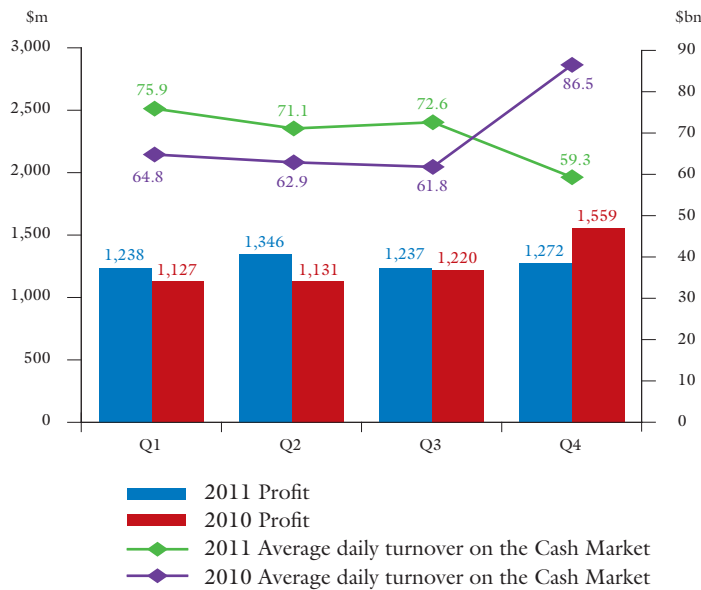
Taxation increased mainly due to higher profit before taxation.

Analysis of Results by Quarter

Quarterly Results

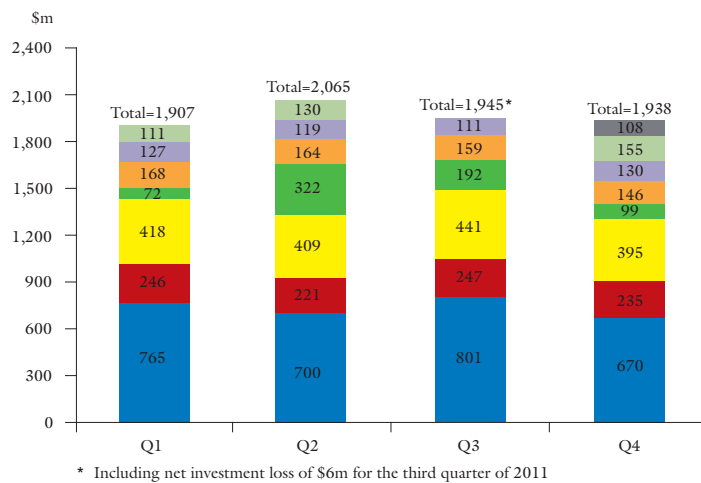
	Q1 2011 \$m	Q2 2011 \$m	Q3 2011 \$m	Q4 2011 \$m	Total 2011 \$m
Revenue and other income	1,907	2,065	1,945	1,938	7,855
Operating expenses	442	474	467	440	1,823
Profit before taxation	1,465	1,591	1,478	1,498	6,032
Taxation	(227)	(245)	(241)	(226)	(939)
Profit attributable to shareholders	1,238	1,346	1,237	1,272	5,093
	Q1 2010 \$m	Q2 2010 \$m	Q3 2010 \$m	Q4 2010 \$m	Total 2010 \$m
Profit attributable to shareholders	1,127	1,131	1,220	1,559	5,037

Analysis of Quarterly Results



Turnover of the Cash Market in the first 3 quarters remained at higher level than the same period in 2010, leading to the higher profit in the first 3 quarters. In the fourth quarter of 2011, however, the average daily turnover and profit were weighed down by worries about the sovereign debt crisis of the Eurozone and economic uncertainty.

Analysis of 2011 Revenue and Other Income by Quarter



Trading fees and trading tariff and clearing and settlement 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.

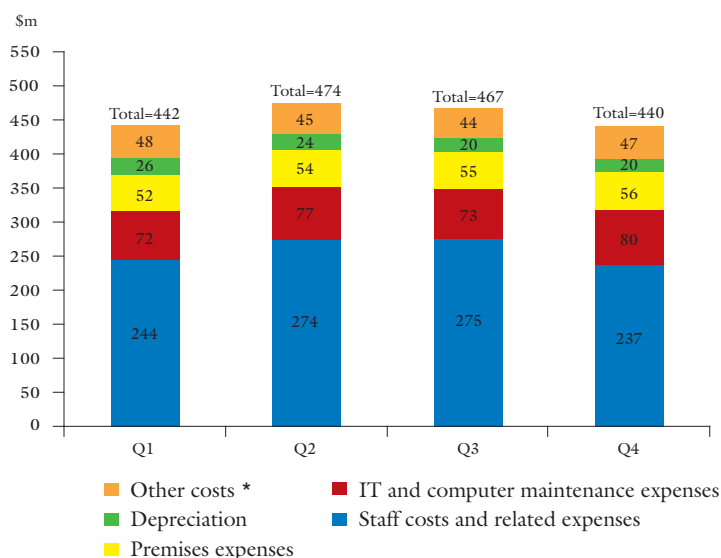
* Including net investment loss of \$6m for the third quarter of 2011

- Other income
- Net investment income
- Other revenue
- Market data fees
- Depository, custody and nominee services fees
- Clearing and settlement fees
- Stock Exchange listing fees
- Trading fees and trading tariff

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

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Total 2011
Average daily turnover value on the Stock Exchange (\$bn)	75.9	71.1	72.6	59.3	69.7
Average daily number of derivatives contracts traded on the Futures Exchange	246,687	254,175	304,229	271,522	269,525
Average daily number of stock options contracts traded on the Stock Exchange	299,477	276,966	348,598	283,945	302,750
Number of newly listed DWs	2,056	1,606	1,979	1,276	6,917
Number of newly listed CBBCs	1,449	931	1,401	1,553	5,334
Number of newly listed companies on Main Board	14	28	19	27	88
Number of newly listed companies on GEM	3	2	3	5	13

Analysis of 2011 Expenses by Quarter



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

Staff costs dropped in the fourth quarter due to the lower performance bonus and reversal of share-based compensation cost arising from forfeiture of employee share awards.

Other expenses remained fairly stable throughout all quarters.

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, data centre facilities and equipment, and miscellaneous assets such as leasehold improvements. The net book value of fixed assets increased by \$653 million to \$948 million at 31 December 2011 (31 December 2010: \$295 million). The increase was primarily due to additions of \$743 million mainly for the construction of the new Data Centre in Tseung Kwan O with hosting services capability, and AMS/3.8 and MDS/3.8 upgrade of the Cash Market trading system and market data system, partly offset by depreciation of \$90 million during the year.

The Group's capital expenditure commitments at 31 December 2011, including those authorised by the Board but not yet contracted for, amounted to \$1,605 million (31 December 2010: \$2,075 million) and were mainly related to the construction of the new Data Centre with hosting services capability, the development of the NGMDS and the OTC derivatives clearing system. The Group has adequate internal resources to fund its capital expenditure commitments.

(B) Significant Financial Assets and Financial Liabilities by Funds

	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m	Change
Financial assets			
Cash and cash equivalents	18,221	19,361	(6%)
Financial assets measured at fair value through profit or loss	11,349	11,190	1%
Financial assets measured at amortised cost	16,251	7,804	108%
Total	45,821	38,355	19%

The Group's financial assets at 31 December 2011 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 2011 \$m	At 31 Dec 2010 \$m	Change
Corporate Funds	9,750	9,422	3%
Cash collateral	3,233	3,594	(10%)
Margin Funds *	31,352	22,695	38%
Clearing House Funds	1,486	2,644	(44%)
Total	45,821	38,355	19%

* Excluding margin receivable from Clearing Participants

	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m	Change
Financial liabilities			
Margin deposits from Clearing Participants on derivatives contracts	31,359	22,702	38%
Cash collateral from HKSCC Clearing Participants	3,233	3,594	(10%)
Participants' contributions to Clearing House Funds	880	2,039	(57%)
Total	35,472	28,335	25%

Financial assets of Corporate Funds at 31 December 2011 increased as compared to those at 31 December 2010 since the profit for 2011 was higher than the dividends paid during the year (which were based on 90 per cent of the profits of the second half of 2010 and first half of 2011), partly offset by the payments for the purchase of fixed assets.

The increase in financial assets of Margin Funds and margin deposits from Clearing Participants on derivatives contracts at 31 December 2011 against those at 31 December 2010 was due to an increase in open interest in futures contracts and higher margin rates required per contract at the year end.

The decrease in financial assets of Clearing House Funds and Participants' contributions to Clearing House Funds at 31 December 2011 against those at 31 December 2010 was mainly due to a decrease 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 any material acquisitions or disposals of subsidiaries during the year. Apart from the construction of the new Data Centre with hosting services capability, the development of the NGMDS and the OTC derivatives clearing system, there is no committed 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

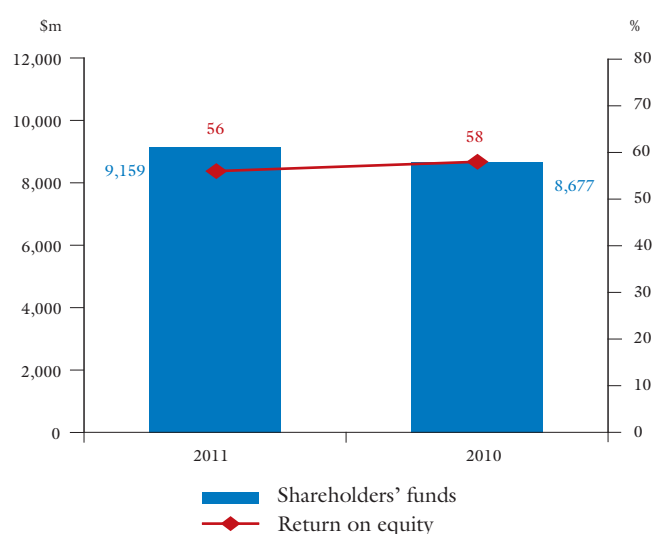
	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m	Change
CNS money obligations receivable	6,482	8,283	(22%)
Other receivables from Participants	506	708	(29%)
Other accounts receivable, prepayments and deposits	405	373	9%
Less: provision for impairment losses of receivables	(160)	(158)	1%
Total accounts receivable, prepayments and deposits	7,233	9,206	(21%)
CNS money obligations payable	6,482	8,283	(22%)
Other payables to Participants	1,027	808	27%
Stamp duty payable to the Collector of Stamp Revenue	146	214	(32%)
Other accounts payable, accruals and other liabilities	801	641	25%
Total accounts payable, accruals and other liabilities	8,456	9,946	(15%)

The Group's accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities at 31 December 2011 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 lower turnover of the Cash Market at the end of December 2011.

(E) Shareholders' Funds and Return on Equity

Shareholders' funds at 31 December 2011 increased by \$482 million to \$9,159 million (31 December 2010: \$8,677 million). The increase was mainly attributable to a \$284 million increase in retained earnings (before transfers from designated reserves which also form part of shareholders' equity) and a \$198 million increase in other shareholders' equity mainly on account of shares issued in lieu of cash dividends.

Shareholders' Funds and Return on Equity

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

Liquidity, Financial Resources and Gearing

Working capital rose by \$1,265 million to \$7,639 million at 31 December 2011 (31 December 2010: \$6,374 million). The increase was due to profit generated during the year of \$5,093 million, a drop in non-current financial assets of \$1,441 million, and the increase in other working capital of \$70 million. The increase was partly offset by the payment of the 2010 final dividend and 2011 interim dividend, net of scrip dividend, of \$2,384 million and \$2,222 million respectively, purchases of shares for the share award scheme of \$80 million, and an increase in fixed assets of \$653 million.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. At 31 December 2011, the Group's total available banking facilities amounted to \$13,010 million (31 December 2010: \$13,010 million), which included \$4,000 million (31 December 2010: \$4,000 million) of committed banking facilities and \$9,000 million (31 December 2010: \$9,000 million) of repurchase facilities.

Borrowings of the Group have been rare and are mostly event driven, with little seasonality. At 31 December 2011 and 31 December 2010, the Group had no bank borrowings and, therefore, maintained a zero gearing.

At 31 December 2011, 98 per cent (31 December 2010: 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 2011 or 31 December 2010.

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 47(a)(i) – Foreign exchange risk management to the consolidated financial statements of this Annual Report.

Contingent Liabilities

Details of contingent liabilities are included in note 42 to the consolidated financial statements of this Annual Report.

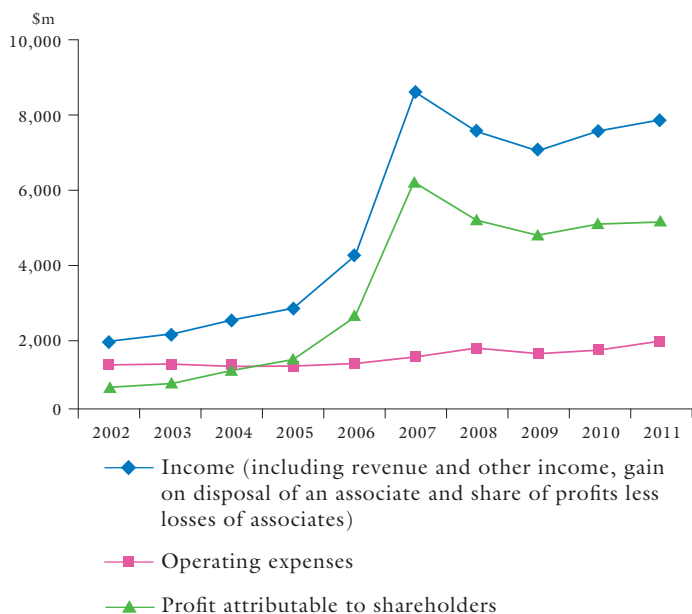
10-YEAR FINANCIAL STATISTICS

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
KEY MARKET STATISTICS										
Average daily turnover value on the Stock Exchange (\$bn)	69.7	69.1	62.3	72.1	88.1	33.9	18.3	16.0	10.4	6.7
Average daily number of derivatives contracts traded on the Futures Exchange	269,525	221,487	206,458	207,052	171,440	100,318	68,157	56,752	41,889	30,038
Average daily number of stock options contracts traded on the Stock Exchange	302,750	246,474	191,676	225,074	187,686	73,390	35,385	22,720	17,122	15,203
RESULTS										
(\$m)										
Revenue and other income	7,855	7,566	7,035	7,549	8,390	4,147	2,694	2,394	2,020	1,808
Operating expenses	1,823	1,612	1,493	1,621	1,412	1,211	1,145	1,156	1,224	1,165
	6,032	5,954	5,542	5,928	6,978	2,936	1,549	1,238	796	643
Gain on disposal of an associate	–	–	–	–	206	–	–	–	–	–
Share of profits less losses of associates	–	–	–	–	6	27	18	13	9	5
Profit before taxation	6,032	5,954	5,542	5,928	7,190	2,963	1,567	1,251	805	648
Taxation	(939)	(917)	(838)	(799)	(1,021)	(445)	(227)	(194)	(112)	(59)
Profit attributable to shareholders	5,093	5,037	4,704	5,129	6,169	2,518	1,340	1,057	693	589
Dividend per share (\$)										
– Interim and final dividends	4.25	4.20	3.93	4.29	5.19	2.13	1.13	0.90	0.60	0.51
– Special dividends	–	–	–	–	–	–	–	–	1.68	–
	4.25	4.20	3.93	4.29	5.19	2.13	1.13	0.90	2.28	0.51
Basic earnings per share (\$)	4.73	4.68	4.38	4.78	5.78	2.37	1.26	1.00	0.66	0.56
CONSOLIDATED STATEMENT OF FINANCIAL POSITION										
(\$m)										
Non-current assets	1,580	2,350	2,637	425	884	454	1,710	2,839	3,059	2,250
Current assets	52,448	45,534	42,695	62,397	87,070	40,207	21,236	18,629	16,772	11,802
Current liabilities	(44,809)	(39,160)	(36,985)	(55,220)	(79,273)	(35,134)	(18,336)	(17,168)	(13,922)	(8,249)
Net current assets	7,639	6,374	5,710	7,177	7,797	5,073	2,900	1,461	2,850	3,553
Total assets less current liabilities	9,219	8,724	8,347	7,602	8,681	5,527	4,610	4,300	5,909	5,803
Non-current liabilities	(60)	(47)	(320)	(308)	(305)	(270)	(273)	(269)	(296)	(310)
Shareholders' funds	9,159	8,677	8,027	7,294	8,376	5,257	4,337	4,031	5,613	5,493
Net assets per share ¹ (\$)	8.50	8.06	7.46	6.79	7.83	4.94	4.08	3.81	5.35	5.26
FINANCIAL RATIOS										
Dividend payout ratio ²	90%	90%	90%	90%	90%	90%	90%	90%	91%	91%
Cost to income ratio ³	23%	21%	21%	21%	16%	29%	42%	48%	60%	64%
Pre-tax profit margin ³	77%	79%	79%	79%	84%	71%	58%	52%	40%	36%
Return on equity ⁴	56%	58%	59%	70%	74%	48%	31%	26%	12%	11%
Current ratio	1.2	1.2	1.2	1.1	1.1	1.1	1.2	1.1	1.2	1.4

Notes:

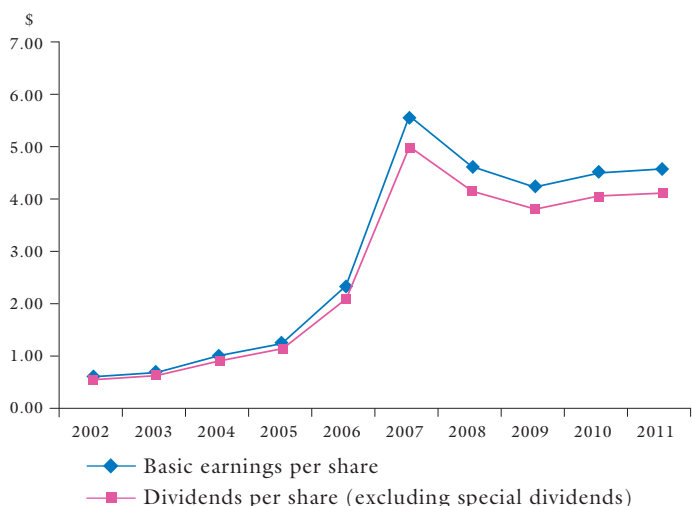
- 1 Based on number of shares issued and fully paid less number of shares held for the Share Award Scheme at 31 December
- 2 The calculation of dividend payout ratio does not take into account special dividends.
- 3 For the purpose of computing cost to income ratio and pre-tax profit margin, income includes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

Income, Operating Expenses and Profit



Profit attributable to shareholders was low in 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. Due to worries over the Eurozone sovereign debt crisis and economic uncertainty in the second half of the year, market activities were slowed down particularly in the fourth quarter of 2011. 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.

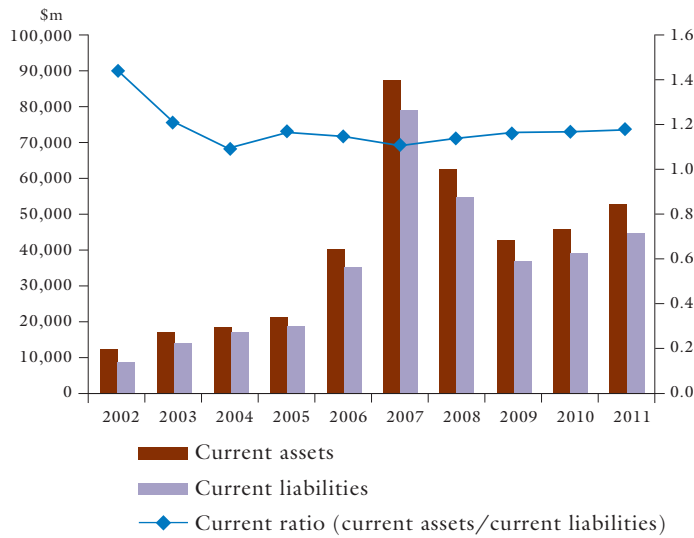
Basic Earnings and Dividends per Share



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

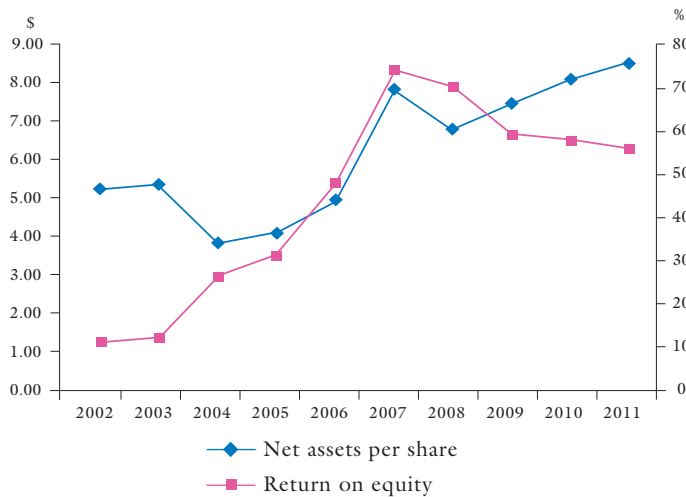
In 2002, the Board began adopting a policy of providing Shareholders with regular dividends with a target payout ratio of 90 per cent. Since then, dividends per share have moved in line with earnings per share.

Current Assets, Current Liabilities and Current Ratio



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 and Return on Equity



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 to 2011 were lower than the profit for the corresponding 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. In 2010 and 2011, return on equity declined mainly attributable to the increase in equity due to profits retained.

CORPORATE GOVERNANCE REPORT

Corporate Governance Principles and Practices

HKEx firmly believes that strict adherence to the highest governance standards is vital to fulfilling its public responsibilities, as an exchange controller under the SFO, and corporate responsibilities, as a listed company. The Directors and employees all endeavour to uphold and nurture accountability, transparency, fairness, and integrity in all aspects of HKEx's operations. We are committed to staying at the forefront of good governance by regularly reviewing and enhancing our governance practices, and introduce them to the market.

The principles as set out in the CG Code have been adopted to shape our corporate governance structure. This report together with the Audit Committee Report, the Environmental, Social and Governance Committee Report, and the Remuneration Committee Report, describe how the principles of the CG Code have been applied during the year ended 31 December 2011 under different aspects.

A detailed account of our achievements in compliance with the CG Code including the recommended best practices can be found in the Corporate Governance section of the HKEx website.

CG Code Compliance

Throughout the year ended 31 December 2011, HKEx complied with all code provisions with the exception of code provisions A.4.1 (re-election of non-executive directors) and A.4.2 (retirement by rotation of directors) and, where appropriate, adopted the recommended best practices as set out in the CG Code.

The Government Appointed Directors, all being Non-executive Directors, are not subject to election or re-election by Shareholders as their appointments are governed by Section 77 of the SFO. The term of office of HKEx's Chief Executive in his capacity as a Director is governed by HKEx's Articles and is not subject to retirement by rotation.

The Corporate Governance Code (Code) is the new edition of the CG Code issued by the Stock Exchange in October 2011, and is applicable to financial reports covering a period after 1 April 2012. As part of our unwavering commitment to high standards of corporate governance, we have early adopted all new code provisions and, where appropriate, new recommended best practices as set out in the Code.

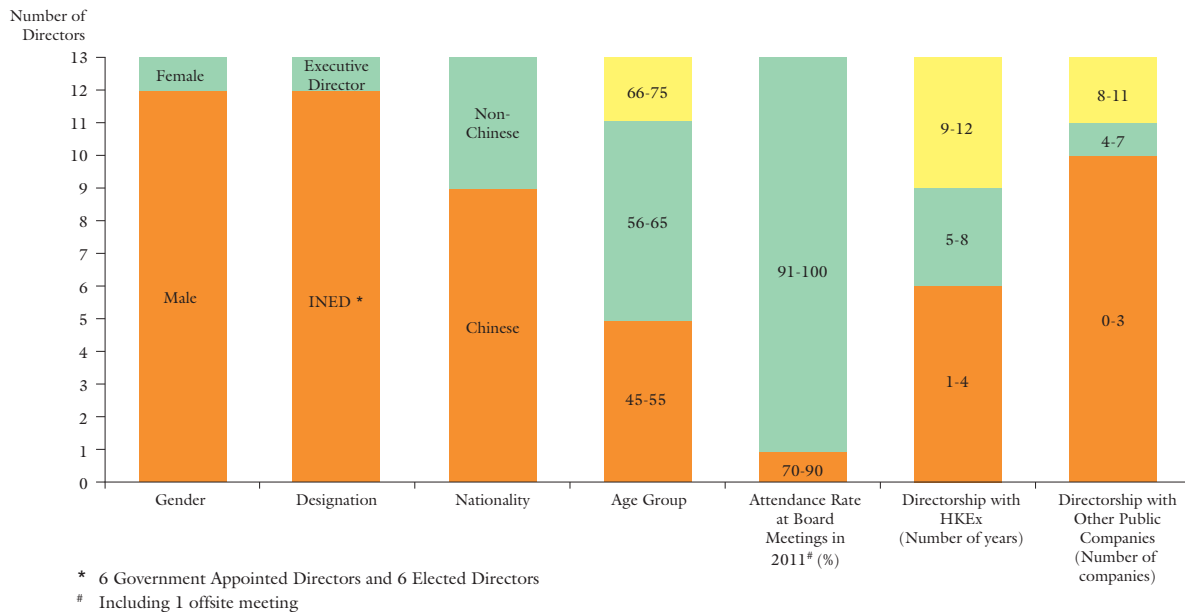
2010-2012 Strategic Plan

The Board plays an active role in the Group's strategy development and planning process. At the offsite meetings led by HKEx's Chief Executive held in April 2011 and January 2012, management presented to the Board for approval the proposed initiatives based on the 2010-2012 Strategy Plan for the year, and the status of strategy implementation together with the key initiatives undertaken. The Board gave their input and considered the proposed priorities and initiatives, aiming at developing an agreed approach for HKEx to generate and preserve its long-term value, and to achieve its regulatory goals and the objective of enhancing its competitiveness. The 2010-2012 Strategic Plan is available on the HKEx website. Details of the work done in 2011 under the three-year strategic plan were set out in the Business Review and Financial Review sections of this Annual Report.

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 and the number of such shall not exceed the number of Elected Directors, excluding the Chief Executive. The Board currently comprises 13 members who are either professionals or financial experts. The list of Directors, their biographies (including their roles and functions at HKEx) and their respective terms of office are set out in the Board of Directors and Senior Management section of this Annual Report, and are available on the HKEx website.



Chairman and Chief Executive

There is a clear and effective division of accountability and responsibility between the roles of HKEx's Chairman and Chief Executive to ensure that no one has unfettered powers of decision.



Details of their respective responsibilities are set out in the Corporate Governance section of the HKEx website.

Roles and Responsibilities

The Board is responsible for providing effective leadership and direction in order to deliver value to Shareholders and other stakeholders over the longer term. The principal role of the Board is to set the parameters within which the executives conduct the business and to monitor the performance of the executives who are delegated with the responsibility of managing the Group's operations. Although the Board is not involved in the Group's day-to-day operations, it does have a formal schedule of matters reserved for its own decision, as defined in its terms of reference, which are available on the HKEx website.

Key non-routine matters addressed by the Board during 2011

- Facility to support the trading in RMB stocks and RMB-based futures and options products
- Consultation on HKEx's clearing house capital adequacy and risk management reform measures
- Non-executive Directors' remuneration 2011/2012
- Revisions to the Expense Approval Guide
- Change in external fund manager
- Upgrade of corporate personal computers
- 2011 compensation structure review
- Corporate development roadmap
- Market structure reform
- Next generation IT system roadmap
- After-hours futures trading
- Development of the NGMDS and Mainland market data hub
- Joint venture with the Shanghai Stock Exchange and the Shenzhen Stock Exchange
- Establishment of Review Committee on HKExnews website services disruption
- RMB Equity Issuance Models
- 2011/2012 remuneration proposal
- Chief Executive's remuneration package
- 2012 Annual Operating Plan and Budget

2011 Board meeting dates and duration

10 Feb	3.3 hours
2 Mar	2.3 hours
21 Apr	1.3 hours
29 Apr	6.5 hours
11 May	1.7 hours
23 Jun	2 hours
10 Aug	3 hours
18 Aug	0.7 hour
16 Sept	Written resolution
4 Oct	3.2 hours
11 Nov	2.7 hours
14 Dec	2.7 hours

Appointment and Election of Directors

On 20 April 2011, the Financial Secretary appointed Mr John Harrison and re-appointed Messrs Michael Lee and Stephen Hui, each for a term of approximately 2 years from the close of the 2011 AGM until the conclusion of the AGM to be held in 2013. Dr Bill Kwok and Mr Vincent Lee were re-elected by Shareholders at the 2011 AGM each for a term of approximately 3 years from 20 April 2011 until the conclusion of the AGM to be held in 2014.

The service terms of 2 Elected Directors, namely Messrs Ignatius Chan and John Williamson, and 3 Government Appointed Directors, namely Mr Ronald Arculli, Mrs Laura Cha and Dr Moses Cheng, will expire at the conclusion of the 2012 AGM. Pursuant to Article 93(5) of HKEx's Articles, they are all eligible for re-appointment. HKEx will make an announcement on the appointment of Directors, including Government Appointed Directors, as soon as the results are known.

Nomination of Candidates as Elected Directors

On 29 February 2012, the Nomination Committee (NC), taking into account the results of the Board performance evaluation 2011, confirmed that Messrs Ignatius Chan and John Williamson continue to contribute effectively and are committed to their roles. Accordingly, the NC, in accordance with the Nomination Policy, nominated Messrs Chan and Williamson to stand for election by Shareholders at the 2012 AGM. On the same day, the said nominations were accepted by the Board with Messrs Chan and Williamson each abstaining from voting on the proposition of himself for election by Shareholders. Messrs Chan and Williamson 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), and their particulars are set out in the circular to Shareholders to be sent together with this Annual Report.

Induction and Development

All new Directors receive a personalised induction programme, tailored to their experience and background, which is designed to enhance their knowledge and understanding of the Group's culture and operations. The programme usually includes a briefing on the Group's structure, businesses and governance practices. An induction programme was held for Mr John Harrison who joined the Board newly in April 2011.

Every Board member receives a Director's Handbook upon joining the Board, which lays down the Guidelines on Conduct and other key governance issues. The Director's Handbook is updated regularly and the latest version, dated January 2012, is available on the HKEx website.

Directors' training is an ongoing process. During the year, Directors received regular updates and presentations on changes and developments to the Group's business and to the legislative and regulatory environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expense. Effective January 2012, all Directors are required to provide the Company with his or her training record on a quarterly basis. In addition, the ESG Committee in January 2012 was delegated with the responsibility of reviewing and monitoring the Directors' training and development.

Independence of Non-executive Directors

Since its listing, HKEx has been steered by a Board comprised by a majority of INEDs. The Chief Executive is the only Executive Director on the Board. To determine the Non-executive Directors' independence, assessments are carried out upon appointment, annually and at any other time where the circumstances warrant reconsideration.

Assessments of Non-executive Directors' independence for 2011
Assessment upon Director's appointment
Mr John Harrison, the Non-executive Director newly appointed in April 2011, confirmed in writing to the SFC upon his appointment –
<ul style="list-style-type: none"> • his independence with reference to the criteria affecting independence, as set out in Rule 3.13 of the Main Board Listing Rules; and • he has no past or present financial or other interest in the Group's business and no connection with any of the Company's connected persons (as defined in the Main Board Listing Rules).
Annual assessment
On 29 February 2012, the NC held a meeting to assess the annual confirmation of independence received from each of the INEDs with reference to the factors as set out in Rule 3.13 of the Main Board Listing Rules.
<ul style="list-style-type: none"> • As a good corporate governance practice, every NC member abstained from assessing his own independence. • Particular scrutiny was applied in assessing the continued independence of the Government Appointed Directors with 2 of them being Executive Councillors and the Government being one of the Company's Minority Controllers. • Particular consideration was also applied in assessing Dr Bill Kwok, Mr Vincent Lee and Mr John Strickland who have been serving on the Board for more than 11 years. • Mr Ronald Arculli is a senior partner of King & Wood – Hong Kong Office. In July 2011, a wholly-owned HKEx's subsidiary, HKEx Information Services Limited (HKEx-IS), appointed King & Wood – Shanghai Office (K&W-SO) as its PRC legal counsel to advise on the legal issues relating to the establishment of a subsidiary in Shanghai. The legal fee incurred for the year ended 31 December 2011 was \$266,765.81. Taking into account that K&W-SO was selected under a fair and established quotation process, and that the services provided by K&W-SO were on normal commercial terms and in the ordinary course of HKEx-IS' business, the NC affirmed that Mr Arculli remains independent. • In addition, the NC affirmed that all INEDs provided a strong independent element on the Board, were free from any business or other relationship which could materially interfere with the exercise of their judgement, and remained independent for the year ended 31 December 2011.
Ongoing assessment
<ul style="list-style-type: none"> • Each INED is required to inform the Company as soon as practicable if there is any change in his or her own personal particulars that may affect his or her independence. No such notification was received during 2011. • All Directors do not have any financial, business, family or other material/relevant relationships with each other. In particular, there are none between HKEx's Chairman and Chief Executive. • Details of the Directors' interests in the Group's business are set out in the Continuing Connected Transactions and Material Related Party Transactions sections of this report.

Board Process

Each Director makes every effort to contribute to the formulation of strategy, policy and decision-making by attending each meeting, whether in person or by telephone conference, and each of them has been unstinting in the time that they are prepared to contribute to the Group's business.

Key features of Board process in 2011

- 10 scheduled meetings, including 1 offsite meeting, were coordinated with the Company's reporting calendar to allow for detailed consideration of quarterly, interim and final results.
- 1 unscheduled meeting was convened and held on short notice on 18 August 2011 with an attendance rate of 77 per cent.
- 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 2011, no Director withdrew from a meeting due to potential conflict of interest.
- Other than the Board meetings, the Chairman had gatherings with Directors and management in groups, and occasionally without management present, to discuss the performance of management and/or to air subjects outside the confines of the boardroom in an informal and constructive manner.
- There is an agreed procedure by which Directors can, where necessary for the discharge of their duties, obtain independent professional advice at the Company's expense. No Director sought such advice during 2011.
- Directors' and Officers' liability insurance has been arranged. The terms and extent of the cover are reviewed annually. In 2011, no claims under the insurance policy were made.

Attendance record of Directors and Committee members in 2011

	2011 AGM	Board ¹	Audit Committee	Environmental, Social and Governance Committee ²	Executive Committee	Investment Advisory Committee	Nomination Committee	Panel Member Nomination Committee	Remuneration Committee	Risk Management Committee
Number of Meetings	1	11	6	1	12	5	1	0	4	10
Independent Non-executive Chairman										
Ronald J Arculli ³	1/1	11/11		1/1	12/12		1/1		4/4	10/10
INEDs										
Laura M Cha ³	1/1	10/11		1/1				0/0	4/4	
Ignatius T C Chan	1/1	11/11	6/6				1/1			
Moses M C Cheng	1/1	8/11					1/1		4/4	
Marvin K T Cheung ⁴	1/1	1/2	3/3							2/4
John B Harrison ⁵		9/9	3/3	1/1					3/3	
Stephen C C Hui	1/1	11/11				5/5				
Bill C P Kwok	1/1	11/11	6/6		12/12			0/0		10/10
Vincent K H Lee ⁶	1/1	11/11	6/6		12/12			0/0	1/1	
Michael T H Lee ⁷	1/1	11/11		1/1		4/5		0/0		6/6
John E Strickland	1/1	10/11				5/5	1/1			
John M M Williamson	1/1	10/11	6/6		10/12				3/4	
Oscar S H Wong	1/1	10/11				4/5	1/1	0/0		
Executive Director										
Charles X Li ⁸	1/1	11/11		1/1	10/12					
Market Professionals										
Chan Ka-lok ⁹										5/6
Chan Ngai Hang ¹⁰										4/4
Fong Hup ⁹										5/6
Edmond Y P Lau										9/10
Michael S L Liu ¹⁰										1/4
Keith K K Lui										10/10 ¹¹
David Y T Lui						4/5				
Mark S McCombe ¹²										5/7 ¹³
Executives										
David T F Chan ¹⁴				0/0						
Roger K K Lee ¹⁴				0/0						
Joseph K S Mau ¹⁴				0/0						
Brenda T M Yen ¹⁴				0/0						
Average Attendance Rate	100%	94%	100%	100%	93%	88%	100%	N/A	95%	87%

Notes:

- 1 Including 1 offsite meeting
- 2 Renamed from the CSR Committee effective 21 April 2011
- 3 Mr Arculli was appointed the chairman, and Mrs Cha was appointed a member of the ESG Committee on 21 April 2011.
- 4 Dr Cheung retired from the Board and the committees on 20 April 2011.
- 5 Mr Harrison was appointed a Board member on 20 April 2011, and the chairman of the Audit Committee, and a member of the ESG Committee and Remuneration Committee on 21 April 2011.
- 6 Mr Lee retired from the Remuneration Committee on 20 April 2011.
- 7 Mr Lee was appointed a member of the ESG Committee and the Risk Management Committee on 21 April 2011.
- 8 Mr Li ceased to be the chairman of the CSR Committee, and was appointed a member of the ESG Committee on 21 April 2011.
- 9 Messrs Chan and Fong ceased to be members of the Risk Management Committee on 1 July 2011.
- 10 Messrs Chan and Liu were appointed members of the Risk Management Committee on 1 July 2011.
- 11 Including 2 meetings attended by Mr Lui's alternate
- 12 Mr McCombe ceased to be a member of the Risk Management Committee on 8 September 2011.
- 13 Including 2 meetings attended by Mr McCombe's alternate
- 14 Messrs Chan, Lee and Mau, and Ms Yen ceased to be members of the CSR Committee on 21 April 2011. No meetings of the CSR Committee took place during the period between 1 January and 20 April 2011.

Performance Evaluation

Since 2010, the Board has commissioned an independent evaluation of its performance on an annual basis with the aim of ensuring continuous improvement in the functioning of the Board. Egon Zehnder International continued to facilitate the evaluation in 2011 so as to follow up with its recommendations made to the Board from the evaluation it facilitated in 2010. The evaluation focused on the adequacy and efficiency of the practices and procedures of the Board and its Committees, their decision-making processes, as well as the performance of the Board, its Committees and Directors, with a view towards recommending areas for further improvement. All Directors were given a questionnaire for completion and they were interviewed by the independent consultant. Separate interviews were also made with certain senior executives and HKEx's regulators to allow a further opportunity to explore particular areas in more details. The results of the evaluation were presented to the Board.

The evaluation concluded that the Board continues to operate efficiently and is well aligned on HKEx's overall objectives and towards the organisation's public purpose. It also concluded that the Board has shown improvements on oversight of strategy and performance, oversight of people and people processes, and relationships with external stakeholders. The evaluation revealed that all the Committees perform well with a strong composition, and the Board as a whole is reasonably ambitious in the goals it sets for itself. The Board has considered the consultant's recommendations on areas where it believes further improvements are possible, such as succession planning.

Delegation by the Board

Board Committees

A total of 8 Board Committees have been formed, each of which has specific roles and responsibilities delegated by the Board. In April 2011, the CSR Committee was reconfigured as the ESG Committee to comprise solely Board members. Its remit was enhanced with the additional responsibility to oversee corporate governance matters. More information about the ESG Committee, including a summary of its work in 2011, is set out in the Environmental, Social and Governance Committee Report of this Annual Report.

Consequent upon the HKExnews website services disruption on 10 August 2011, the Board, in September 2011, established an ad hoc Review Committee for the purposes of reviewing HKEx's IT security plans and the existing contingency measures with the aim of ensuring uninterrupted, fair and even distribution of market information for maintaining an orderly and open market. The Review Committee comprises 3 Board members, namely Mr Ronald Arculli, Dr Bill Kwok and Mr John Williamson, as well as 3 advisors who have extensive knowledge of the financial industry and strong expertise in IT, namely Messrs Raymond Cheng, Tan Yong Wah, and Carlson Tong.

External IT security specialists have been commissioned to give professional advice to the Review Committee. The Review Committee convened 2 meetings in 2011 (with an attendance rate of 83 per cent) to (i) review the HKExnews website services disruption, (ii) assess the adequacy of the immediate interim technical measures taken to enhance the resilience of the HKExnews website, and (iii) conduct a comprehensive review covering all HKEx's externally connected systems to assess the potential risk, security management framework and security infrastructure.

The Committees' terms of reference are reviewed and updated regularly to ensure they continue to be at the forefront of best practice, and they are available on the HKEx website. Committee's membership is reviewed by the Board annually. The member lists of the Committees are set out in the Board and Committees section of this Annual Report, and are available on the HKEx website. The attendance record of Committee members is shown on page 90 of this Annual Report.

The Nomination Committee

The NC, comprising 5 members who are all INEDs, held 1 meeting and passed 1 written resolution in 2011. Its terms of reference were revised effective May 2011 to include additional duties, including reviewing the time required from a Director to perform his or her responsibilities.

Major accomplishments in 2011

- Nominated Dr Bill Kwok and Mr Vincent Lee for the Board's recommendation to stand for election by Shareholders at the 2011 AGM
- Reviewed and confirmed the independence of the 12 INEDs for the year ended 31 December 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 established by the Board.

The Consultative Panels' major responsibility is to provide market expertise and advice to the Board in relation to the trading and clearing of securities and futures products. The composition and respective terms of reference of the Consultative Panels are available on the HKEx website.

Meetings held in 2011	
Panel	Number of meetings
Cash Market Consultative Panel	1
Derivatives Market Consultative Panel	3
Clearing Consultative Panel	2

Management Functions

While the Board is responsible for the overall strategic direction and governance by considering and approving the Group's strategy, policies and business plan, the functions of implementing the approved strategy and policies as well as managing the day-to-day operations are delegated to the executive management under the Chief Executive's leadership and supervision.

To further strengthen HKEx's operations and support the continuing implementation of the HKEx Strategic Plan 2010-2012, a number of changes to its organisational structure and new appointments took place during 2011. The updated structure is set out in the Organisational Chart section of this Annual Report, and is available on the HKEx website.

Major changes to organisational structure

- The Platform Development and Strategy Department grew in 2011 incorporating team members from some of the top global exchanges, investment banks, commercial banks and regulators. The team focuses on projects which will promote HKEx's future growth, and works closely with the other HKEx divisions to develop projects.
- OTC Clearing Operations and Risk Management groups were newly formed in the middle of 2011 with the focus on establishing an OTC clearing house for the clearing of derivatives traded in Hong Kong.
- Mr Joseph Meyer who joined on 8 July 2011 as the Chief Administrative Officer tendered resignation, and will leave HKEx with effect from 9 March 2012.
- Ms Sylvia Hoosen was appointed the Head of Human Resources on 16 September 2011 to succeed Ms Brenda Yen who retired on 3 August 2011.
- Mr Richard Leung joined HKEx on 3 October 2011 as the new Co-Head of IT Division, and Mr Roger Lee, the former Co-Head, returned to the Listing Division as the Head of Listing Operations effective 1 January 2012.
- Mr Samuel Wong had tendered his resignation as the Chief Financial Officer, which will take effect from 20 March 2012.

The list of Senior Management and their biographies are set out in the Board of Directors and Senior Management section of this Annual Report.

Company Secretary

The Company Secretary, Mr Joseph Mau, is responsible for facilitating the Board process, as well as communications among Board members, with Shareholders and management. The Company Secretary's biography is set out in the Board of Directors and Senior Management section of this Annual Report. During 2011, the Company Secretary undertook over 15 hours of professional training to update his skills and knowledge.

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 2011.

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

As at 31 December 2011, the interests and short positions of Directors and HKEx's Chief Executive 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	188,858 ²	–	–	–	188,858	0.01
John E Strickland	18,000 ³	–	–	–	18,000	0.00

Notes:

- 1 Based on 1,079,906,640 shares of HKEx in issue as at 31 December 2011
- 2 Being Mr Li's interests in 184,568 Awarded Shares and 4,290 shares further acquired out of the dividends derived from such Awarded Shares 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.
- 3 Mr Strickland was the beneficial owner of those shares.

Save for those disclosed above, as at 31 December 2011, none of the Directors or HKEx's 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 Awarded Shares as disclosed in the Remuneration Committee Report of this Annual Report, none of the Directors or HKEx's Chief Executive (including their spouses and children under the age of 18), during the year ended 31 December 2011, 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 Government has become a Minority Controller. According to the Government, the provisions of Section 61 of the SFO do not expressly, or by necessary implication, bind the 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 Government.

As at the date of this Annual Report, the SFC has granted approval to 8 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 2011, the 8 approved Minority Controllers in aggregate held approximately 59 per cent of HKEx's issued share capital.

As at 31 December 2011, 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
Deutsche Bank Aktiengesellschaft	Beneficial owner	41,479,449	81,296,028 ²	7.52
	Investment manager	1,861,935		
	Person having a security interest in shares	36,429,835		
	Custodian corporation/ approved lending agent	1,524,809		
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	62,919,500 ³	62,919,500	5.82

Short positions in shares and underlying shares of HKEx

Name	Capacity	Number of shares/ underlying shares held	Total	% of the issued ¹ share capital
Deutsche Bank Aktiengesellschaft	Beneficial owner	40,401,762	76,665,239 ⁴	7.09
	Person having a security interest in shares	36,263,477		

Notes:

- 1 Based on 1,079,906,640 shares of HKEx in issue as at 31 December 2011
- 2 It included an aggregate interest in 39,531,094 underlying shares through its holding of certain physically settled listed equity derivatives (55,500 underlying shares) and cash settled unlisted equity derivatives (39,475,594 underlying shares). It also included 1,524,809 shares in the lending pool.
- 3 Based on a DI filing made by the Government on 10 September 2007 which it stated was voluntary
- 4 It included an aggregate interest in 39,543,959 underlying shares through its holding of certain physically settled listed equity derivatives (80,700 underlying shares) and cash settled unlisted equity derivatives (39,463,259 underlying shares).

Save for those disclosed above, as at 31 December 2011, 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 2011, 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	57,853	125,000	104,921	–
Mark F Dickens	15,901	–	113,631	–
Lawrence K M Fok	1,011,312	–	8,007	–
Kevin T King	–	–	6,361	–
Romnesh Lamba	–	–	80,539	–
Henry M W Law	87,403	–	35,987	–
Christine O M Wong	2,500	–	37,635	–
Samuel S F Wong	–	–	21,899	–

* Including shares further acquired out of the dividends derived from the relevant Awarded Shares according to the Share Award Scheme. The beneficial interest of these shares will be vested in accordance with the terms and conditions of the Share Award Scheme.

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 2011 and subject to the Waiver, the Group had the following continuing connected transactions.

Continuing connected transactions for the year ended 31 December 2011

- 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:
- Mr Ronald Arculli, the Chairman, was interested in the transactions entered into by Bokhary Securities Limited, an EP and a CP, in which his sister and his brother-in law each has a 50 per cent interest.
 - Dr Bill Kwok, an INED, was interested in the transactions entered into by Wocom Securities Limited (WSL) and Wocom Limited, EPs and CPs, which are Dr Kwok's associates by virtue of the Main Board Listing Rules.
 - 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 CPs, which are Mr Lee's associates 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, or proposed 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:
- 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.
 - 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):
- Dr Bill Kwok, an INED, was interested in the Buy-in Transactions entered into by WSL which is Dr Kwok's associate by virtue of the Main Board Listing Rules. For the year ended 31 December 2011, the total consideration of such transactions, being the brokerage commission earned by WSL, amounted to \$68,895.

The Audit Committee (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 Group's ordinary and usual course of business 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 rates 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 issued its unqualified letter containing its findings and conclusions in respect of the Transactions in accordance with Rule 14A.38 of the Main Board Listing Rules. The Company provided a copy of the said letter to the SFC and the Stock Exchange.

Material Related Party Transactions

During the year ended 31 December 2011, the Group also entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of these material related party transactions are disclosed in note 44 to the consolidated financial statements of this Annual Report.

Accountability and Audit

Financial Reporting

The Board is responsible for overseeing the preparation of the annual financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year. Management provides the Board with management accounts and updates on a monthly basis, with a view to giving a balanced and understandable assessment of the Group's performance, financial position and prospects to enable the Board as a whole and each Director to discharge their duties. In preparing the financial statements for the year ended 31 December 2011, the Board:

- (a) adopted 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 financial statements were prepared on a going concern basis.

In 2011, the annual, interim, and quarterly results were published within 3 months, 2 months and 45 days respectively after the end of the relevant periods to provide stakeholders with transparent and timely financial information.

Internal Controls and Their Effectiveness

The Board has the overall responsibility for maintaining sound and effective internal controls for the Group (including reviewing their effectiveness) to safeguard Shareholders' investment and the Group's assets. To this end, an internal control and risk management system, which is on a par with the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards, has been established to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure to achieve business objectives.

Details of the internal control procedures are available in the Corporate Governance section of the HKEx website. The key control measures are summarised below.

Key control measures undertaken for 2011

- A clear organisational structure with defined responsibilities was established and further refined in 2011 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, and are kept under regular review. For example, the Board approved the revised Expense Approval Guide to streamline certain approval requirements for improving operational efficiency.
- All division/department Heads confirmed that appropriate internal control policies and procedures had been established and properly complied with in 2011.
- The Risk Management Division continued to identify and assess risks on different areas across the organisation using a common platform and standardised process. More information in this regard is set out in the Business Review section of this Annual Report.
- Information about the Group's management of its financial risks is set out in note 47 to the consolidated financial statements of this Annual Report.
- An Escalation and Incident Reporting Policy is in place to facilitate swift action and timely communication with stakeholders. Under the policy, the hacking incident on the HKExnews website happened in August 2011 was reported to the Board, the SFC and the Risk Management Committee to ensure that listed issuers and the public were informed of the incident in a timely manner and the follow-up measures shortly after the incident.
- Guidelines on reporting and disseminating price-sensitive information, maintaining confidentiality and dealing restrictions are in place for employees to follow. The Company Secretary closely monitored the legislative progress on the statutory codification of certain requirements to disclose price-sensitive information as formulated in the Securities and Futures (Amendment) Bill 2011, to ensure compliance with obligations under applicable rules, regulations and laws.
- A Whistle-blowing Policy is in place to facilitate internal reporting on any malpractice without fear of reprisal or victimisation. A review of the policy was conducted in 2011, and it was concluded that the policy was comprehensive and working well.
- The Group's IT systems are subject to independent reviews to ensure their integrity, reliability, availability and stability. The reviews of CCASS/3, AMS/3.8 and MDS/3.8 completed in 2011 have re-affirmed that the Group's Cash Market systems are managed and operated at a high standard of compliance with international best practices.

Internal Audit

The Internal Audit Department (IAD) is responsible for conducting independent reviews of the adequacy and effectiveness of the Group's internal control and risk management system and regularly reporting the review results to the Board through the AC. Its work covers all material controls, including financial, operational and compliance controls and risk management functions. During 2011, no suspected cases of fraud, irregularities or infringement of laws, rules and regulations or material control failures were identified.

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.

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 the IAD's work and findings.

More information about the AC's work in 2011 and its review of the Group's internal control system, and accounting and financial reporting function 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 2011 financial statements, the AC received written confirmation from the external auditor on its independence and objectivity. The external auditor is refrained from engaging in non-assurance services except for limited tax-related services or specifically approved items. The AC reviews the external auditor's statutory audit scope and non-audit services and approves its fees. Details of the external auditor's fees are set out in note 13 to the consolidated financial statements of this Annual Report.

Pursuant to the Group's 5-year rotation policy, the engagement partner of the external auditor was last rotated in 2010. The Group has also adopted a policy of not hiring employees of the 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 strictly complied with 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 Engagement

The Board is accountable to Shareholders for the Company's performance and activities. It recognises the importance of promoting mutual understanding between the Company and Shareholders through ongoing engagement and communication.

Key shareholder engagement

- A Shareholders Communication Policy was adopted in April 2011 to ensure that Shareholders are provided with ready, equal and timely access to balanced and understandable information about HKEx. The policy is posted on the HKEx website and is regularly reviewed to ensure its effectiveness.
- Following the Shareholders' approval of the amendments to HKEx's Articles at the 2011 AGM, the Company has taken full advantage of the Rule requirements allowing communications to be made electronically to Shareholders where they have not requested hard copies. As at 31 December 2011, 74 per cent (3,944 out of 5,296) of Shareholders opted for receiving corporate communications via electronic methods.
- A Shareholders' Guide is prepared and posted on the HKEx website, which sets out the answers to the frequently asked questions raised by Shareholders with regard to their interests in the HKEx shares.
- Pursuant to the issue mandate approved by Shareholders at the 2011 AGM, HKEx offers Shareholders an option of receiving their dividends in the form of new shares in HKEx instead of cash which may enable Shareholders to increase their investment in HKEx without incurring brokerage fees, stamp duty and related dealing costs.
- Pursuant to Article 90(2) of HKEx's Articles, if a Shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, he or she should deposit a written notice of nomination which shall be given to the Company Secretary at HKEx's registered office within the 7-day period commencing the day after the despatch of the notice of the meeting (or such other period as may be determined and announced by the Directors from time to time). Details for nominating candidates to stand for election as a Director at the 2012 AGM are set out in the circular to Shareholders to be sent together with this Annual Report.
- For including a resolution relating to other matters in a general meeting, Shareholders are requested to follow the requirements and procedures as set out in the Corporate Governance Section of the HKEx website.
- Shareholder(s) holding not less than one-twentieth of HKEx's paid-up capital may request the Board to convene an extraordinary general meeting. The objects of the meeting must be stated in the related requisition deposited at HKEx's registered office.
- 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 sections of this Annual Report, respectively.

The Company also maintains an ongoing, active dialogue with institutional shareholders. Our Investor Services Team under the Corporate Communications Department is the focal point of contact for investors and analysts. Information about the key investor relations activities conducted during 2011 is set out in the 2011 CSR Report.

The important dates for Shareholders in 2011 and the results announcement dates in 2012 are set out in the Financial Calendar under the Investor Relations section of the HKEx website.

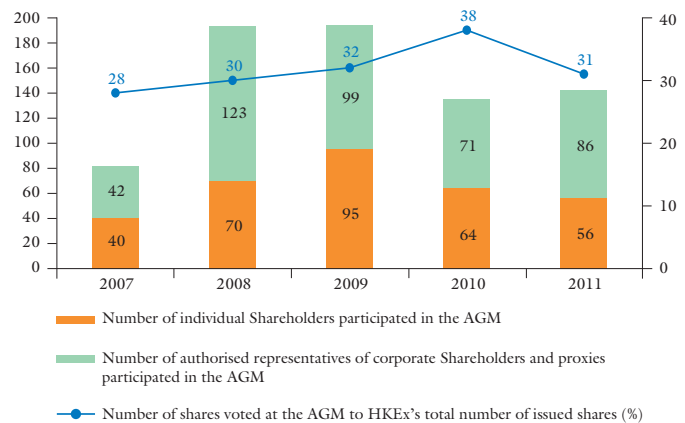
The Board always ensures that Shareholders' and stakeholders' views are heard and understood, and welcomes their questions and concerns relating to the Group's management and governance. Shareholders and other stakeholders may at any time send their enquiries and concerns to the Board by addressing them to Company Secretary by post or email at ssd@hkex.com.hk. The contact details are set out in the Information for Stakeholders section of this Annual Report.

2011 Annual General Meeting

The AGM is an important forum where communications with Shareholders can be effectively conducted. We were particularly pleased that Shareholders made their views known to us by raising their concerns over our business initiatives and development at the 2011 AGM held on 20 April 2011. There were a total of 142 individual Shareholders, authorised representatives of corporate Shareholders as well as proxies participated at the 2011 AGM, and the number of shares voted represented 31 per cent of the total number of HKEx's issued shares.

Moreover, all Directors, including the Chairman (who was also the chairman of the Remuneration Committee and the NC) and the chairman of the AC, together with key executives and the external auditor attended the 2011 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.

Participation in annual general meetings



Matters resolved at the 2011 AGM

- Received the audited accounts for the year ended 31 December 2010 together with the Reports of the Directors and the Auditor
- Payment of the final dividend of \$2.31 per share (with scrip alternative) for the year ended 31 December 2010
- Election of Dr Bill Kwok and Mr Vincent Lee as Directors
- Re-appointment of PricewaterhouseCoopers as Auditor of the Company and authorisation to 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 2011 AGM
- Approval to grant a general mandate to the Board for the allotment and issue of new shares of an amount not exceeding 10 per cent (5 per cent where shares are to be allotted for cash) of the aggregate nominal amount of the Company's issued share capital as at the date of 2011 AGM, and any shares to be allotted and issued (whether for cash or otherwise) under such authority shall not be at a discount of more than 5 per cent to the "benchmark price" (as described in Rule 13.36(5) of the Main Board Listing Rules)
- Approval of the remuneration of \$550,000 and \$385,000 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 an attendance fee of \$2,500 per meeting, the remuneration of \$100,000 and \$70,000 per annum payable to the chairman and each of the other members (excluding Executive Director) of certain Board committees respectively until Shareholders determine otherwise
- Approval to amend HKEx's Articles in relation to HKEx's corporate communications with Shareholders, Shareholders' nomination of candidates to stand for election as Directors, and certain minor housekeeping changes

Following the Shareholders' approval of the amendments to HKEx's Articles at the 2011 AGM, the revised HKEx's Articles took effect on 13 May 2011, the date we received the SFC's written approval, and are available on the HKEx website.

2012 Annual General Meeting

We encourage Shareholders to attend our 2012 AGM, exercise their right to vote, and give us valuable advice on both operational and governance matters.

Apart from normal business, the Board has proposed to request general mandates to repurchase HKEx shares and to issue HKEx shares, and to raise the remuneration of Non-executive Directors (including the Chairman) and members (excluding the Executive Director) of certain Board Committees at the 2012 AGM. Further details are set out in the circular to Shareholders to be sent together with this Annual Report.

Corporate Governance Recognition

We aim to be at the forefront of best practice in order to deliver our strategy and, by doing so, promote the success of the business for the benefit of Shareholders and other stakeholders. During 2011, we were pleased to see our commitment to corporate governance gained recognition.

Recognition	Organisation	Details
Asian Corporate Director Recognition Awards 2011	Corporate Governance Asia (CGA)	HKEx's Chief Executive, Mr Charles Li, was chosen as one of the award recipients.
Asian Excellence Recognition Awards 2011	CGA	HKEx was included in the Best Investor Relations (Hong Kong Company) category, and HKEx's Chief Executive, Mr Charles Li, was chosen as one of Asia's Best CEOs (Investor Relations).
Best Annual Reports Awards	The Hong Kong Management Association	HKEx's 2010 Annual Report was granted the Best Report Award for the 2 nd consecutive year.
Best Corporate Governance Disclosure Awards	HKICPA	HKEx's 2010 Annual Report was granted the Platinum Award (HSI Category) for the 3 rd consecutive year, and the Sustainability and Social Responsibility Reporting Award.
CGA Recognition Awards 2011	CGA	For the 2 nd consecutive year, HKEx was chosen as one of the award recipients.

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 2011 to the date of approval of this report.

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

Hong Kong, 29 February 2012

AUDIT COMMITTEE REPORT

The Audit Committee

The Audit Committee (AC) comprises 5 INEDs, appointed by the Board, who have extensive experience in financial matters. Among them, Messrs John Harrison, Vincent Lee and 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.

The AC is delegated by the Board with the responsibility to provide an independent review and supervision of financial reporting and to ensure the effectiveness of the Group's internal controls and the adequacy of the external and internal audits. To perform its duties, the AC is provided with sufficient resources 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 AC's terms of reference are posted on the HKEx website.

The AC holds at least 4 regular meetings a year and organises additional meetings when necessary. The external auditor, HKEx's 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. In 2011, 6 meetings were held and the members' attendance record is shown on page 90 of this Annual Report.

Major accomplishments in 2011

- Reviewed the financial reports for disclosure on a quarterly basis
- Reviewed the internal audit activities summary and approved the internal audit annual plan
- Reviewed the internal and external auditors' significant findings and management's response to the recommendations raised
- Reviewed the continuing connected transactions
- Reviewed the effectiveness of the internal control system and the adequacy of the accounting and financial reporting function
- Reviewed the external auditor's statutory audit scope for 2011 and the letter of representation to be given by the Board
- Considered and approved the 2011 external audit fees and engagement letters
- Reviewed and monitored the external auditor's independence and engagement to perform non-audit services
- Selected the consultant for the independent review of AMS/3.8 and MDS/3.8, and monitored the progress of the review
- Reviewed the results of the independent reviews of CCASS/3, AMS/3.8 and MDS/3.8, and management's response to the recommendations raised

Review of Internal Control System

HKEx's internal control system is reviewed regularly by 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 2011: (i) HKEx's internal control system was effective, with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards; (ii) HKEx had adopted the necessary control mechanisms to monitor and correct non-compliance; and (iii) the Group had complied satisfactorily with the requirements of the CG Code in respect of internal controls.

Review of 2011 Consolidated Financial Statements

The AC reviewed the 2011 consolidated financial statements in conjunction with HKEx's external and internal auditors. Based on this review and discussions with management, the AC was satisfied that the consolidated financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2011. The AC therefore recommended the consolidated financial statements for the year ended 31 December 2011 be approved by the Board.

Review of Group's Accounting and Financial Reporting Function

The AC reviewed and was satisfied with the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function.

Review of Continuing Connected Transactions

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 for Re-appointment of External Auditor

The AC was satisfied with the external auditor's work, its independence and objectivity, and therefore recommended the re-appointment of PricewaterhouseCoopers (which has indicated its willingness to continue in office) as the Group's external auditor for 2012 for Shareholders' approval at the 2012 AGM.

Members of the Audit Committee

John Barrie HARRISON (Chairman)
LEE Kwan Ho, Vincent Marshall (Deputy Chairman)
CHAN Tze Ching, Ignatius
KWOK Chi Piu, Bill
John Mackay McCulloch WILLIAMSON

Hong Kong, 22 February 2012

REMUNERATION COMMITTEE REPORT

The Remuneration Committee

The Remuneration Committee (RC) is delegated by the Board with the responsibility to ensure that the Group's remuneration policy and practices are consistently applied and employees are fairly remunerated with reference to the Group's and individual's performance. It comprises 5 INEDs and its member list is set out in the Board and Committees section of this Annual Report. The RC's major roles and functions and terms of reference are posted on the HKEx website.

4 meetings were held in 2011, and the members' attendance record is shown on page 90 of this Annual Report.

Major accomplishments in 2011

- Adopted the 2010 Remuneration Committee Report
- Reviewed the remuneration level for Non-executive Directors and recommended increases for 2011/2012
- Reviewed and endorsed the 2011 Compensation Structure Review recommendations
- Recommended the 2011 performance bonus and share award pools for awarding employees
- Recommended a salary adjustment for 2012 that covers merit increase, inflation adjustment, and promotion
- Recommended the 2011 performance bonus and share award for HKEx's Chief Executive

Non-executive Directors' Remuneration

Objective

To set an appropriate level of remuneration to attract and retain experienced people of high calibre to oversee HKEx's business and development

Policy

- To conduct annual reviews with reference to companies of comparable business or scale, and recommend remuneration adjustments, if appropriate
- To seek the Board's endorsement and Shareholders' approval on any recommended changes

Annual review for 2011/2012

Recommended raising the remuneration of HKEx's Chairman and each of the other Non-executive Directors, and that of the chairman and each of the other members (excluding the Executive Director) of the Audit Committee, Executive Committee, Investment Advisory Committee, and RC. The attendance fee in respect of each of the said committee's meetings was recommended to remain unchanged. The said recommendations were based on the level of remuneration of non-executive directors of HSI constituent companies and overseas listed exchanges, as well as the advice of the consultant who was engaged to conduct the Board's performance evaluation. The recommendations were endorsed by the Board, and approved by Shareholders at the 2011 AGM.

Annual review for 2012/2013

- Based on the benchmark data of HSI constituent companies, overseas listed exchanges and other major global and regional financial services companies, and also the market input from Egon Zehnder International, a recommendation on increasing the Non-executive Directors' remuneration with details as set out below was made by the RC and endorsed by the Board, and will be proposed for Shareholders' approval at the 2012 AGM:
 - (i) the remuneration of HKEx's Chairman and each of the other Non-executive Directors to \$900,000 and \$600,000 per annum respectively;
 - (ii) the remuneration of the chairman and each of the other members (excluding Executive Director) of the Audit Committee, Executive Committee, Investment Advisory Committee, and RC to \$120,000 and \$90,000 per annum respectively; and
 - (iii) the attendance fee of each member (excluding the Executive Director) for each meeting of the committees as mentioned in (ii) above to \$3,000.
- The proposal has taken into account the following key factors:
 - (i) high demand for top level non-executive director candidates due to the globalisation of many companies' businesses and the economic environment in China and the region;
 - (ii) increase in time commitment required from the Non-executive Directors to the Board; and
 - (iii) increased responsibilities of Board members and complexity of Board matters.

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

Non-executive Directors' Fee for 2011/2012

	2011/2012	2010/2011
	\$	\$
Board Chairman	550,000	500,000
Board member *	385,000	350,000
Audit Committee/Executive Committee */ Investment Advisory Committee/RC		
– chairman	100,000	50,000
– member	70,000	50,000
	plus an attendance fee of \$2,500 for each committee meeting	plus an attendance fee of \$2,500 for each committee meeting

* Excluding the Executive Director

Non-executive Directors' Fee for 2011

Name	2011	2010
	\$	\$
Ronald J Arculli	752,500	617,500
Laura M Cha	451,250	392,500
Ignatius T C Chan	456,250	397,500
Moses M C Cheng	451,250	405,000
Marvin K T Cheung (retired on 20 April 2011)	107,500	397,500
John B Harrison (appointed on 20 April 2011)	431,250	–
Stephen C C Hui	453,750	400,000
Bill C P Kwok	551,250	460,000
Vincent K H Lee	566,250	527,500
Michael T H Lee	451,250	397,500
John E Strickland	476,250	400,000
John M M Williamson	618,750	522,500
Oscar S H Wong	451,250	400,000
Total	6,218,750	5,317,500

Employees' Remuneration

Objective
To offer equitable and market-competitive remuneration packages that support the performance culture and enable the achievement of strategic business goals
Policy
<ul style="list-style-type: none"> To conduct market review and recommend salary adjustments, if appropriate, for the Board's approval To determine the corporate performance based on a set of pre-determined measurements and recommend to the Board the appropriate level of performance bonus and share award pools for the year To consult HKEx's Chief Executive with the individual performance of the Senior Management and ensure they are remunerated equitably and in accordance with the established guidelines To recommend to the Board the remuneration of HKEx's Chief Executive and ensure he is not involved in the discussion and decision of his own compensation
Review for 2011/2012
<ul style="list-style-type: none"> Based on the compensation structure review performed by Towers Watson in 2010, the RC recommended and the Board approved in June 2011 the revisions of the performance bonus accrual rate as well as the corporate performance measurements. The RC recommended and the Board approved in December 2011 – <ol style="list-style-type: none"> a salary adjustment effective January 2012 that covered merit increase, inflation adjustment, and promotion, with a view to maintaining internal relativity and external competitiveness. The salary adjustment took into consideration the cost of living and projected pay increase in the financial services industry; a discretionary performance bonus for eligible employees in recognition of their contributions in 2011; and a sum of \$113.6 million for the purchase of HKEx shares for 138 selected employees including HKEx's Chief Executive pursuant to the Share Award Scheme. The performance bonus was determined based on the Group's performance, taking into account both financial and non-financial factors including the Group's financial performance and strategic initiatives, as well as market, regulatory, and organisational development. Individual performance bonuses are then differentiated according to a 5-point performance rating scale, grade level and job function.

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

As at 31 December 2011, the Group had 940 permanent employees (2010: 866) and 57 temporary employees (2010: 17).

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 2011 CSR Report.

Emoluments for 2011

Executive Director

Name	2011					Director's fee \$	Total ³ \$	2010	2011
	Salary \$	Cash bonus \$	Other ¹ benefits \$	Retirement ² benefits cost \$	Share ⁴ award benefits \$			Total ³ \$	Share ⁴ award benefits \$
HKEx's Chief Executive Charles X Li	7,524,000	7,524,000	143,380	940,500	-	16,131,880	16,619,237	6,942,519	

Senior Management

Name	2011					Compensation for loss of office \$	Total ³ \$	2010	2011
	Salary \$	Cash bonus \$	Other ¹ benefits \$	Retirement ² benefits cost \$	Share ⁴ award benefits \$			Total ³ \$	Share ⁴ award benefits \$
Gerald D Greiner	6,000,000	-	108,466	750,000	-	6,858,466	9,616,531	3,367,240	
Mark F Dickens	4,380,000	4,380,000	57,817	547,500	-	9,365,317	8,795,207	3,227,501	
Lawrence K M Fok	3,672,000	918,000	77,171	459,000	-	5,126,171	6,043,671	408,073	
Kevin T King	3,120,000	-	95,078	390,000	-	3,605,078	4,690,232	313,037	
Romnesh Lamba	4,380,000	4,380,000	65,549	547,500	-	9,373,049	7,791,500	3,142,956	
Henry M W Law	2,700,000	1,800,000	51,686	337,500	-	4,889,186	4,915,409	1,469,072	
Christine O M Wong	3,360,000	3,080,000	111,255	336,000	-	6,887,255	4,633,121	1,442,098	
Samuel S F Wong	3,360,000	1,680,000	115,095	420,000	-	5,575,095	3,608,466	1,051,591	

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 Excluding the shares awarded to the Chief Executive and the Senior Management during the relevant years, details of which are set out in the Chief Executive's and Senior Management's Interests in HKEx Securities under Long-term Incentive Schemes section of this report.
- 4 The share award benefits represent the aggregate of the amortised fair value of the Chief Executive's and the respective members of the Senior Management's Awarded Shares that were charged to the consolidated statement of comprehensive income for the year ended 31 December 2011. The fair value of the share options granted under the Post-Listing Scheme were fully amortised in 2010.

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 14 and 15 to the consolidated financial statements of this Annual Report respectively.

Long-term Incentive Schemes

HKEx currently operates a Share Award Scheme for the purpose of recognising the contributions of certain employees and retaining them for the Group's operation and further development. Prior to the adoption of the Share Award Scheme, HKEx had maintained 2 share option schemes, the Pre-Listing Scheme and the Post-Listing Scheme, both of which expired on 30 May 2010.

Share Option Schemes

There are no outstanding options under the Pre-Listing Scheme. The unexercised options under the Post-Listing Scheme will continue to be valid and exercisable subject to the provisions of the scheme until the end of the respective exercise periods.

Movements in the outstanding share options granted under the Post-Listing Scheme during the year ended 31 December 2011 are set out below.

Date of grant	Exercise price \$	Number of shares issuable under the options				Exercise ² period
		As at 1 Jan 2011	Issued upon ¹ subscription during the year	Cancelled/lapsed during the year	As at 31 Dec 2011	
Employees						
31 Mar 2004	16.96	469,500	87,500	–	382,000	31 Mar 2006 – 30 Mar 2014
17 May 2004	15.91	100,000	75,000	–	25,000	17 May 2006 – 16 May 2014
26 Jan 2005	19.25	885,000	307,400	–	577,600	26 Jan 2007 – 25 Jan 2015

Notes:

1 The weighted average closing price immediately before the dates on which the options were exercised was \$162.48.

2 Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting from the 2nd anniversary and became fully vested in the 5th anniversary of the grant.

Further details of the Share Option Schemes are set out in note 36(b) to the consolidated financial statements of this Annual Report.

Share Award Scheme

The Share Award Scheme was adopted 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 in the scheme is 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.

In December 2011, the Board approved a sum of \$113.6 million for the purchase of the HKEx shares for awards to the selected employees, including HKEx's Chief Executive (\$8.8 million), and a sum of \$20 million for the purchase of the HKEx shares for selected employees to be recruited in 2012. The Share Award Scheme's trustee, based on the Board's recommendation, applied 344,706 unallocated or forfeited HKEx shares held under the Share Award Scheme to partly satisfy such award.

Further details in relation to the Share Award Scheme are set out in note 36(c) to the consolidated financial statements of this Annual Report.

Since its adoption, a total of 3,698,360 shares had been awarded under the Share Award Scheme up to the date of this Annual Report, representing about 0.35 per cent of the issued share capital of HKEx as at the Adoption Date. Details of the Awarded Shares, including the number of shares awarded and vested during the year ended 31 December 2011 are set out below.

Date of approval by Board	Date of ¹ award	Awarded 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 ³
13 Dec 2006	15 Jan 2007	19,673	272,500	272,465	72.28	40,220	13 Dec 2008 – 13 Dec 2011
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	25,961	12 Dec 2009 – 12 Dec 2012
10 Dec 2008	3 Feb 2009	4,900	59,900	59,900	81.96	14,975	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
14 Dec 2010	30 Mar 2011	570	3,300	3,300	169.92	–	13 Jan 2013 – 13 Jan 2014
14 Dec 2010	30 Mar 2011	2,310	13,600	13,600	169.92	–	1 Feb 2013 – 1 Feb 2014
14 Dec 2010	8 Apr 2011	263	1,400	1,400	179.55	–	1 Apr 2013 – 1 Apr 2014
14 Dec 2010	9 Jun 2011	570	3,300	3,300	171.59	–	26 Apr 2013 – 26 Apr 2014
14 Dec 2010	8 Jul 2011	1,560	9,200	9,200	168.87	–	8 Jul 2013 – 8 Jul 2014
14 Dec 2010	7 Sept 2011	405	2,900	2,900	137.12	–	20 Jul 2013 – 20 Jul 2014
14 Dec 2010	11 Oct 2011	1,620	11,800	11,800	137.22	–	19 Sept 2013 – 19 Sept 2014
14 Dec 2010	11 Oct 2011	1,560	14,400	14,400	108.03	–	3 Oct 2013 – 3 Oct 2014
14 Dec 2011	30 Dec 2011	113,624	567,800	912,437 ⁴	124.75	–	14 Dec 2013 – 14 Dec 2014

Notes:

- 1 The date of award refers to the date on which the trustee allocated the Awarded Shares to the selected employees from the shares purchased with the awarded sum determined by the Board.
- 2 The fair value of the Awarded Shares was based on the average purchase cost per share.
For the shares awarded on 30 December 2011, the fair value of the Awarded Shares was based on the average fair value calculated from the weighted average of the following:
 - (a) for shares awarded from unallocated or forfeited shares: closing price of the HKEx shares on the date of approval of the awarded sum by the Board, and
 - (b) for shares purchased from the market: average cost per share.
- 3 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 are vested in 2 equal tranches from the 2nd to the 3rd year after the grant, as opposed to 4 equal tranches from the 2nd to the 5th year, the arrangement prior to the change.
- 4 The Share Award Scheme's trustee applied 344,706 shares held under the scheme, which were unallocated or forfeited pursuant to the Share Award Scheme, to partly satisfy the relevant award.

As at 31 December 2011, taking into account the further shares acquired out of the dividends derived from the shares held under the trust, there were 2,236,167 shares held in trust under the Share Award Scheme.

Chief Executive's and Senior Management's Interests in HKEx 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 2011	Subscribed during the year	Lapsed during the year	As at 31 Dec 2011	
Senior Management							
Gerald D Greiner	17 May 2004	15.91	100,000	75,000	–	25,000	17 May 2006 – 16 May 2014
	26 Jan 2005	19.25	100,000	–	–	100,000	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

Note:

- 1 Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting from the 2nd anniversary and became fully vested in the 5th anniversary of the grant.

Awarded Shares

Name	Date of award ²	Number of Awarded Shares	Average ³ fair value per share \$	Number of shares ¹					As at 31 Dec 2011	Vesting period ⁴
				As at 1 Jan 2011	Further shares acquired during the year out of the dividends distributed	Vested during the year	Lapsed during the year	As at 31 Dec 2011		
HKEx's Chief Executive										
Charles X Li	10 Jun 2010	73,217	123.29	74,267	2,088	-	-	76,355	13 May 2012 – 13 May 2013	
	31 Dec 2010	40,856	176.75	40,856	1,152	-	-	42,008	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	70,495	124.75	-	-	-	-	70,495	14 Dec 2013 – 14 Dec 2014	
Senior Management										
Gerald D Greiner	15 Jan 2007	11,911	72.28	3,406	95	3,501	-	-	13 Dec 2008 – 13 Dec 2011	
	4 Feb 2008	8,418	163.72	4,708	131	2,406	-	2,433	12 Dec 2009 – 12 Dec 2012	
	10 Jun 2010	35,700	123.29	36,214	1,016	-	-	37,230	13 May 2012 – 13 May 2013	
	31 Dec 2010	16,601	176.75	16,601	472	-	-	17,073	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	48,185	124.75	-	-	-	-	48,185	14 Dec 2013 – 14 Dec 2014	
Mark F Dickens	3 Feb 2009	59,900	81.96	63,610	1,338	15,901	-	49,047	1 Jan 2011 – 1 Jan 2014	
	10 Jun 2010	14,236	123.29	14,443	405	-	-	14,848	13 May 2012 – 13 May 2013	
	31 Dec 2010	19,860	176.75	19,860	564	-	-	20,424	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	29,312	124.75	-	-	-	-	29,312	14 Dec 2013 – 14 Dec 2014	
Lawrence K M Fok	15 Jan 2007	3,842	72.28	1,100	29	1,129	-	-	13 Dec 2008 – 13 Dec 2011	
	4 Feb 2008	658	163.72	387	9	183	-	213	12 Dec 2009 – 12 Dec 2012	
	10 Jun 2010	7,468	123.29	7,578	216	-	-	7,794	13 May 2012 – 13 May 2013	
Kevin T King	10 Jun 2010	6,101	123.29	6,188	173	-	-	6,361	13 May 2012 – 13 May 2013	
Romnesh Lamba	10 Jun 2010	25,626	123.29	25,993	730	-	-	26,723	13 May 2012 – 13 May 2013	
	31 Dec 2010	23,832	176.75	23,832	672	-	-	24,504	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	29,312	124.75	-	-	-	-	29,312	14 Dec 2013 – 14 Dec 2014	
Henry M W Law	15 Jan 2007	6,660	72.28	1,907	53	1,960	-	-	13 Dec 2008 – 13 Dec 2011	
	4 Feb 2008	3,623	163.72	2,039	55	1,034	-	1,060	12 Dec 2009 – 12 Dec 2012	
	10 Jun 2010	15,832	123.29	16,062	450	-	-	16,512	13 May 2012 – 13 May 2013	
	31 Dec 2010	7,362	176.75	7,362	212	-	-	7,574	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	10,841	124.75	-	-	-	-	10,841	14 Dec 2013 – 14 Dec 2014	
Christine O M Wong	9 Jul 2010	6,900	121.88	6,998	194	-	-	7,192	10 Jun 2012 – 10 Jun 2013	
	31 Dec 2010	14,299	176.75	14,299	404	-	-	14,703	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	15,740	124.75	-	-	-	-	15,740	14 Dec 2013 – 14 Dec 2014	
Samuel S F Wong	9 Jul 2010	21,000	120.32	21,301	598	-	-	21,899	2 Jul 2012 – 2 Jul 2013	

Notes:

- The number includes further shares acquired through reinvesting cash dividends received or distribution of scrip dividends.
- The date of award refers to the date on which the trustee allocated the Awarded Shares to the selected employees from the shares purchased with the awarded sum determined by the Board.
- The fair value of the Awarded Shares was based on the average purchase cost per share.
For the shares awarded on 30 December 2011, the fair value of the Awarded Shares was based on the average fair value calculated from the weighted average of the following:
 - for shares awarded from unallocated or forfeited shares: closing price of the HKEx shares on the date of approval of the awarded sum by the Board, and
 - for shares purchased from the market: average cost per share.
- 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 are vested in 2 equal tranches from the 2nd to the 3rd year after the grant, as opposed to 4 equal tranches from the 2nd to the 5th year, the arrangement prior to the change.

Members of the Remuneration Committee

Ronald Joseph ARCULLI (Chairman)
 CHA May-Lung, Laura
 CHENG Mo Chi, Moses
 John Barrie HARRISON
 John Mackay McCulloch WILLIAMSON

Hong Kong, 29 February 2012

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT

The Environmental, Social and Governance Committee

The Board has delegated the day-to-day responsibility for all corporate governance and CSR-related matters to the ESG Committee (previously the CSR Committee which was restructured to become the ESG Committee in April 2011). The ESG Committee comprises 5 Board members, including the Board Chairman who acts as the ESG Committee's chairman and HKEx's Chief Executive. The ESG Committee reports to the Board on a regular basis. Its major roles and functions and terms of reference are posted on the HKEx website.

The ESG Committee held 1 meeting and passed 1 written resolution regarding HKEx's corporate governance and CSR-related matters in 2011. The attendance record of members is shown on page 90 of this Annual Report. The following is a summary of major work done under the leadership of the ESG Committee in 2011.

Major accomplishments in 2011

- Approved the engagement of an external independent consultant to conduct the Board Performance Evaluation (BPE) for HKEx in 2011 (information about the BPE is set out in the Corporate Governance Report of this Annual Report)
- Approved the engagement of an external independent verifier for the 2011 CSR Report
- Considered HKEx's CSR progress to date and approved the CSR Strategy going forward, which aims to further integrate CSR practices into HKEx's business
- Approved HKEx's participation in the Wastewi\$e Label recognition scheme under the Hong Kong Awards for Environmental Excellence in 2011/12
- Took up the responsibility of overseeing the training and continuous professional development of the Directors and Senior Management

CSR Strategy

The ESG Committee has delegated the CSR Working Group with the responsibility to take the lead in implementing the CSR Strategy. The CSR Working Group convened 2 meetings in 2011 to review the progress of the initiatives laid down for 2011 and to formulate the 2012 action plan. Among the various initiatives for 2012, a subgroup has been formed to explore and develop a long-term sustainable community project.

A full report on HKEx's CSR performance in 2011 is set out in the 2011 CSR Report which will be available on the HKEx website. HKEx is committed to operating in an economically, socially and environmentally sustainable manner with effective corporate governance and stakeholder engagement as the overarching principles. We welcome your feedback on HKEx's performance and reporting by completing the online feedback form at www.hkex.com.hk/eng/exchange/csr/csr.htm or sending email to us at ssd@hkex.com.hk.

Members of the Environmental, Social and Governance Committee

Ronald Joseph ARCULLI (Chairman)

CHA May-Lung, Laura

John Barrie HARRISON

LEE Tze Hau, Michael

LI Xiaojia, Charles

Hong Kong, 24 February 2012

SHAREHOLDING ANALYSIS

Share Capital (as at 31 December 2011)

Authorised Share Capital
Issued Share Capital

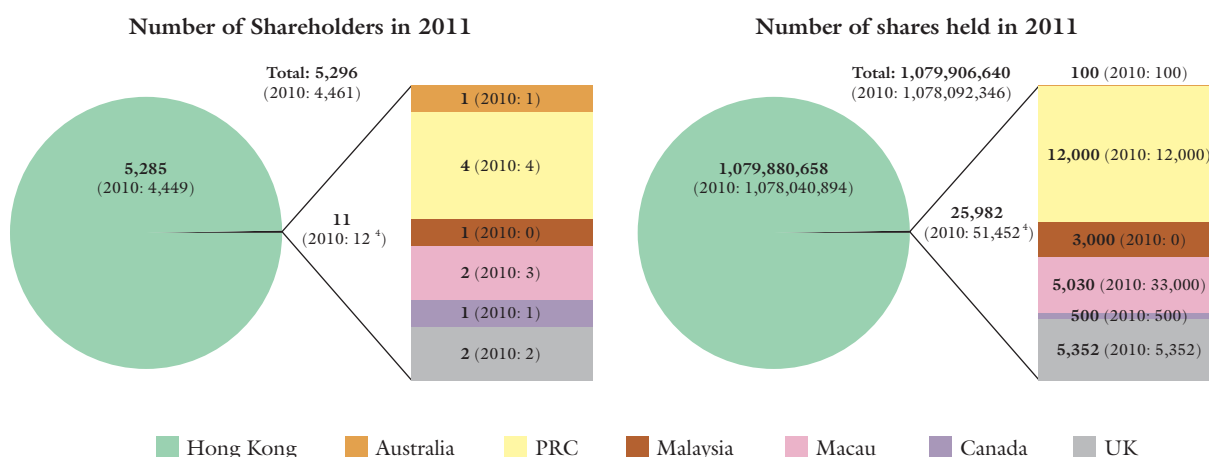
\$2 billion with shares of \$1 each
\$1,079,906,640 with shares of \$1 each

An analysis of Shareholders based on the ROM as at 31 December 2011 and 31 December 2010 is as follows:

Shareholding Distribution

Size of shareholding	Number of Shareholders		% of ¹ Shareholders		Number of ² shares held ('000)		% of the ¹ issued share capital	
	2011	2010	2011	2010	2011	2010	2011	2010
1 – 1,000	2,496	2,047	47.13	45.89	1,400	1,223	0.13	0.11
1,001 – 5,000	1,721	1,445	32.50	32.39	4,506	3,928	0.42	0.36
5,001 – 10,000	468	425	8.84	9.53	3,704	3,449	0.34	0.32
10,001 – 100,000	467	393	8.82	8.81	14,287	12,411	1.32	1.15
100,001 and above	144	151	2.72	3.38	1,056,009	1,057,082	97.79	98.05
Total	5,296	4,461	100.00	100.00	1,079,907	1,078,092	100.00	100.00

Geographical Distribution³



Share Ownership by Type

Type of Shareholders	Number of Shareholders		Number of ² shares held ('000)		% of the ¹ issued share capital	
	2011	2010	2011	2010	2011	2010
Individual	5,200	4,369	65,281	64,110	6.05	5.95
Non-Individual	96	92	1,014,626	1,013,982	93.95	94.05
HKSCC Nominees Limited	1	1	979,716	976,322	90.72	90.56
Direct Clearing Participants			182,325	149,973	16.88	13.91
General Clearing Participants						
– Broker Participants			10,011	9,755	0.93	0.90
– Custodian Participants			441,917	490,204	40.92	45.47
Custodian Participants			334,245	317,075	30.95	29.41
IPs			9,636	8,002	0.89	0.74
Defaulting Participant			1,489	1,489	0.14	0.14
			979,622 ⁵	976,497 ⁵	90.71	90.58
Other corporate/incorporated bodies	95	91	34,910	37,661	3.23	3.49
Total	5,296	4,461	1,079,907	1,078,092	100.00	100.00

Notes:

- Percentage is for reference only, and may not be added up to the total or sub-group total due to rounding.
 - Figures have been rounded up/down to the nearest thousand, and may not add up to the total or sub-group total due to rounding.
 - According to the addresses shown on the ROM
 - For 2010, a Shareholder located in Indonesia held 500 shares.
 - The breakdown of the shareholding in the name of HKSCC Nominees Limited was obtained from the records 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 2011, the shares were held for 422 Direct Clearing Participants (2010: 402); 7 General Clearing Participants (2010: 7), of which 3 were Broker Participants (2010: 3) and 4 were Custodian Participants (2010: 4); 29 Custodian Participants (2010: 27); 1,101 IPs (2010: 803); and 1 Defaulting Participant (2010: 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 a printed or electronic version. Should Shareholders elect the electronic version, HKEx will donate \$50 to a charity with a focus on environmental protection, subject to a cap of \$100,000 per annum. Shareholders are encouraged to access HKEx's corporate communications electronically via the HKEx website, which helps conserve the environment. Shareholders may at any time change their choice of language or means of receiving HKEx's corporate communications free of charge by giving at least 7-day notice in writing to HKEx's registrar, Hong Kong Registrars Limited, or by email to the Company at hkex.ecom@computershare.com.hk.

We value your feedback on this Annual Report for improving our reporting on financial and governance performance, which can be made via the online form at www.hkex.com.hk/eng/exchange/invest/ir.htm or email to us at ssd@hkex.com.hk.

Stakeholders who are interested in receiving information about HKEx may register at the Investment Service Centre on the HKEx website. Upon successful registration, they will receive alerts when HKEx publishes its corporate communications on the HKExnews website.

Annual General Meeting

The 2012 AGM will be held on Monday, 23 April 2012. The Notice of the 2012 AGM, which constitutes part of the circular to Shareholders, is sent together with this Annual Report. The Notice of the 2012 AGM and the proxy form are also available on the HKEx website.

2011 Dividends

Interim dividend	\$2.16 per share
Proposed final dividend	\$2.09 per share

Scrip Dividend Alternative

Subject to Shareholders' approval of the proposed final dividend and a general mandate to issue shares at the 2012 AGM, the final dividend will be payable in cash with a scrip dividend alternative to Shareholders whose names appear on the ROM on Monday, 30 April 2012. The scrip dividend alternative is also conditional upon the SFC's granting the listing of, and permission to deal in, the new shares of HKEx to be issued pursuant thereto.

A circular containing details of the scrip dividend alternative, where available, together with an election form will be despatched to Shareholders on or about Monday, 7 May 2012. Definitive share certificates in respect of the scrip dividend and dividend warrants will be despatched to Shareholders on or about Tuesday, 29 May 2012.

Closure of ROM

For determining Shareholders' eligibility to attend and vote at the 2012 AGM

Latest time to lodge transfer documents for registration	4:30 pm on 18 April 2012
Closure of ROM	19 to 23 April 2012 (both dates inclusive)
Record date	23 April 2012

For determining Shareholders' entitlement to the final dividend

Latest time to lodge transfer documents for registration	4:30 pm on 26 April 2012
Closure of ROM	27 to 30 April 2012 (both dates inclusive)
Record date	30 April 2012

Financial Calendar

Announcement of 2011 final results	29 February 2012
2012 AGM	23 April 2012
Ex-dividend date for final dividend	25 April 2012
Despatch of scrip dividend circular and election form	on or about 7 May 2012
Despatch of dividend warrants/definitive share certificates	on or about 29 May 2012
Announcement of 2012 1 st quarter results (tentative)	May 2012
Announcement of 2012 interim results (tentative)	August 2012
Announcement of 2012 3 rd quarter results (tentative)	November 2012

Share Information

Share Listing

First listed on the Stock Exchange	27 June 2000
As a FTSE4Good Index Series constituent company	Since September 2005
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 2011

Public float capitalisation	\$134.0 billion
Number of issued shares	1,079,906,640 shares
Closing price at 30 December 2011 (the last trading date in 2011)	\$124.1 per share

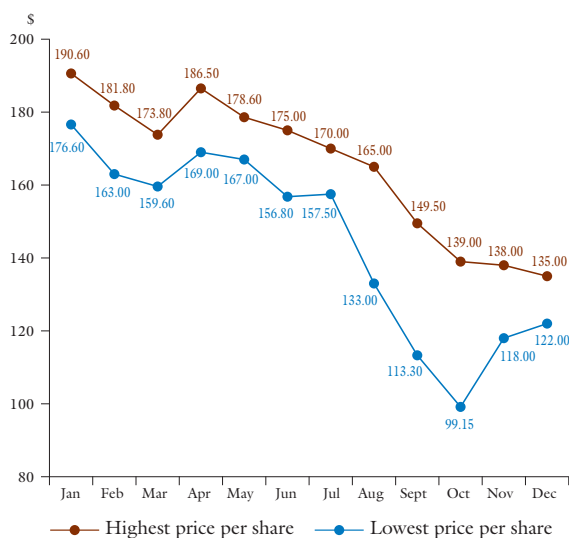
Stock Codes

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

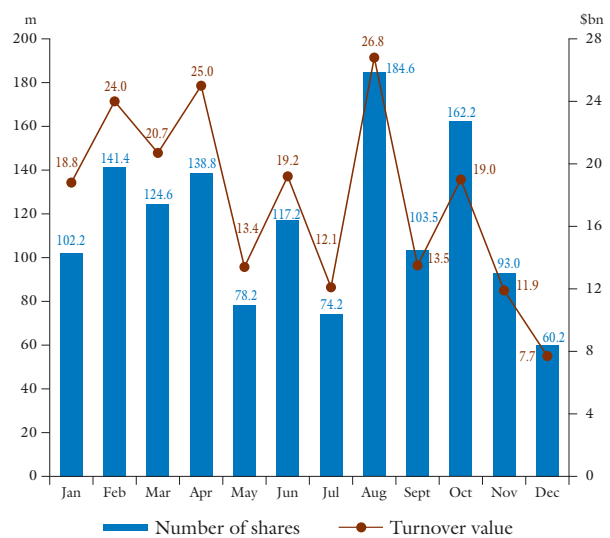
American Depositary Receipt

Ticker Symbol	HKXCY
CUSIP	43858F109

Price of HKEx shares in 2011



Turnover of HKEx shares in 2011



Note: Figures have been rounded.

HKEx's Registrar and Transfer Office

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Our Contact Information

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DIRECTORS' REPORT

The Directors are pleased to present this Annual Report together with the audited financial statements for the year ended 31 December 2011.

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 2011 is set out in note 4 to the consolidated financial statements of this Annual Report.

Particulars of HKEx's subsidiaries as at 31 December 2011 are set out in note 34 to the consolidated financial statements of this Annual Report.

Results and Appropriations

The Group's results for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 121 of this Annual Report.

The Board declared an interim dividend of \$2.16 per share (2010: \$1.89 per share), amounting to a total of \$2.3 billion (2010: \$2.0 billion), which was paid to Shareholders on 6 October 2011 and included dividends of \$4 million (2010: \$3 million) for shares held in trust under the Share Award Scheme.

The Board recommends the payment of a final dividend of \$2.09 per share (2010: \$2.31 per share) to Shareholders whose names appear on the ROM on 30 April 2012, 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 \$4.6 billion (2010: \$4.5 billion), which represents a payout ratio of 90 per cent (2010: 90 per cent) and includes dividends of about \$9 million (2010: \$7 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 the final dividend wholly or partly in the form of new fully paid shares instead of in cash.

Distributable Reserves

HKEx's distributable reserves as at 31 December 2011, calculated under Section 79B of the Companies Ordinance and with reference to the "Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance" issued by the HKICPA, amounted to \$6.4 billion (31 December 2010: \$1.2 billion).

Details of the movements in the reserves of the Group and HKEx during the year are set out in notes 36 to 39 to the consolidated financial statements of this Annual Report.

Donations

The Group's charitable and other donations during the year amounted to \$907,000 (2010: \$2,255,000). No donations were made to political parties.

Fixed Assets

Details of the movements in fixed assets of the Group during the year are set out in note 25 to the consolidated financial statements of this Annual Report.

Share Capital

Details of the movements in HKEx's share capital during the year are set out in note 35 to the consolidated financial statements 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 section of this Annual Report.

Purchase, Sale or Redemption of HKEx's Listed Securities

In 2011, 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 627,700 HKEx shares at a total consideration of \$80 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 was held by the public. HKEx share information, including the Company's market capitalisation as at 31 December 2011, is set out in the Information for Stakeholders section 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 section of this Annual Report. Information about the Board, including members' appointments and retirements, and their interests in HKEx 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 section of this Annual Report. None of the Directors or Senior Management is involved in any relationships as defined in Appendix 16 to 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 material related party transactions are set out in the Corporate Governance Report and note 44 to the consolidated financial statements 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 Share Award Scheme, shares were awarded to the Company's sole executive director, details of which are set out in the Remuneration Committee Report and note 36(c) to the consolidated financial statements 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 2011, 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 2011.

Provident Fund Schemes

Particulars of the Group's provident fund schemes are set out in note 10 to the consolidated financial statements 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 Environmental, Social and Governance Committee Report of this Annual Report.

Auditor

The financial statements for the year ended 31 December 2011 have been audited by PricewaterhouseCoopers which retires and, being eligible, offers itself for re-appointment at the 2012 AGM. A resolution to re-appoint PricewaterhouseCoopers and to authorise the Directors to fix its remuneration will be proposed at the 2012 AGM.

On behalf of the Board

Ronald Joseph ARCULLI
Chairman

Hong Kong, 29 February 2012

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 121 to 202, which comprise the consolidated and company statements of financial position as at 31 December 2011, and 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 2011, 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, 29 February 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	2011 \$m	2010 \$m
Trading fees and trading tariff	5	2,936	2,843
Stock Exchange listing fees	6	949	945
Clearing and settlement fees		1,663	1,569
Depository, custody and nominee services fees		685	612
Market data fees		637	670
Other revenue	7	487	455
REVENUE AND TURNOVER		7,357	7,094
Losses on disposal of financial assets measured at amortised cost		–	(4)
Other investment income		392	480
Interest rebates to Participants		(2)	(4)
Net investment income	8	390	472
Other income	9	108	–
	4	7,855	7,566
OPERATING EXPENSES			
Staff costs and related expenses	10	1,030	892
Information technology and computer maintenance expenses	11	302	265
Premises expenses		217	210
Product marketing and promotion expenses		16	15
Legal and professional fees		35	16
Depreciation		90	107
Other operating expenses	12	133	107
	4	1,823	1,612
PROFIT BEFORE TAXATION	4/13	6,032	5,954
TAXATION	16(a)	(939)	(917)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	39	5,093	5,037
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		5,093	5,037
DIVIDENDS	17	4,579	4,520
Earnings per share			
Basic	18(a)	\$4.73	\$4.68
Diluted	18(b)	\$4.72	\$4.67

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	At 31 Dec 2011			At 31 Dec 2010		
		Current \$m	Non- current \$m	Total \$m	Current \$m	Non- current \$m	Total \$m
ASSETS							
Cash and cash equivalents	19, 20	18,221	–	18,221	19,361	–	19,361
Financial assets measured at fair value through profit or loss	19, 21	11,169	180	11,349	9,949	1,241	11,190
Financial assets measured at amortised cost	19, 22(a)	15,848	403	16,251	7,021	783	7,804
Accounts receivable, prepayments and deposits	24	7,210	23	7,233	9,203	3	9,206
Fixed assets	25(a)	–	948	948	–	295	295
Lease premium for land	26	–	25	25	–	25	25
Deferred tax assets	33(d)	–	1	1	–	3	3
Total assets		52,448	1,580	54,028	45,534	2,350	47,884
LIABILITIES AND EQUITY							
Liabilities							
Margin deposits from Clearing Participants on derivatives contracts	19, 27	31,359	–	31,359	22,702	–	22,702
Cash collateral from HKSCC Clearing Participants	19, 28	3,233	–	3,233	3,594	–	3,594
Accounts payable, accruals and other liabilities	29	8,456	–	8,456	9,946	–	9,946
Deferred revenue		524	–	524	473	–	473
Taxation payable		262	–	262	320	–	320
Other financial liabilities	30	60	–	60	58	–	58
Participants' contributions to Clearing House Funds	19, 31	880	–	880	2,039	–	2,039
Provisions	32(a)	35	27	62	28	29	57
Deferred tax liabilities	33(d)	–	33	33	–	18	18
Total liabilities		44,809	60	44,869	39,160	47	39,207
Equity							
Share capital	35			1,080			1,078
Share premium	35			639			416
Shares held for Share Award Scheme	35			(296)			(219)
Employee share-based compensation reserve	36			106			56
Designated reserves	31, 37			577			580
Retained earnings	39			7,053			6,766
Shareholders' funds				9,159			8,677
Total liabilities and equity				54,028			47,884
Net current assets				7,639			6,374
Total assets less current liabilities				9,219			8,724

Approved by the Board of Directors on 29 February 2012

Ronald Joseph ARCULLI
Director

LI Xiaojia, Charles
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	At 31 Dec 2011			At 31 Dec 2010		
		Current \$m	Non- current \$m	Total \$m	Current \$m	Non- current \$m	Total \$m
ASSETS							
Cash and cash equivalents	19, 20	607	–	607	45	–	45
Financial assets measured at amortised cost	19, 22(b)	1,480	7	1,487	84	15	99
Accounts receivable, prepayments and deposits	24	21	5	26	15	3	18
Amounts due from subsidiaries	34(b)	5,123	–	5,123	3,684	–	3,684
Fixed assets	25(b)	–	55	55	–	29	29
Investments in subsidiaries	34(a)	–	1,854	1,854	–	4,157	4,157
Deferred tax assets	33(d)	–	1	1	–	2	2
Total assets		7,231	1,922	9,153	3,828	4,206	8,034
LIABILITIES AND EQUITY							
Liabilities							
Accounts payable, accruals and other liabilities	29	244	–	244	201	–	201
Amounts due to subsidiaries	34(b)	39	–	39	2,030	–	2,030
Taxation payable		21	–	21	19	–	19
Other financial liabilities	30	11	–	11	11	–	11
Provisions	32(b)	33	1	34	28	1	29
Total liabilities		348	1	349	2,289	1	2,290
Equity							
Share capital	35			1,080			1,078
Share premium	35			639			416
Shares held for Share Award Scheme	35			(296)			(219)
Employee share-based compensation reserve	36			106			56
Merger reserve	38			694			2,997
Retained earnings	39			6,581			1,416
Shareholders' funds				8,804			5,744
Total liabilities and equity				9,153			8,034
Net current assets				6,883			1,539
Total assets less current liabilities				8,805			5,745

Approved by the Board of Directors on 29 February 2012

Ronald Joseph ARCULLI
Director

LI Xiaojia, Charles
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital, share premium and shares held for Share Award Scheme (note 35) \$m	Employee share-based compensation reserve (note 36) \$m	Designated reserves (note 37) \$m	Retained earnings (note 39) \$m	Total equity \$m
At 1 Jan 2010	1,400	43	563	6,021	8,027
Profit 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 HKEx dividends forfeited	-	-	-	16	16
Shares issued upon exercise of employee share options	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
At 1 Jan 2011	1,275	56	580	6,766	8,677
Profit attributable to shareholders	-	-	-	5,093	5,093
2010 final dividend at \$2.31 per share	-	-	-	(2,487)	(2,487)
2011 interim dividend at \$2.16 per share	-	-	-	(2,327)	(2,327)
Unclaimed HKEx dividends forfeited	-	-	-	6	6
Shares issued upon exercise of employee share options	8	-	-	-	8
Shares issued in lieu of cash dividends	208	-	-	-	208
Shares purchased for Share Award Scheme	(80)	-	-	-	(80)
Vesting of shares of Share Award Scheme	10	(9)	-	(1)	-
Employee share-based compensation benefits	-	61	-	-	61
Transfer of reserves	2	(2)	(3)	3	-
At 31 Dec 2011	1,423	106	577	7,053	9,159

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Note	2011 \$m	2010 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	40	5,273	4,986
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		(456)	(80)
Net proceeds from sales of fixed assets		-	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		(253)	(928)
Payments for purchases of financial assets measured at amortised cost (excluding time deposits)		(1,169)	(387)
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding time deposits)		1,411	726
Payments for purchases of financial assets measured at fair value through profit or loss		-	(53)
Net proceeds from sales or maturity of financial assets measured at fair value through profit or loss		88	575
Interest received from financial assets measured at amortised cost (excluding time deposits)		19	25
Interest received from financial assets measured at fair value through profit or loss		160	199
Net cash (outflow)/inflow from investing activities		(200)	52
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of employee share options		8	34
Purchases of shares for Share Award Scheme		(80)	(188)
Dividends paid		(4,606)	(4,258)
Net cash outflow from financing activities		(4,678)	(4,412)
Net increase in cash and cash equivalents		395	626
Cash and cash equivalents at 1 Jan		1,945	1,319
Cash and cash equivalents at 31 Dec	20	2,340	1,945
Analysis of cash and cash equivalents			
Cash at bank and in hand		1,291	1,402
Time deposits with original maturities within three months		1,049	543
Cash and cash equivalents at 31 Dec	20	2,340	1,945

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 financial statements were approved for issue by the Board of Directors (Board) on 29 February 2012.

2. Principal Accounting Policies

(a) Statement of compliance

These consolidated financial statements 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 financial statements 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 financial statements are disclosed in note 3.

Adoption of new/revised HKFRSs

The Group has not adopted any new/revised HKFRSs during the year ended 31 December 2011.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

New/revised HKFRSs issued in 2011 but not yet effective

The Group has not applied the following new/revised HKFRSs which were issued in 2011 and pertinent to its operations but not yet effective:

Amendments to HKAS 1 (Revised)	Presentation of Financial Statements ^{1,*}
HKAS 19 (2011)	Employee Benefits ^{2,*}
HKAS 27 (2011)	Separate Financial Statements ^{2,*}
Amendments to HKAS 32	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities ³
Amendments to HKFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities ²
HKFRS 10	Consolidated Financial Statements ^{2,*}
HKFRS 12	Disclosure of Interests in Other Entities ^{2,*}
HKFRS 13	Fair Value Measurement ^{2,*}

¹ Effective for accounting periods beginning on or after 1 July 2012

² Effective for accounting periods beginning on or after 1 January 2013

³ Effective for accounting periods beginning on or after 1 January 2014

* The Group is planning to adopt these HKFRSs from 1 January 2012 onwards. The adoption of the amended HKAS 1 (Revised), HKAS 19 (2011), HKAS 27 (2011) and HKFRS 10 will not have any impact to the Group as the changes do not affect the Group and the adoption of HKFRS 12 and HKFRS 13 will only affect certain disclosures in the Group's financial statements.

The adoption of the amendments to HKAS 32 is not expected to have a material impact to the Group but the amendments to HKFRS 7 may affect certain disclosures in the Group's financial statements.

(c) Consolidation

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

Subsidiaries 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 financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date that control ceases. All material intra-group transactions, unrealised gains and losses 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) Controlled special purpose entity

HKEx controls a special purpose entity, The HKEx Employees' Share Award Scheme (HKEx Employee Share Trust), which is set up solely for the purpose of purchasing, administering and holding HKEx shares for an employees' share award scheme (Share Award Scheme). As 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 employees who have been awarded the share awards under the Share Award Scheme (Awarded Shares) through their continued employment with the Group, the assets and liabilities of 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.

(e) Revenue and other income recognition

Turnover consists of revenues from principal activities and is the same as Revenue in the consolidated statement of comprehensive income. Revenue and other income are recognised in the consolidated statement of comprehensive income 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 (CBBCs) 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.
- (vii) Cash dividends held by HKSCC Nominees Limited (HKSN) which have remained unclaimed for a period of more than seven years are forfeited and recognised as other income.

2. Principal Accounting Policies (continued)

(f) 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 statement of comprehensive income.

(g) 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.

(h) 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 Awarded Shares granted under the Share Award Scheme, the estimated fair value of the options and Awarded Shares (for shares awarded from forfeited or unallocated shares held by the Share Award Scheme) granted and the cost of Awarded Shares (for shares purchased from the market) are recognised as employee share-based compensation expense and credited to an employee share-based compensation reserve under equity over the vesting periods (note 36(b)(i) and note 36(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.

2. Principal Accounting Policies (continued)

(i) 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.

(j) 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.

(k) 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
Data centre facilities and equipment	3 to 20 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.

2. Principal Accounting Policies (continued)

(k) Fixed assets (continued)

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.

(l) 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 part of leasehold buildings under fixed assets during the construction period of the building.

(m) 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.

In assessing the carrying value of its investments in subsidiaries in the company's statement of financial position and any adjustments, the directors consider the investee's net assets as at the date of the statement of financial position and the carrying value of the subsidiaries as at that date.

(n) Margin deposits from Clearing Participants on derivatives contracts

The Group receives margin deposits from the Clearing Participants of The SEHK Options Clearing House Limited (SEOCH) and HKFE Clearing Corporation Limited (HKCC) for covering their open positions in derivatives contracts (Margin Funds).

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.

2. Principal Accounting Policies (continued)

(o) Participants' contributions to Clearing House Funds

The Group receives contributions to Clearing House Funds from Clearing Participants of Hong Kong Securities Clearing Company Limited (HKSCC), SEOCH and HKCC.

Participants' contributions to Clearing House Funds are included under current liabilities. Non-cash collateral received from Clearing Participants (ie, contributions receivable from Clearing Participants fully secured by bank guarantees) is not recognised on the consolidated statement of financial position.

(p) Cash collateral from HKSCC Clearing Participants

Cash collateral is received from HKSCC Clearing Participants 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. Non-cash collateral (ie, bank guarantees) received from Participants is not recognised on the consolidated statement of financial position.

(q) Derivative financial instruments

Derivatives, which may include forward foreign exchange, 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.

(r) Financial assets

(i) Classification

Financial assets of the Group are maintained for the Corporate Funds, Clearing House Funds, Margin Funds and cash collateral received from Participants (note 19).

Investments and other financial assets of the Group 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

2. Principal Accounting Policies (continued)

(r) Financial assets (continued)

(i) Classification (continued)

Financial assets measured at amortised cost (continued)

- 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.

The nature of any derivatives embedded in the financial assets is considered in determining whether the cash flows are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

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 whose cash flows 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 are classified in their entirety as measured at fair value through profit or loss

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)

(r) Financial assets (continued)

(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 are initially recognised at fair value with transaction costs recognised as expenses in profit or loss. Financial assets measured at amortised cost are initially recognised at fair value plus transaction costs.

(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, interest income and dividend income

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.
- 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 included under “others” in net investment 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.
- Interest income is recognised in profit or loss using the effective interest method and disclosed as interest income.

(v) Fair value measurement principles

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

2. Principal Accounting Policies (continued)

(r) Financial assets (continued)

(vi) Impairment of financial assets measured at amortised cost

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:

- 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.

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.

2. Principal Accounting Policies (continued)

(s) 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 best estimate of the amount required to settle the guarantee 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.

(t) 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.

2. Principal Accounting Policies (continued)

(u) 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 financial statements. 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.

(v) 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.

(w) 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. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period.

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 financial statements. When a change in the probability of an outflow occurs so that outflow is probable or when the amount of obligation becomes reliably measurable, it will then be recognised as a provision.

(x) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements 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.

2. Principal Accounting Policies (continued)

(x) Foreign currency translation (continued)

(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.

(y) 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.

(z) Shares held for Share Award Scheme

Where HKEx shares are acquired by the Share Award Scheme from the market or by electing scrip in lieu of cash dividends, the total consideration of shares acquired from the market (including any directly attributable incremental costs) or under the scrip dividend scheme is presented as Shares held for Share Award Scheme and deducted from total equity.

Upon vesting, the related costs of the vested Awarded Shares purchased from the market and shares acquired from reinvesting dividends received on the Awarded Shares or under the scrip dividend scheme (dividend shares) are credited to Shares held for Share Award Scheme, with a corresponding decrease in employee share-based compensation reserve for Awarded Shares, and decrease in retained earnings for dividend shares.

For vesting of forfeited or unallocated shares regranted, the related costs of the forfeited or unallocated shares regranted are credited to Shares held for Share Award Scheme, and the related fair value of the shares regranted are debited to employee share-based compensation reserve. The difference between the cost and the fair value of the shares regranted is credited to share premium if the fair value is higher than the cost or debited against retained earnings if the fair value is less than the cost.

2. Principal Accounting Policies (continued)

(aa) Operating Segments

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-maker (note 4). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive. Information relating to segment assets and liabilities is not disclosed as such information is not regularly reported to the chief operating decision-maker.

(ab) Dividends

Dividends disclosed in note 17 to the consolidated financial statements 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 financial statements 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 financial statements 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. 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 2011, the Group had unrecognised tax losses carried forward amounting to \$449 million (31 December 2010: \$318 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 \$74 million (2010: \$52 million).

3. Critical Accounting Estimates and Judgements (continued)

(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 2011, the debt instruments that were measured at amortised cost held by the Group amounted to \$706 million (31 December 2010: \$950 million). If the amount of such debt instruments was impaired by one per cent, the Group's profit would decrease by \$7 million (2010: \$10 million).

(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 2011, 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, those classified as Level 1 defined in HKFRS 7) amounted to \$10,931 million (31 December 2010: \$10,797 million). If the fair value of such financial assets decreased by one per cent, the Group's profit would decrease by \$109 million (2010: \$108 million).

4. Operating Segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker 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, 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.

4. Operating Segments (continued)

The **Clearing Business** refers to the operations of the three clearing houses, namely HKSCC, SEOCH and HKCC, which are responsible for clearing, settlement and custodian activities of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from providing clearing, settlement, depository, custody and nominee services and net investment income earned on the Clearing House Funds.

The **Market Data** 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.

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:

	2011				
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Group \$m
Income from external customers	3,344	855	2,519	639	7,357
Net investment income	52	272	65	1	390
Other income	–	–	108	–	108
	3,396	1,127	2,692	640	7,855
Operating expenses					
Direct costs	665	174	350	73	1,262
Indirect costs	271	78	174	38	561
	936	252	524	111	1,823
Reportable segment profit before taxation	2,460	875	2,168	529	6,032
Interest income	21	217	40	–	278
Interest rebates to Participants	–	(2)	–	–	(2)
Depreciation	(35)	(14)	(38)	(3)	(90)
Other material non-cash items:					
Forfeiture of unclaimed cash dividends held by HKSN	–	–	108	–	108
Employee share-based compensation expenses	(34)	(7)	(15)	(5)	(61)
Provision for impairment losses	(1)	–	–	(1)	(2)
Additions to non-current assets other than financial assets and deferred tax assets	383	90	226	64	763

4. Operating Segments (continued)

	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

- (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 2011 \$m	At 31 Dec 2010 \$m
Hong Kong	994	322
China	2	1
	996	323

(c) Information about major customers

In 2011 and 2010, 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

	2011 \$m	2010 \$m
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	2,010	2,030
Derivatives contracts traded on the Derivatives Market	926	813
	2,936	2,843

6. Stock Exchange Listing Fees

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

	2011				2010			
	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	418	24	2	444	374	24	2	400
Initial and subsequent issue listing fees	112	8	380	500	96	7	436	539
Other listing fees	4	1	-	5	5	1	-	6
Total	534	33	382	949	475	32	438	945
Costs of Listing Function								
Direct costs	256	57	18	331	236	51	18	305
Indirect costs	58	10	15	83	44	8	13	65
Total costs	314	67	33	414	280	59	31	370
Contribution to Cash Market Segment Profit before Taxation	220	(34)	349	535	195	(27)	407	575

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, 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

	2011 \$m	2010 \$m
Network, terminal user, dataline and software sub-license fees	370	345
Participants' subscription and application fees	35	34
Brokerage on direct IPO allotments	23	27
Trading booth user fees	15	15
Sales of Trading Rights	20	11
Miscellaneous revenue	24	23
	487	455

8. Net Investment Income

	2011 \$m	2010 \$m
Interest income from financial assets measured at amortised cost		
– bank deposits	261	115
– listed securities	5	4
– unlisted securities	12	18
	278	137
Gross interest income	278	137
Interest rebates to Participants	(2)	(4)
	276	133
Net interest income		
Net fair value gains including interest income on financial assets mandatorily measured at fair value through profit or loss		
– listed securities	41	90
– unlisted securities	83	223
– bank deposits with embedded derivatives	–	15
– exchange differences	115	123
	239	451
Net fair value losses on financial liabilities at fair value through profit or loss, held for trading		
– listed securities	–	(6)
– exchange differences	(137)	(108)
	(137)	(114)
Losses on disposal of unlisted financial assets measured at amortised cost	–	(4)
Others	12	6
	390	472
Net investment income		

9. Other Income

During the year ended 31 December 2011, in accordance with CCASS Rule 1109, the Group exercised its forfeiture right to appropriate cash dividends held by HKSX which had remained unclaimed for a period of more than seven years and recognised such dividends as other income. The Group has, however, undertaken to honour all claims if adequate proof of entitlement is provided by the beneficial owner claiming the dividends forfeited.

10. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	2011 \$m	2010 \$m
Salaries and other short-term employee benefits	899	793
Employee share-based compensation benefits (note 36)	61	36
Retirement benefit costs (note (a)):		
– ORSO Plan	69	62
– MPF Scheme	1	1
	1,030	892

(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).

11. Information Technology and Computer Maintenance Expenses

	2011 \$m	2010 \$m
Costs of services and goods:		
– consumed by the Group	156	143
– directly consumed by Participants	146	122
	302	265

12. Other Operating Expenses

	2011 \$m	2010 \$m
Insurance	4	4
Financial data subscription fees	6	6
Custodian and fund management fees	13	11
Bank charges	19	15
Repair and maintenance expenses	10	11
License fees	19	16
Communication expenses	6	6
Overseas travel expenses	10	7
Contribution to Financial Reporting Council	4	4
Other miscellaneous expenses	42	27
	133	107

13. Profit before Taxation

	2011 \$m	2010 \$m
Profit before taxation is stated after (charging)/crediting:		
Auditor's remuneration		
– audit fees	(4)	(3)
– non-audit fees	(1)	–
Operating lease rentals		
– land and buildings	(174)	(168)
– computer systems and equipment	(7)	(6)
Exchange gains on financial assets and liabilities (excluding financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss)	2	1

14. Directors' Emoluments

All Directors, including two Executive Directors (the Chief Executive and former Chief Executive), received emoluments during the years ended 31 December 2011 and 31 December 2010. The aggregate emoluments paid and payable to the Directors during the two years were as follows:

	2011 \$'000	2010 \$'000
Executive Directors:		
Salaries and other short-term employee benefits	7,667	11,877
Performance bonus	7,524	8,054
Retirement benefit costs	941	903
	16,132	20,834
Employee share-based compensation benefits (note (a))	6,942	2,754
	23,074	23,588
Non-executive Directors:		
Fees	6,219	5,318
	29,293	28,906

- (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:

	2011 Number of Directors	2010 Number of Directors
\$1 – \$500,000	9	9
\$500,001 – \$1,000,000	4	3
\$5,000,001 – \$5,500,000	–	1
\$18,000,001 – \$18,500,000	–	1
\$23,000,001 – \$23,500,000	1	–
	14	14

14. Directors' Emoluments (continued)

- (c) The emoluments of all Directors, including the Chief Executive who is an ex-officio member, for the years ended 31 December 2011 and 2010 are set out below:

Name of Director	2011							
	Fees \$'000	Salary \$'000	Other	Performance	Retirement	Sub-total \$'000	Employee	Total \$'000
			benefits (note (i)) \$'000	bonus \$'000	benefit costs (note (ii)) \$'000		share-based compensation benefits \$'000	
Ronald J Arculli	753	-	-	-	-	753	-	753
Charles X Li (note (iii))	-	7,524	143	7,524	941	16,132	6,942	23,074
Laura M Cha	451	-	-	-	-	451	-	451
Ignatius T C Chan	456	-	-	-	-	456	-	456
Moses M C Cheng	451	-	-	-	-	451	-	451
Marvin K T Cheung (note (iv))	108	-	-	-	-	108	-	108
John B Harrison (note (v))	431	-	-	-	-	431	-	431
Stephen C C Hui	454	-	-	-	-	454	-	454
Bill C P Kwok	551	-	-	-	-	551	-	551
Vincent K H Lee	567	-	-	-	-	567	-	567
Michael T H Lee	451	-	-	-	-	451	-	451
John E Strickland	476	-	-	-	-	476	-	476
John M M Williamson	619	-	-	-	-	619	-	619
Oscar S H Wong	451	-	-	-	-	451	-	451
Total	6,219	7,524	143	7,524	941	22,351	6,942	29,293

Name of Director	2010							
	Fees \$'000	Salary \$'000	Other	Performance	Retirement	Sub-total \$'000	Employee	Total \$'000
			benefits (note (i)) \$'000	bonus \$'000	benefit costs (note (ii)) \$'000		share-based compensation benefits \$'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 (vi))	-	314	4,537	-	39	4,890	208	5,098
Laura M Cha	393	-	-	-	-	393	-	393
Ignatius T C Chan	397	-	-	-	-	397	-	397
Moses M C Cheng	405	-	-	-	-	405	-	405
Marvin K T Cheung (note (iv))	397	-	-	-	-	397	-	397
Stephen C C Hui	400	-	-	-	-	400	-	400
Bill C P Kwok	460	-	-	-	-	460	-	460
Vincent K H Lee	528	-	-	-	-	528	-	528
Michael T H Lee	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

14. 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 20 April 2011
- (v) Appointment effective 20 April 2011
- (vi) Retired on 16 January 2010. The emoluments for 2010 included accumulated annual leave entitlement paid in January 2010.

15. Five Top-paid Employees

One (2010: one) of the five top-paid employees was a Director whose emoluments are disclosed in note 14. Details of the emoluments of the other four (2010: four) top-paid employees were as follows:

	2011 \$'000	2010 \$'000
Salaries and other short-term employee benefits	18,463	17,620
Performance bonus	11,840	12,462
Retirement benefit costs	2,181	2,165
	32,484	32,247
Employee share-based compensation benefits (note (a))	11,180	5,099
	43,664	37,346

- (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 (2010: four) employees, including share-based compensation benefits, were within the following bands:

	2011 Number of employees	2010 Number of employees
\$6,000,001 – \$6,500,000	–	1
\$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
\$12,500,001 – \$13,000,000	2	–
	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.

16. Taxation

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

	2011 \$m	2010 \$m
Provision for Hong Kong Profits Tax at 16.5 per cent (2010: 16.5 per cent)	922	918
Overprovision in respect of prior years	–	(2)
	922	916
Deferred taxation (note 33(a))	17	1
	939	917

(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 (2010: 16.5 per cent) as follows:

	2011 \$m	2010 \$m
Profit before taxation	6,032	5,954
Calculated at a taxation rate of 16.5 per cent (2010: 16.5 per cent)	995	982
Income not subject to taxation	(83)	(72)
Expenses not deductible for taxation purposes	5	4
Change in deferred tax arising from unrecognised tax losses and other deferred tax adjustments	22	5
Overprovision of Hong Kong Profits Tax in respect of prior years	–	(2)
Taxation charge	939	917

17. Dividends

	2011 \$m	2010 \$m
Interim dividend paid:		
\$2.16 (2010: \$1.89) per share	2,331	2,037
Less: Dividend for shares held by Share Award Scheme (note (a))	(4)	(3)
	2,327	2,034
Final dividend proposed (notes (b) and (c)):		
\$2.09 (2010: \$2.31) per share based on issued share capital at 31 Dec	2,257	2,490
Less: Dividend for shares held by Share Award Scheme at 31 Dec (note (a))	(5)	(4)
	2,252	2,486
	4,579	4,520

- (a) The results and net assets of The HKEx Employees' Share Award Scheme are included in HKEx's financial statements. Therefore, dividends for shares held by The HKEx Employees' Share Award Scheme were deducted from the total dividends.
- (b) Actual 2010 final dividend paid was \$2,487 million (after eliminating \$4 million paid for shares held by the Share Award Scheme), of which \$1 million was paid for shares issued for employee share options exercised after 31 December 2010.
- (c) The final dividend proposed after 31 December was not recognised as a liability at 31 December.
- (d) The 2011 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.

18. Earnings Per Share

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

(a) Basic earnings per share

	2011	2010
Profit attributable to shareholders (\$m)	5,093	5,037
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,077,202	1,076,404
Basic earnings per share (\$)	4.73	4.68

(b) Diluted earnings per share

	2011	2010
Profit attributable to shareholders (\$m)	5,093	5,037
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,077,202	1,076,404
Effect of employee share options (in '000)	1,035	1,743
Effect of Awarded Shares (in '000)	1,383	916
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,079,620	1,079,063
Diluted earnings per share (\$)	4.72	4.67

19. Financial Assets

As part of its day to day operations, the Group receives margin deposits from Clearing Participants on derivatives contracts (note 27), cash collateral from HKSCC Clearing Participants (note 28) and Participants' contributions to Clearing House Funds (note 31). The Group classifies the corresponding assets into the following funds:

Margin Funds – the margin deposits are established by cash received or receivable from SEOCH and HKCC Clearing Participants to cover their open positions in derivatives contracts. These funds are held for segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities.

Cash collateral – cash collateral is received from HKSCC Clearing Participants to cover their open positions. These funds are refundable to the Participants when they settle their positions.

19. Financial Assets (continued)

Clearing House Funds – The Clearing House Funds are established under the Clearing House Rules. Assets contributed by the Clearing Participants and the Group 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 CCASS. These funds are held for segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities.

Financial assets belonging to the Group for its own corporate use are classified as Corporate Funds (note 23).

The Margin Funds, cash collateral, Clearing House Funds and Corporate Funds are invested into cash and cash equivalents (note 20), financial assets measured at fair value through profit or loss (note 21) and financial assets measured at amortised cost (note 22).

20. Cash and Cash Equivalents

	Group		HKEx	
	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
Cash and cash equivalents:				
– Clearing House Funds (note 31)	835	2,155	–	–
– Margin Funds (note 27)	12,719	12,418	–	–
– Cash collateral (note 28)	2,327	2,843	–	–
(note (a))	15,881	17,416	–	–
– Corporate Funds (note 23)	2,340	1,945	607	45
	18,221	19,361	607	45

- (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.

21. Financial Assets Measured at Fair Value through Profit or Loss

	Group			
	At 31 Dec 2011			
	Clearing House Funds (note 31) \$m	Margin Funds (note 27) \$m	Corporate Funds (note 23) \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
– listed in Hong Kong	–	–	102	102
– listed outside Hong Kong	–	–	284	284
	–	–	386	386
Debt securities:				
– listed in Hong Kong	–	–	217	217
– listed outside Hong Kong	125	283	1,914	2,322
– unlisted	159	5,982	2,251	8,392
	284	6,265	4,382	10,931
Derivative financial instruments:				
– forward foreign exchange contracts (note 47(b))	–	–	32	32
	284	6,265	4,800	11,349
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	284	6,265	4,620	11,169
More than twelve months	–	–	180	180
	284	6,265	4,800	11,349

21. Financial Assets Measured at Fair Value through Profit or Loss (continued)

	Group			
	At 31 Dec 2010			
	Clearing House Funds (note 31) \$m	Margin Funds (note 27) \$m	Corporate Funds (note 23) \$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 47(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

- (a) Included financial assets maturing after twelve months of \$Nil (31 December 2010: \$359 million) and \$1,867 million (31 December 2010: \$5,137 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 47(b)).

22. Financial Assets Measured at Amortised Cost

(a) Group

	At 31 Dec 2011				
	Clearing House Funds (note 31) \$m	Margin Funds (note 27) \$m	Cash collateral (note 28) \$m	Corporate Funds (note 23) \$m	Total \$m
Debt securities:					
– listed outside Hong Kong (note (i))	–	–	–	245	245
– unlisted	–	–	–	461	461
	–	–	–	706	706
Time deposits with original maturities over three months	367	12,368	906	1,855	15,496
Other financial assets	–	–	–	49	49
	367	12,368	906	2,610	16,251
The expected recovery dates of the financial assets are analysed as follows:					
Within twelve months (note (ii))	367	12,368	906	2,207	15,848
More than twelve months	–	–	–	403	403
	367	12,368	906	2,610	16,251
	At 31 Dec 2010				
	Clearing House Funds (note 31) \$m	Margin Funds (note 27) \$m	Cash collateral (note 28) \$m	Corporate Funds (note 23) \$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

22. Financial Assets Measured at Amortised Cost (continued)

(a) Group (continued)

- (i) The total market value of the listed debt securities at 31 December 2011 was \$246 million (31 December 2010: \$203 million).
- (ii) Included time deposits maturing after twelve months of \$Nil (31 December 2010: \$2 million) attributable to the Clearing House Funds that could readily be liquidated to meet liquidity requirements of the Fund (note 47(b)).

(b) HKEx

	Corporate Funds	
	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
Unlisted debt securities	14	91
Time deposits with original maturities over three months	1,472	7
Other financial assets	1	1
	1,487	99

23. Corporate Funds

	Group		HKEx	
	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
The Corporate Funds were invested in the following instruments:				
Cash and cash equivalents (note 20)	2,340	1,945	607	45
Financial assets measured at fair value through profit or loss (note 21)	4,800	4,877	–	–
Financial assets measured at amortised cost (note 22)	2,610	2,600	1,487	99
	9,750	9,422	2,094	144

24. Accounts Receivable, Prepayments and Deposits

	Group		HKEx	
	At	At	At	At
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
	\$m	\$m	\$m	\$m
Receivable from Exchange and Clearing Participants:				
– Continuous Net Settlement money obligations	6,482	8,283	–	–
– transaction levy, stamp duty and fees receivable	342	514	–	–
– others	164	194	–	–
Other receivables, prepayments and deposits	405	373	26	18
Less: Provision for impairment losses of receivables (note (b))	(160)	(158)	–	–
	7,233	9,206	26	18

- (a) The carrying amounts of short-term accounts receivable and deposits approximated their fair values.
- (b) The movements in provision for impairment losses of receivables were as follows:

	Group	
	2011	2010
	\$m	\$m
At 1 Jan	158	164
Provision for/(reversal of provision for) impairment losses of receivables under other operating expenses	2	(4)
Receivables written off during the year as uncollectible	–	(2)
At 31 Dec	160	158

- (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.

25. 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	Data centre facilities and equipment \$m	Leasehold improvements, furniture, equipment and motor vehicles \$m	Total \$m
Cost:							
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
At 1 Jan 2011	70	37	1,294	227	-	296	1,924
Additions	-	334	129	65	185	30	743
Disposals	-	-	(13)	(9)	-	(2)	(24)
At 31 Dec 2011	70	371	1,410	283	185	324	2,643
Accumulated depreciation:							
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
At 1 Jan 2011	10	12	1,146	202	-	259	1,629
Depreciation	1	1	53	10	-	25	90
Disposals	-	-	(13)	(9)	-	(2)	(24)
At 31 Dec 2011	11	13	1,186	203	-	282	1,695
Net book value:							
At 31 Dec 2011	59	358	224	80	185	42	948
At 31 Dec 2010	60	25	148	25	-	37	295
At 1 Jan 2010	61	5	157	21	-	59	303
Cost of fixed assets in the course of construction (including systems under development):							
At 31 Dec 2011	-	355	144	63	185	12	759
At 31 Dec 2010	-	21	19	10	-	3	53

25. 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 2010	60	41	101
Additions	8	7	15
Disposals	(3)	(2)	(5)
At 31 Dec 2010	65	46	111
At 1 Jan 2011	65	46	111
Additions	19	21	40
Disposals	(2)	(2)	(4)
At 31 Dec 2011	82	65	147
Accumulated depreciation:			
At 1 Jan 2010	49	24	73
Depreciation	5	9	14
Disposals	(3)	(2)	(5)
At 31 Dec 2010	51	31	82
At 1 Jan 2011	51	31	82
Depreciation	5	9	14
Disposals	(2)	(2)	(4)
At 31 Dec 2011	54	38	92
Net book value:			
At 31 Dec 2011	28	27	55
At 31 Dec 2010	14	15	29
At 1 Jan 2010	11	17	28
Cost of fixed assets in the course of construction (including systems under development):			
At 31 Dec 2011	20	3	23
At 31 Dec 2010	4	–	4

26. Lease Premium for Land

	Group	
	2011 \$m	2010 \$m
Net book value at 1 Jan	25	–
Additions	–	26
Amortisation capitalised	–	(1)
Net book value at 31 Dec	25	25

- (a) During the year ended 31 December 2010, the Group acquired a non-Hong Kong Government medium-term lease in Tseung Kwan O, Hong Kong for the construction of a new Data Centre for a consideration of \$26 million.

27. Margin Deposits from Clearing Participants on Derivatives Contracts

	Group	
	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
Margin deposits from Clearing Participants comprised (notes 19 and (a)):		
SEOCH Clearing Participants' margin deposits	5,302	3,528
HKCC Clearing Participants' margin deposits	26,057	19,174
	31,359	22,702
The margin deposits were invested in the following instruments for managing the obligations of the Margin Funds:		
Cash and cash equivalents (note 20)	12,719	12,418
Financial assets measured at fair value through profit or loss (note 21)	6,265	5,954
Financial assets measured at amortised cost (note 22(a))	12,368	4,323
Margin receivable from Clearing Participants	7	7
	31,359	22,702

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

28. Cash Collateral from HKSCC Clearing Participants

	Group	
	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
Cash collateral from HKSCC Clearing Participants (notes 19 and (a))	3,233	3,594
The cash collateral was invested in the following instruments:		
Cash and cash equivalents (note 20)	2,327	2,843
Financial assets measured at amortised cost (note 22(a))	906	751
	3,233	3,594

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

29. Accounts Payable, Accruals and Other Liabilities

	Group		HKEx	
	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
Payable to Exchange and Clearing Participants:				
– Continuous Net Settlement money obligations	6,482	8,283	–	–
– others	1,027	808	–	–
Transaction levy payable to the SFC	66	95	–	–
Unclaimed dividends (note (b))	208	313	118	124
Stamp duty payable to the Collector of Stamp Revenue	146	214	–	–
Other payables, accruals and deposits received	527	233	126	77
	8,456	9,946	244	201

- (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 HKSX 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, cash dividends held by HKSX which had remained unclaimed for a period of more than seven years amounting to \$108 million (2010: \$Nil) were forfeited and recognised as income (note 9) and dividends declared by HKEx which were unclaimed over a period of six years from the date of payment amounting to \$6 million (2010: \$16 million) were forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association (note 39).
- (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.

30. Other Financial Liabilities

	Group		HKEx	
	At	At	At	At
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
	\$m	\$m	\$m	\$m
Financial liabilities of Clearing House Funds (note 31)	29	25	-	-
Financial liabilities of Corporate Funds:				
Financial liabilities at fair value through profit or loss (note (a))	11	13	-	-
Financial guarantee contracts (note (b))	20	20	11	11
	31	33	11	11
	60	58	11	11

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

	Group	
	At	At
	31 Dec 2011	31 Dec 2010
	\$m	\$m
<u>Held for trading</u>		
Derivative financial instruments:		
– forward foreign exchange contracts (note 47(b))	11	13

(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 42(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 42(b)(i)). The amount was eliminated on consolidation.

31. Clearing House Funds

	Group	
	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
The Clearing House Funds comprised (note 19):		
Clearing Participants' contributions (note (a))	880	2,039
Designated reserves (notes (b) and 37)	577	580
	1,457	2,619
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Cash and cash equivalents (note 20)	835	2,155
Financial assets measured at fair value through profit or loss (note 21)	284	359
Financial assets measured at amortised cost (note 22(a))	367	130
	1,486	2,644
Less: Other financial liabilities of Clearing House Funds (note 30)	(29)	(25)
	1,457	2,619
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	226	224
SEOCH Reserve Fund	578	967
HKCC Reserve Fund	653	1,428
	1,457	2,619

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

32. Provisions

(a) Group

	Reinstatement costs \$m	Employee benefit costs \$m	Total \$m
At 1 Jan 2011	29	28	57
Provision for the year	1	49	50
Amount used during the year	–	(42)	(42)
Amount paid during the year	(1)	(2)	(3)
At 31 Dec 2011	29	33	62

(b) HKEx

	Reinstatement costs \$m	Employee benefit costs \$m	Total \$m
At 1 Jan 2011	1	28	29
Provision for the year	–	49	49
Amount used during the year	–	(42)	(42)
Amount paid during the year	–	(2)	(2)
At 31 Dec 2011	1	33	34

- (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 four 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.

33. 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 (2010: 16.5 per cent).

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

	Group		HKEx	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
At 1 Jan	15	14	(2)	(4)
Charged to profit or loss (note 16(a))	17	1	1	2
At 31 Dec (note (d))	32	15	(1)	(2)

(b) 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 \$449 million at 31 December 2011 (31 December 2010: \$318 million) that may be carried forward for offsetting against future taxable income indefinitely.

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

	Group							
	Accelerated tax depreciation		Tax losses		Employee benefits		Total	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m
At 1 Jan	24	23	(4)	(3)	(5)	(6)	15	14
Charged/(credited) to profit or loss	25	1	(8)	(1)	-	1	17	1
At 31 Dec	49	24	(12)	(4)	(5)	(5)	32	15

	HKEx					
	Accelerated tax depreciation		Employee benefits		Total	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m
At 1 Jan	3	2	(5)	(6)	(2)	(4)
Charged to profit or loss	1	1	-	1	1	2
At 31 Dec	4	3	(5)	(5)	(1)	(2)

33. Deferred Taxation (continued)

- (d) 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 2011 \$m	At 31 Dec 2010 \$m	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
Net deferred tax assets	(1)	(3)	(1)	(2)
Net deferred tax liabilities	33	18	-	-
	32	15	(1)	(2)

The deferred tax assets and liabilities are expected to be recovered or settled after more than twelve months.

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

- (a) Investments in subsidiaries

	HKEx	
	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
Investments in unlisted shares, at cost	4,146	4,146
Adjustment to carrying value (note (i))	(2,303)	-
	1,843	4,146
Financial guarantee granted to a subsidiary (note 30(b)(ii))	11	11
	1,854	4,157

- (i) During the year, the directors of HKEx's subsidiaries resolved that the subsidiaries would pay substantially all of their annual profits to HKEx prior to the date of their statement of financial position. The subsidiaries had in aggregate retained earnings amounting to \$2,303 million prior to the merger in 2000 and the directors therefore consider that, following the implementation of the new dividend policy by HKEx's subsidiaries, HKEx's investments in its subsidiaries should be reduced by an amount of \$2,303 million.
- (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 2011 and 2010.

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

(c) Particulars of subsidiaries

HKEx had direct or indirect interests in the following subsidiaries at 31 December 2011, 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%
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	Sales 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%

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

(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 36(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 36(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 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.

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

	HKEx	
	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
Authorised: 2,000,000,000 shares of \$1 each	2,000	2,000

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

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 2010	1,075,515	1,076	376	(52)	1,400
Shares issued upon exercise of employee share options (note (a))	1,902	2	32	–	34
Transfer from employee share-based compensation reserve upon exercise of employee share options (note 36)	–	–	8	–	8
Shares purchased for Share Award Scheme (note (c))	(1,298)	–	–	(188)	(188)
Vesting of shares of Share Award Scheme (note (d))	317	–	–	21	21
At 31 Dec 2010	1,076,436	1,078	416	(219)	1,275
At 1 Jan 2011	1,076,436	1,078	416	(219)	1,275
Shares issued upon exercise of employee share options (note (a))	470	–	8	–	8
Shares issued in lieu of cash dividends (note (b))	1,298	2	213	(7)	208
Transfer from employee share-based compensation reserve upon exercise of employee share options (note 36)	–	–	2	–	2
Shares purchased for Share Award Scheme (note (c))	(628)	–	–	(80)	(80)
Vesting of shares of Share Award Scheme (note (d))	94	–	–	10	10
At 31 Dec 2011	1,077,670	1,080	639	(296)	1,423

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

- (a) During the year, employee share options granted under the share option schemes were exercised to subscribe for 469,900 shares (2010: 1,902,000 shares) in HKEx at a consideration of \$8 million (2010: \$34 million), of which less than \$1 million (2010: \$2 million) was credited to share capital and \$8 million (2010: \$32 million) was credited to the share premium account.
- (b) During the year, the following shares were issued to shareholders who elected to receive HKEx shares in lieu of cash dividends pursuant to the scrip dividend scheme:

	Number of shares	Scrip price \$	Share capital \$m	Share premium \$m	Shares held for Share Award Scheme \$m	Total \$m
Issued as 2010 final scrip dividends:						
– total	586,917	181.14	1	106	–	107
– to Share Award Scheme	(21,148)	181.14	–	–	(4)	(4)
Issued as 2011 interim scrip dividends:						
– total	757,477	142.06	1	107	–	108
– to Share Award Scheme	(25,747)	142.06	–	–	(3)	(3)
	1,297,499		2	213	(7)	208

- (c) During the year, the Share Award Scheme (note 36(c)) acquired 627,700 HKEx shares (2010: 1,297,400 shares) through purchases on the open market. The total amount paid to acquire the shares during the year was \$80 million (2010: \$188 million), and were related to purchases of Awarded Shares (2010: \$184 million were related to purchases of Awarded Shares and \$4 million were related to purchases of shares arising from re-investing dividends received on Awarded Shares).
- (d) During the year, the Share Award Scheme transferred 94,421 HKEx shares (2010: 317,172 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 \$10 million (2010: \$21 million).

36. Employee Share-based Compensation Reserve

	Group and HKEx	
	2011 \$m	2010 \$m
At 1 Jan	56	43
Employee share-based compensation benefits (notes 10 and (a))	61	36
Transfer to share premium upon exercise of employee share options (note 35)	(2)	(8)
Vesting of shares of Share Award Scheme	(9)	(15)
At 31 Dec	106	56

(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 Share Option Scheme (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.

36. 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:

	2011		2010	
	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
Exercised	–	–	6.88	(114)
Outstanding at 31 Dec	–	–	–	–
Post-Listing Scheme				
Outstanding at 1 Jan	18.28	1,455	18.43	3,243
Exercised	18.29	(470)	18.54	(1,788)
Outstanding at 31 Dec	18.28	985	18.28	1,455
Total	18.28	985	18.28	1,455

At 31 December 2011, all outstanding options (31 December 2010: all) were vested and exercisable at a weighted average exercise price of \$18.28 (31 December 2010: \$18.28 per share).

Options exercised in 2011 resulted in 469,900 shares (2010: 1,902,000 shares) being issued at a weighted price of \$18.29 per share (2010: \$17.85 per share). The weighted average closing share price on the dates on which the options were exercised was \$161.06 (2010: \$132.16) per share.

36. Employee Share-based Compensation Reserve (continued)

(b) Share options (continued)

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

	At 31 Dec 2011		At 31 Dec 2010	
	Remaining contractual life	Number of shares issuable under options granted '000	Remaining contractual life	Number of shares issuable under options granted '000
Exercise price				
\$16.96	2.24 years	382	3.24 years	470
\$15.91	2.37 years	25	3.37 years	100
\$19.25	3.07 years	578	4.07 years	885
	2.73 years	985	3.75 years	1,455

(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.

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.

Following the Board's decision to award shares to eligible employees, the Awarded Shares are either purchased from the market or are awarded by regranting the forfeited or unallocated shares held by the Scheme.

The cost of the Awarded Shares (for shares purchased from the market) or the fair value of the Awarded Shares at the date of the grant (for shares awarded by regranting forfeited or unallocated shares held by the Scheme) 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.

36. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

Further shares are derived from dividends payable on the Awarded Shares held in the Scheme from reinvesting the dividends or under the scrip dividend scheme (dividend shares), and the amount 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, the related costs of the vested Awarded Shares purchased from the market and the dividend shares are credited to Shares held for Share Award Scheme, with a corresponding decrease in employee share-based compensation reserve for Awarded Shares, and decrease in retained earnings for dividend shares.

For vesting of forfeited or unallocated shares regranted, the related costs of the forfeited or unallocated shares regranted are credited to Shares held for Share Award Scheme, and the related fair value of the shares regranted are debited to employee share-based compensation reserve. The difference between the cost and the fair value of the shares regranted is credited to share premium if the fair value is higher than the cost or debited against retained earnings if the fair value is less than the cost.

Details of the Awarded Shares awarded during 2010 and 2011 are set out below:

Date of approval by Board	Date of award	Awarded Sum \$'000	Number of shares purchased	Number of Awarded Shares awarded	Average fair value per share \$	Vesting period
23 Apr 2010	10 Jun 2010	88,516	720,100	720,054 ¹	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 ¹	176.75	14 Dec 2012 – 14 Dec 2013
14 Dec 2010	30 Mar 2011	570	3,300	3,300	169.92	13 Jan 2013 – 13 Jan 2014
14 Dec 2010	30 Mar 2011	2,310	13,600	13,600	169.92	1 Feb 2013 – 1 Feb 2014
14 Dec 2010	8 Apr 2011	263	1,400	1,400	179.55	1 Apr 2013 – 1 Apr 2014
14 Dec 2010	9 Jun 2011	570	3,300	3,300	171.59	26 Apr 2013 – 26 Apr 2014
14 Dec 2010	8 Jul 2011	1,560	9,200	9,200	168.87	8 Jul 2013 – 8 Jul 2014
14 Dec 2010	7 Sept 2011	405	2,900	2,900	137.12	20 Jul 2013 – 20 Jul 2014
14 Dec 2010	11 Oct 2011	1,620	11,800	11,800	137.22	19 Sept 2013 – 19 Sept 2014
14 Dec 2010	11 Oct 2011	1,560	14,400	14,400	108.03	3 Oct 2013 – 3 Oct 2014
14 Dec 2011	30 Dec 2011	113,624	567,800	912,437 ^{1,2}	124.75	14 Dec 2013 – 14 Dec 2014

¹ 73,217, 40,856 and 70,495 shares were awarded to the Chief Executive of HKEx on 10 June 2010, 31 December 2010 and 30 December 2011 respectively.

² 344,706 shares were awarded by re-granting the forfeited or unallocated shares held by the Scheme.

36. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

Details of the Awarded Shares vested during 2010 and 2011 are as follows:

Date of award	Average fair value per share \$	2011		2010	
		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
15 Jan 2007	72.28	40,220	3	54,673 ³	4
7 Jun 2007	81.33	–	–	1,750	< 1
17 Jul 2007	102.29	1,375	< 1	1,375	< 1
4 Feb 2008	163.72	25,961	5	30,755	5
7 Apr 2008	144.18	–	–	4,200 ⁴	< 1
3 Feb 2009	81.96	14,975	1	–	–
		82,531	9	274,628	15

³ 5,764 of the shares vested were for the former Chief Executive of HKEx

⁴ The shares vested were for the former Chief Executive of HKEx

During the year, 46,895 HKEx shares were issued to the Scheme in lieu of cash dividends at a total consideration of \$7 million (2010: 31,300 shares were purchased by the Scheme through reinvesting dividends received at a total cost of \$4 million), of which 38,052 shares (2010: 26,392 shares) were subsequently allocated to awardees.

During the year, 11,890 dividend shares (2010: 42,544 shares, including 951 shares for the former Chief Executive of HKEx) at a cost of \$1 million (2010: \$6 million) were vested and transferred to the employees at nil consideration.

36. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

- (ii) Movements in the number of Awarded Shares awarded and dividend shares were as follows:

	2011	2010
	Number of Awarded Shares and dividend shares	Number of Awarded Shares and dividend shares
Outstanding at 1 Jan	1,416,002	574,408
Awarded ¹	972,337	1,265,993
Forfeited	(115,998)	(123,086)
Vested	(82,531)	(274,628)
Dividend shares:		
– allocated to awardees	38,052	26,392
– allocated to awardees but subsequently forfeited	(4,256)	(10,533)
– vested	(11,890)	(42,544)
Outstanding at 31 Dec	2,211,716	1,416,002

¹ Average fair value per share was \$126.13 (2010: \$145.11)

- (iii) The remaining vesting periods of the Awarded Shares awarded and dividend shares outstanding at 31 December were as follows:

	At 31 Dec 2011		At 31 Dec 2010	
	Remaining vesting period	Number of Awarded Shares and dividend shares outstanding	Remaining vesting period	Number of Awarded Shares and dividend shares outstanding
Shares awarded in				
2007	0.47 year	1,375	0.47 year to 1.47 years	49,220
2008	0.95 year	26,059	0.95 year to 1.95 years	59,817
2009	0.00 year to 2.00 years	44,925	0.00 year to 3.00 years	59,900
2010	0.37 year to 1.95 years	1,116,294	1.37 years to 2.95 years	1,218,245
2011	1.04 years to 2.95 years	972,337	–	–
Dividend shares	0.00 year to 2.55 years	50,726	0.00 year to 3.00 years	28,820
		2,211,716		1,416,002

- (iv) At 31 December 2011, 24,451 forfeited or unallocated shares (31 December 2010: 239,991 shares) were held by the Scheme and would be regranted to eligible employees in future.

37. Designated Reserves

Clearing House Funds reserves (note 31(b))

	Group			Total \$m
	HKSCC Guarantee Fund reserve \$m	SEOCH Reserve Fund reserve \$m	HKCC Reserve Fund reserve \$m	
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 39)	3	2	12	17
At 31 Dec 2010	125	111	344	580
At 1 Jan 2011	125	111	344	580
Deficit of net investment income net of expenses of Clearing House Funds transferred to retained earnings (note 39)	(2)	(1)	-	(3)
At 31 Dec 2011	123	110	344	577

38. Merger Reserve

	HKEx	
	2011 \$m	2010 \$m
At 1 Jan	2,997	2,997
Transfer to retained earnings (note 39)	(2,303)	-
At 31 Dec	694	2,997

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.

As a result of the adjustment to the carrying value of the cost of investments of the subsidiaries in 2011 (note 34(a)(i)), \$2,303 million of the merger reserve became realised and hence distributable in accordance with Accounting Bulletin 4: Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance and was transferred to retained earnings during the year.

39. Retained Earnings (Including Proposed Dividend)

	Group		HKEx	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
At 1 Jan	6,766	6,021	1,416	1,967
Profit attributable to shareholders (note (a))	5,093	5,037	7,671	3,724
Transfer from/(to) Clearing House Funds reserves (note 37)	3	(17)	–	–
Transfer from merger reserve (note 38)	–	–	2,303	–
Dividends:				
2010/2009 final dividend	(2,487)	(2,251)	(2,487)	(2,251)
2011/2010 interim dividend	(2,327)	(2,034)	(2,327)	(2,034)
Unclaimed HKEx dividends forfeited (note 29(b))	6	16	6	16
Vesting of shares of Share Award Scheme	(1)	(6)	(1)	(6)
At 31 Dec	7,053	6,766	6,581	1,416
Representing:				
Retained earnings	4,801	4,280	4,329	(1,070)
Proposed dividend	2,252	2,486	2,252	2,486
At 31 Dec	7,053	6,766	6,581	1,416

- (a) Profit attributable to shareholders included a profit of \$7,671 million (2010: \$3,724 million), which included \$9,920 million (2010: \$3,688 million) of dividends from subsidiaries and a reduction in carrying value of investments in subsidiaries of \$2,303 million (2010: \$Nil) (note 34(a)(i)), and has been dealt with in the financial statements of HKEx, the holding company of the Group.

40. Notes to the Consolidated Statement of Cash Flows

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

	2011 \$m	2010 \$m
Profit before taxation	6,032	5,954
Adjustments for:		
Net interest income	(276)	(133)
Dividend income	(10)	(5)
Net fair value gains including interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	(102)	(337)
Losses on disposal of financial assets measured at amortised cost of Corporate Funds	–	4
Forfeiture of unclaimed cash dividends held by HKSN	(108)	–
Depreciation	90	107
Employee share-based compensation benefits	61	36
Gain on disposal of fixed assets	–	(1)
Provision for/(reversal of provision for) impairment losses of receivables	2	(4)
Changes in provisions	5	(5)
Net increase in Margin Fund financial assets	(8,740)	(2,447)
Net increase in Margin Fund financial liabilities	8,657	2,459
Net decrease/(increase) in Clearing House Fund financial assets	1,151	(901)
Net (decrease)/increase in Clearing House Fund financial liabilities	(1,155)	1,045
Net decrease/(increase) in financial assets of cash collateral	361	(162)
Net (decrease)/increase in cash collateral received from HKSCC Clearing Participants	(361)	162
Net increase in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	(104)	(455)
Decrease in accounts receivable, prepayments and deposits	1,972	2,133
Decrease in other current liabilities	(1,613)	(1,833)
Net cash inflow from operations	5,862	5,617
Dividends received	9	5
Interest received from bank deposits	261	115
Interest received from financial assets measured at fair value through profit or loss	123	110
Interest paid	(2)	(4)
Hong Kong Profits Tax paid	(980)	(857)
Net cash inflow from operating activities	5,273	4,986

41. Commitments

(a) Commitments in respect of capital expenditures:

	Group		HKEx	
	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
Contracted but not provided for	729	149	1	–
Authorised but not contracted for	876	1,926	109	22
	1,605	2,075	110	22

The commitments in respect of capital expenditures of the Group were mainly related to the new Data Centre at Tseung Kwan O with hosting services capability, the development of the next generation market data system and the over-the-counter derivatives clearing system.

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

	Group		HKEx	
	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
Land and buildings				
– within one year	117	160	4	2
– in the second to fifth years	209	303	3	1
	326	463	7	3
Computer systems, software and equipment				
– within one year	7	6	4	4
	333	469	11	7

At 31 December 2011 and 31 December 2010, in respect of computer systems, software and equipment, the Group did not have any purchase options.

41. 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 three contributions during 2010 to 2012 were \$4 million per annum. The contributions for 2013 and 2014 would be \$5 million per annum.

42. Contingent Liabilities

At 31 December 2011, 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 2010: \$71 million). Up to 31 December 2011, 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 30(b)(i)). In the unlikely event that all of its 498 trading Participants covered by the indemnity at 31 December 2011 (31 December 2010: 484) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$100 million (31 December 2010: \$97 million).

(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 30(b)(ii)).
- (ii) HKEx had issued two guarantees to two banks in respect of banking facilities granted to three wholly-owned subsidiaries amounting to \$4,000 million. At 31 December 2011 and 31 December 2010, the banking facilities had not been drawn down.

43. Future Operating Lease Receipts

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

	Group	
	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
Land and buildings		
– within one year	–	1
Trading booths and related facilities		
– within one year	11	13
– in the second to fifth years	21	–
	32	13
Total	32	14

44. 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 of HKSCC, HKCC and SEOCH (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.

(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	
	2011 \$m	2010 \$m
Dividend income	9,920	3,688
Management fees and equipment rental fees charged	588	481
Expenses recharged	1,023	932

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

(b) Material related party transactions (continued)

(ii) Key management personnel compensation

	Group		HKEx	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Salaries and other short-term employee benefits	84	87	70	72
Employee share-based compensation benefits	26	10	21	8
Retirement benefit costs	6	6	5	5
	116	103	96	85

(iii) Balances with related parties

	HKEx	
	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
Amounts due from subsidiaries (note 34(b))	5,123	3,684
Amounts due to subsidiaries (note 34(b))	(39)	(2,030)
Financial guarantee granted to a subsidiary (maximum amount guaranteed) (note 42(b)(i))	50	50

(iv) Post-retirement benefit plans

The Group has sponsored an ORSO Plan and a MPF Scheme as its post-retirement benefit plans (note 10(a)).

The retirement benefit costs charged to the consolidated statement of comprehensive income 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 2011 was less than \$1 million (31 December 2010: less than \$1 million) and no contribution to the ORSO Plan was outstanding at 31 December 2011 and 31 December 2010.

(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.

45. Banking Facilities with Assets Pledged

The Group did not have any assets pledged at 31 December 2011 and 31 December 2010.

46. 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 expected 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. During the year ended 31 December 2011, the Group increased the amount of shareholders' funds set aside for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties by \$900 million to \$4,000 million (31 December 2010: \$3,100 million).

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 2011 was \$8,582 million (31 December 2010: \$8,097 million).

47. 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.

Financial assets of the Group are maintained for the Corporate Funds, Clearing House Funds, Margin Funds and cash collateral received 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.

47. Financial Risk Management (continued)

(a) Market risk management (continued)

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 Department is dedicated to the day-to-day management and investment of the funds. External fund managers have also been appointed to manage part of the Corporate Funds since July 2001. The external fund managers are stable and financially strong financial institutions and each has a worldwide aggregate fund size of a minimum of US\$10 billion under management.

(i) Foreign exchange risk management

Foreign exchange risk is the risk that the value of an asset, liability or highly probable forecast transaction denominated in foreign currency will fluctuate because of changes in foreign exchange rates. When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency 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:

47. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

	Foreign currency	Group		
		At 31 Dec 2011		
		Gross open position \$m	Economic hedges \$m	Net open position \$m
Financial assets/(financial liabilities)				
Cash and cash equivalents ¹	AUD	7	-	7
	CHF	3	-	3
	EUR	1	-	1
	GBP	1	-	1
	JPY	129	(101)	28
	RMB	10	-	10
	USD	1,375	(557)	818
Financial assets measured at fair value through profit or loss ^{1,2}	AUD	291	(261)	30
	CAD	69	(3)	66
	CHF	9	(2)	7
	EUR	311	(289)	22
	GBP	147	(115)	32
	JPY	25	(23)	2
	NZD	24	-	24
	RMB	140	-	140
	SEK	2	-	2
	SGD	53	-	53
	USD	2,327	(1,459)	868
Financial assets measured at amortised cost	RMB	1	-	1
	USD	45	-	45
Accounts receivable and deposits	CAD	1	-	1
	GBP	1	-	1
	RMB	6	-	6
	USD	2	-	2
Margin deposits from Clearing Participants on derivatives contracts ¹	JPY	(101)	101	-
	USD	(1,125)	1,125	-
Accounts payable, accruals and other liabilities	RMB	(10)	-	(10)
	USD	(44)	-	(44)
Total net open positions for the Group	AUD			37
	CAD			67
	CHF			10
	EUR			23
	GBP			34
	JPY			30
	NZD			24
	RMB			147
	SEK			2
	SGD			53
	USD			1,689
				2,116

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.

47. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

	Foreign currency	Group		
		At 31 Dec 2010		
		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.

47. 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 2011 \$m	At 31 Dec 2010 \$m
Financial assets/(financial liabilities)			
Cash and cash equivalents	RMB	4	1
Financial assets measured at amortised cost	RMB	1	1
Accounts receivable and deposits	RMB	1	–
Accounts payable and other liabilities	RMB	(4)	(3)
	USD	(25)	(18)
Total net open positions for HKEx	RMB	2	1
	USD	25	18
		27	19

(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.

The contractual interest rates of the financial instruments held by the Group and HKEx (excluding bank deposits held at savings and current accounts and zero coupon bonds purchased at discounts) at 31 December 2011 ranged from 0.01 per cent to 11.25 per cent (31 December 2010: 0.01 per cent to 8.75 per cent) and 1.00 per cent to 2.19 per cent (31 December 2010: 0.03 per cent to 2.19 per cent) respectively.

47. Financial Risk Management (continued)

(a) Market risk management (continued)

(iv) Risk management techniques

Value-at-Risk (VaR) based on historical simulation and portfolio stress testing are used to identify, measure, 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 fund under management (Clearing House Funds, Margin Funds, cash collateral and Corporate Funds).

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 at 31 December were as follows:

	Group		HKEx	
	At	At	At	At
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
	\$m	\$m	\$m	\$m
Foreign exchange risk	8	8	< 1	–
Equity price risk	22	21	–	–
Interest rate risk	16	22	< 1	< 1
Total VaR	26	31	< 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.

47. 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; and
- other financial assets are allocated based on their contractual maturity dates.

	Group				
	At 31 Dec 2011				
	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	18,221	-	-	-	18,221
Financial assets measured at fair value through profit or loss	11,349	-	-	-	11,349
Financial assets measured at amortised cost	16,203	5	-	43	16,251
Accounts receivable and deposits ²	7,150	35	3	-	7,188
	52,923	40	3	43	53,009

47. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	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

¹ Amounts included \$2,401 million (31 December 2010: \$7,474 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 \$45 million (31 December 2010: \$18 million).

	HKEx				
	At 31 Dec 2011				
	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	607	-	-	-	607
Financial assets measured at amortised cost	1,486	-	-	1	1,487
Amounts due from subsidiaries	5,123	-	-	-	5,123
	7,216	-	-	1	7,217

	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

³ Amounts included \$6 million (31 December 2010: \$14 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.

47. Financial Risk Management (continued)**(b) Liquidity risk management (continued)**

In addition, banking facilities have been put in place for contingency purposes. At 31 December 2011, the Group's total available banking facilities amounted to \$13,010 million (31 December 2010: \$13,010 million), which included \$4,000 million of committed banking facilities that provide for same day borrowing in HKD and/or RMB (31 December 2010: \$4,000 million) and \$9,000 million (31 December 2010: \$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 2011			
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	Total \$m
Margin deposits from Clearing Participants				
on derivatives contracts	31,359	-	-	31,359
Cash collateral from HKSCC Clearing Participants	3,233	-	-	3,233
Accounts payable, accruals and other liabilities	8,343	2	111	8,456
Other financial liabilities:				
Other financial liabilities of Clearing House Funds	26	3	-	29
Other financial liabilities of Corporate Funds:				
Financial guarantee contract (maximum amount guaranteed) (note 42(a)(ii))	100	-	-	100
Participants' contributions to Clearing House Funds	394	440	46	880
Total	43,455	445	157	44,057
	Group			
	At 31 Dec 2010			
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$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 42(a)(ii))	97	-	-	97
Participants' contributions to Clearing House Funds	1,575	418	46	2,039
Total	37,829	422	152	38,403

47. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	HKEx			
	At 31 Dec 2011			
	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	237	2	5	244
Amounts due to subsidiaries	39	-	-	39
Other financial liabilities:				
Other financial liabilities of Corporate Funds:				
Financial guarantee contract (maximum amount guaranteed) (note 42(b)(i))	50	-	-	50
Total	326	2	5	333

	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 42(b)(i))	50	-	-	50
Total	2,274	3	4	2,281

At 31 December 2011, the maximum gross nominal value of outstanding forward foreign exchange contracts held by the Group was \$5,180 million (31 December 2010: \$3,749 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 2011			At 31 Dec 2010		
	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	3,614	1,545	5,159	2,373	1,376	3,749
- inflows	3,624	1,556	5,180	2,371	1,378	3,749

47. Financial Risk Management (continued)

(c) Credit risk management

(i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's investments and 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 2011, 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 Aa3 (31 December 2010: 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 (except certain Hong Kong note-issuing banks). The Group mitigates its exposure to risks relating to accounts receivable from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

(ii) Clearing and settlement-related risk management

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

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. Under the CCASS Rules, HKSCC has collected 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 a sizeable default. HKSCC also retains recourse against those Participants whose securities are deposited and accepted in the CCASS depository.

47. Financial Risk Management (continued)

(c) Credit risk management (continued)

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

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. At 31 December 2011, bank guarantees of \$1,643 million (31 December 2010: \$1,832 million) were accepted for such purpose.

(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 2011		At 31 Dec 2010	
	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 42(a)(ii))	(20)	100	(20)	97
	HKEx			
	At 31 Dec 2011		At 31 Dec 2010	
	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 Financial guarantee granted to HKSCC (note 42(b)(i))	(11)	50	(11)	50

47. 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 as collateral 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 2011		At 31 Dec 2010	
Carrying amount in consolidated statement of financial position	Collateral held for mitigating credit risk	Carrying amount in consolidated statement of financial position	Collateral held for mitigating credit risk	
\$m	\$m	\$m	\$m	\$m
Accounts receivable and deposits	7,188	2,011	9,188	2,482

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 mainly relate to receivables from Participants and listed companies) 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 2011	At 31 Dec 2010
	\$m	\$m
Up to six months	351	324

No financial assets of HKEx were past due at 31 December 2011 and 31 December 2010.

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

At 31 December 2011, receivables of the Group amounting to \$160 million (31 December 2010: \$158 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(r)(vi).

No financial assets of HKEx were impaired at 31 December 2011 and 31 December 2010.

47. 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 2011, the amount of doubtful deferred revenue amounted to \$79 million (31 December 2010: \$62 million).

At 31 December 2011 and 31 December 2010, 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.

47. 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 2011		
	Level 1 \$m	Level 2 \$m	Total \$m
Assets			
Financial assets measured at fair value through profit or loss:			
– equity securities	386	–	386
– debt securities	–	10,931	10,931
– forward foreign exchange contracts	32	–	32
	418	10,931	11,349
Liabilities			
Other financial liabilities of Corporate Funds:			
Financial liabilities at fair value through profit or loss:			
– forward foreign exchange contracts	11	–	11
	11	–	11
	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

During 2011 and 2010, no financial assets or financial liabilities were classified under Level 3 and there were no transfers of instruments between Level 1 and Level 2.

47. 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 2011		At 31 Dec 2010	
	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	706	710	950	958
– other financial assets maturing over one year ²	49	48	213	212
Financial liabilities				
Financial guarantee contract ³	20	86	20	42

47. 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 2011		At 31 Dec 2010	
	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	14	14	91	91
- other financial assets maturing over one year ²	1	1	1	1
Financial liabilities				
Financial guarantee contract ³	11	43	11	22

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 0.83 per cent to 1.13 per cent at 31 December 2011 (31 December 2010: 0.65 per cent to 1.01 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 1.46 per cent at 31 December 2011 (31 December 2010: 2.85 per cent).

GLOSSARY

2011 AGM	Annual general meeting held on 20 April 2011 at 4:30 pm at the Exchange Auditorium in the Exchange Exhibition Hall of SEHK
2012 AGM	Annual general meeting to be held on 23 April 2012
AGM	HKEx's annual general meeting
AMS/3	The Automatic Order Matching and Execution System/Third Generation
Awarded Shares	Shares awarded under the Share Award Scheme
BBS	Bronze Bauhinia Star
BMP Service	Basic Market Prices Service
Board	HKEx's board of directors
BRICS	Refers to Brazil, Russia, India, China and South Africa, in connection with the BRICS Exchanges Alliance
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
CP(s)	Clearing Participant(s)
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
DI	Disclosure of Interests
Director(s)	HKEx's director(s)
DTDC model	Dual Tranche Dual Counter model
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)
ESG	Environmental, Social and Governance
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
GBM	Grand Bauhinia Medal
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
Government	HKSAR Government
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKEx's Articles	HKEx's Articles of Association
HKFRSs	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
HKIoD	The Hong Kong Institute of Directors
HKMA	Hong Kong Monetary Authority
HKSAR	Hong Kong Special Administrative Region of the PRC
HKSCC	Hong Kong Securities Clearing Company Limited

HKSI	Hong Kong Securities Institute
HKTDC	Hong Kong Trade Development Council
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)
IPs	Investor Participants
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 Rule(s) or Rule(s)	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(s)	Memorandum(s) of Understanding
NGMDS	Next Generation Market Data System
OTC	Over-the-counter
Post-Listing Scheme	Post-Listing Share Option Scheme approved by Shareholders on 31 May 2000 which was subsequently amended by Shareholders on 17 April 2002
PRC	People's Republic of China
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by Shareholders on 31 May 2000
PRS	The Price Reporting System
REIT(s)	Real Estate Investment Trust(s)
RMB	Renminbi
ROM	HKEx's Register of Members
SDNet	Securities and Derivatives Network
Senior Management	HKEx's senior executives as referred to in the section "Senior Management" as set out on pages 31 to 33 of this Annual Report
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
SI(s)	Settlement Instruction(s)
Shareholders	HKEx's shareholders
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
SPRINTS	Structured Products Integrated Transaction System
UK	United Kingdom
US	United States of America
USD	United States dollar
VHSI	HSI Volatility Index
WFE	World Federation of Exchanges
\$/HKD	Hong Kong dollar
\$bn/bn	Hong Kong dollar in billion/billion
\$m/m	Hong Kong dollar in million/million
\$tn	Hong Kong dollar in trillion

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