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

(Financial figures in this announcement are expressed in HKD unless otherwise stated.)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

The Board submits the Group's consolidated results for the year ended 31 December 2010. The Group's financial information for the year ended 31 December 2010 in this announcement was prepared based on the consolidated financial statements which have been reviewed by the external auditor. The Group has agreed with the external auditor as to the contents of this results announcement.

FINANCIAL HIGHLIGHTS

	2010	2009	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange (\$bn)	69.1	62.3	11%
Average daily number of derivatives contracts traded on the Futures Exchange	221,487	206,458	7%
Average daily number of stock options contracts traded on the Stock Exchange	246,474	191,676	29%
	2010	2009	Change
	\$m	\$m	
RESULTS			
Revenue and other income	7,566	7,035	8%
Operating expenses	1,612	1,493	8%
Profit before taxation	5,954	5,542	7%
Taxation	(917)	(838)	9%
Profit attributable to shareholders	5,037	4,704	7%
Basic earnings per share	\$4.68	\$4.38	7%
Diluted earnings per share	\$4.67	\$4.36	7%
Interim dividend per share	\$1.89	\$1.84	3%
Final dividend per share	\$2.31	\$2.09	11%
	\$4.20	\$3.93	7%
Dividend payout ratio	90%	90%	N/A
	2010	2009	Change
KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds (\$m)	8,677	8,027	8%
Total assets ¹ (\$m)	47,884	45,332	6%
Net assets per share ² (\$)	8.06	7.46	8%

Notes:

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

2 Based on 1,076,436,353 shares as at 31 December 2010, being 1,078,092,346 shares issued and fully paid less 1,655,993 shares held for the Share Award Scheme (2009: 1,075,514,581 shares, being 1,076,190,346 shares issued and fully paid less 675,765 shares held for the Share Award Scheme)

CHAIRMAN'S STATEMENT

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

HKEx's Performance

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

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

Market highlights

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

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

Opportunities from the Mainland's Economic Development

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

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

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

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

Challenges from Evolving Exchange Landscape

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

Market Integrity and Transparency

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

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

System Reliability and Efficiency

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

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

Product and Service Diversification

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

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

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

Commitment to Corporate Social Responsibility

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

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

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

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

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

Acknowledgments

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

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

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

BUSINESS REVIEW

Listing

Review of Listing Rules

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

List of consultation papers issued in 2010

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

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

List of proposals under review in 2011

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

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

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

Accepting More Overseas Jurisdictions

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

of Vale S.A. is a pilot which may point to a possible model for an increased-disclosure approach to the listing of overseas companies in appropriate cases.

Enhanced Service for Structured Product Issuers

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

IPO Processing

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

Record of IPO work

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

Notes:

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

Number of IPO transactions

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

Number of listed companies (as at year-end)

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

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

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

* According to the Hang Seng Indexes Company Limited

Compliance and Monitoring

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

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

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

Notes:

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

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

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

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

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

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

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

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

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

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

In 2010, the Exchange continued its education programme and market outreach to issuers and other stakeholders, with a view to promoting issuers' self-compliance with the Listing Rules and facilitating mutual understanding of regulatory issues through dialogue. We organised a series of

9 seminars in Hong Kong which attracted over 1,500 participants and 2 seminars in Beijing which attracted over 350 participants. The Exchange also conducted 9 meet-and-greet sessions for our Listing staff to meet 148 issuers' representatives and market practitioners at breakfast or lunch meetings to promote better communication.

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

Service standard set for initial responses in 2010

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

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

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

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

Listing Enforcement

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

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

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

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

Number of disciplinary actions (as at year-end)

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

Notes:

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

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

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

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

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

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

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

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

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

Number of contested or settlement cases

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

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

Listing Operations

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

Number of DWs

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

Number of CBBCs *

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

* The first CBBC was listed on 12 June 2006.

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

Primary market information *

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

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

Cash Market

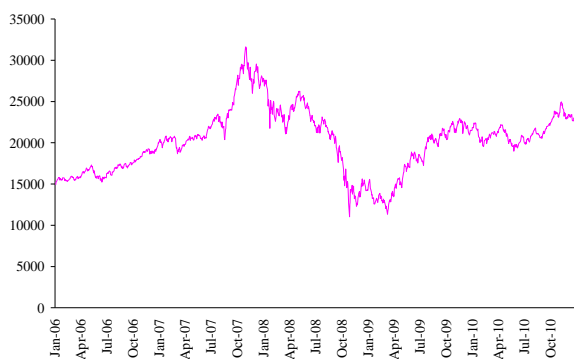
Market Performance

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

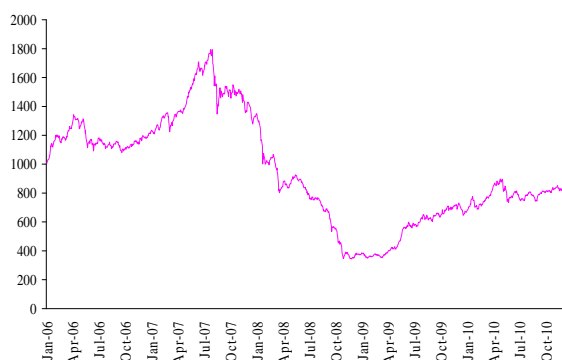
Closing indices (as at year-end)

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

HSI (01/2006 – 12/2010)



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

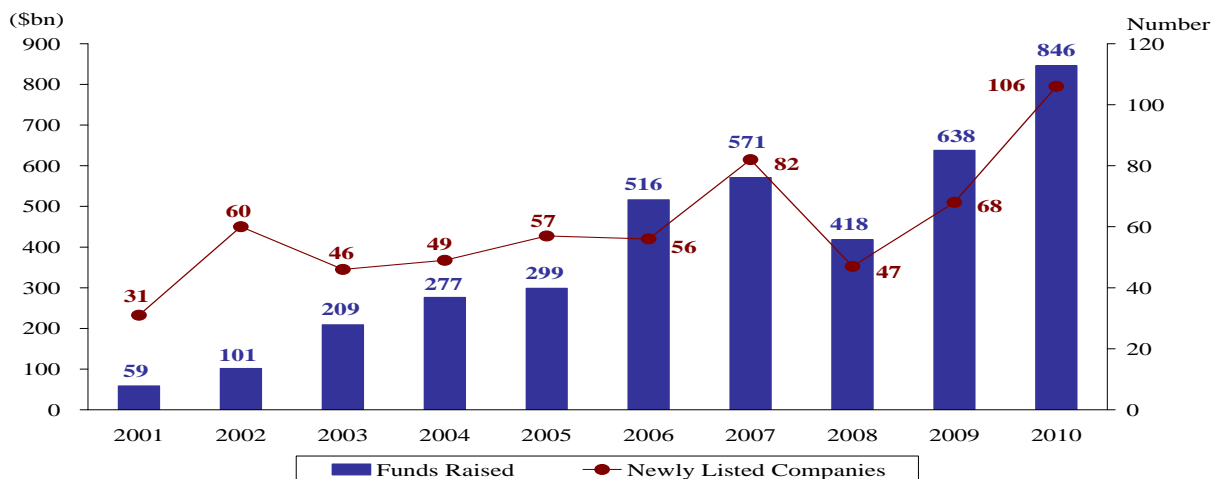


Market performance of Main Board and GEM

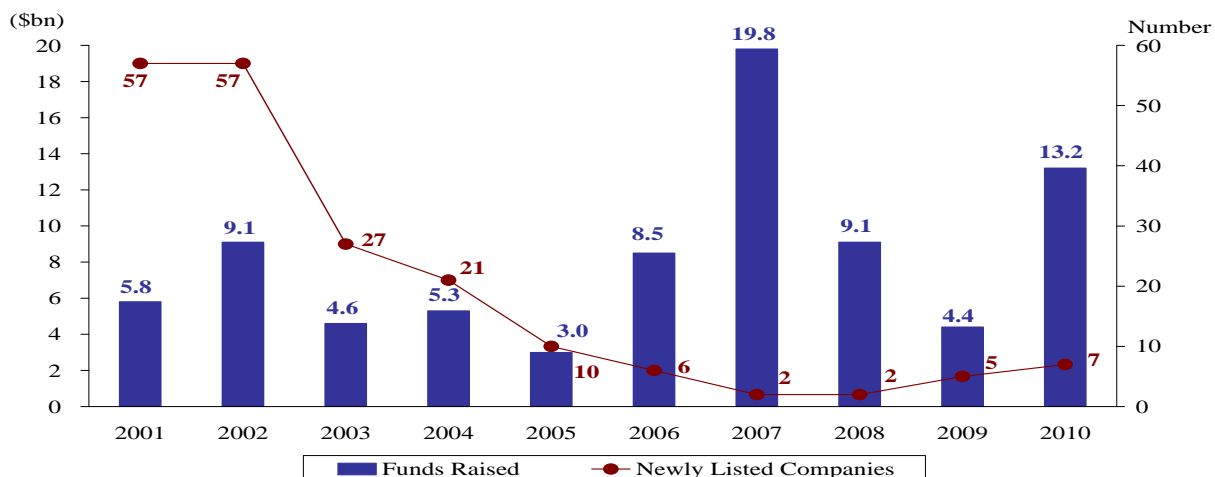
	Main Board			GEM		
	2010	2009	Change	2010	2009	Change
IPO funds raised (\$bn)	449	248	81%	0.7	0.4	75%
Market capitalisation as at year-end (\$bn)	20,942	17,769	18%	135	105	29%
Number of listed companies as at year-end	1,244	1,145	9%	169	174	(3%)
Number of listed securities as at year-end	7,730	6,441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

Note: Figures have been rounded.

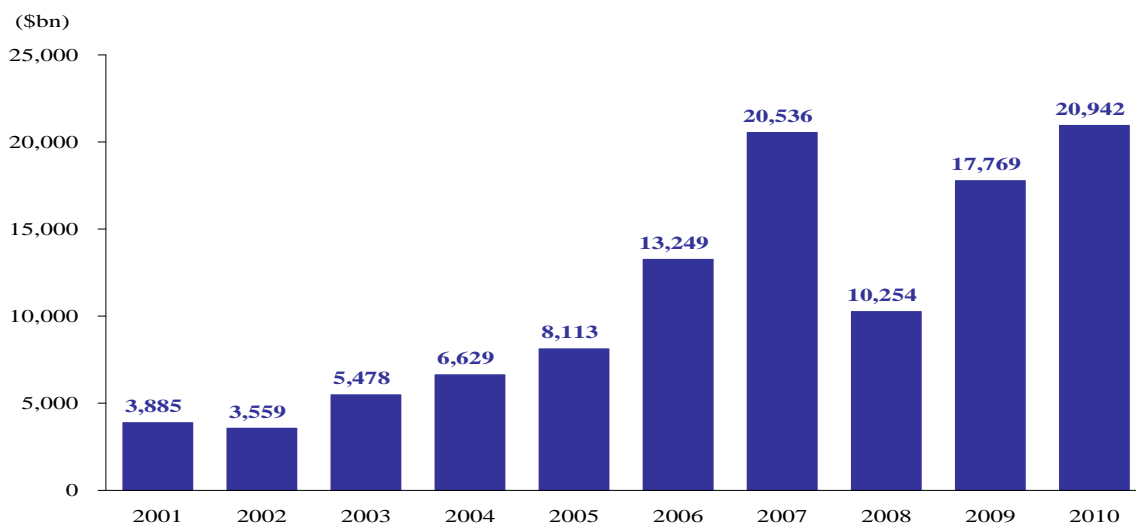
Main Board – Total equity funds raised and number of newly listed companies



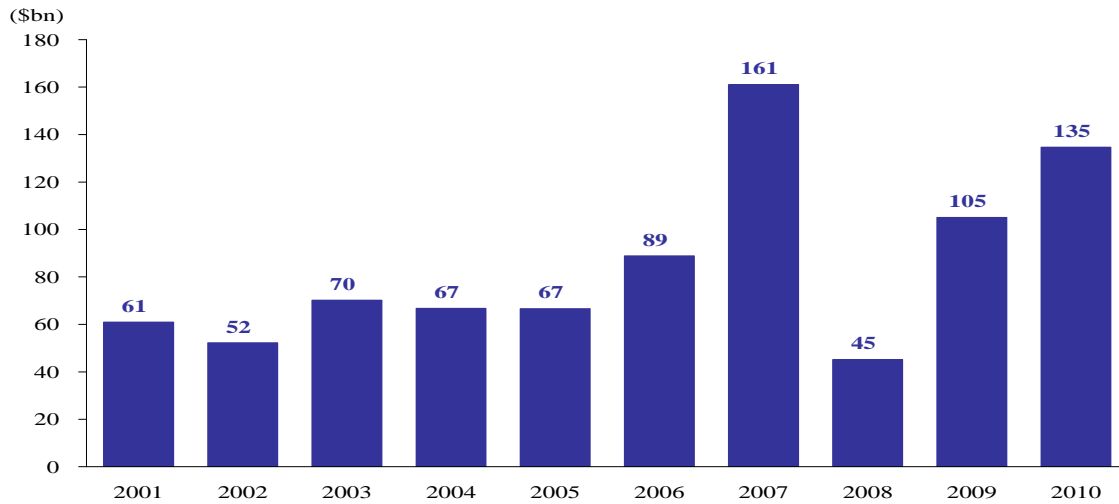
GEM – Total equity funds raised and number of newly listed companies



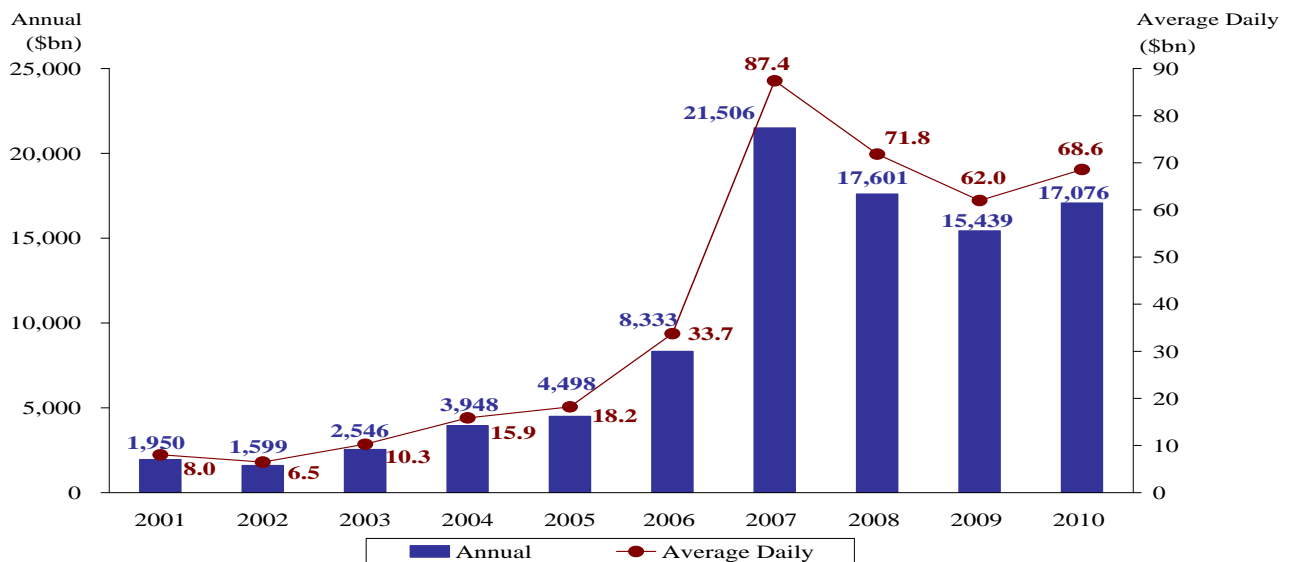
Main Board – Market capitalisation (as at year-end)



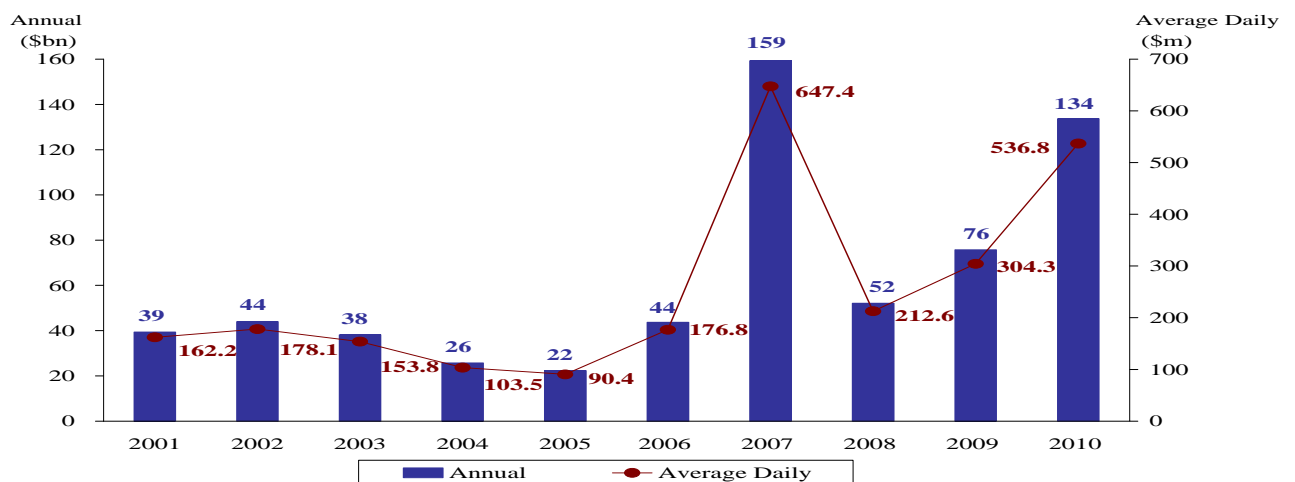
GEM – Market capitalisation (as at year-end)



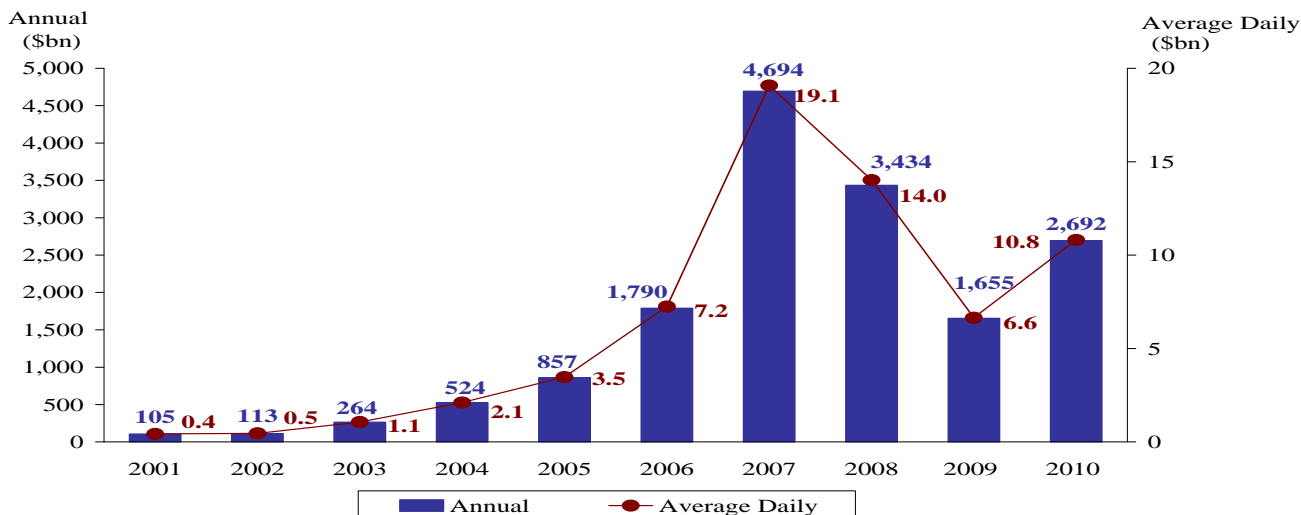
Main Board – Total annual and average daily trading value



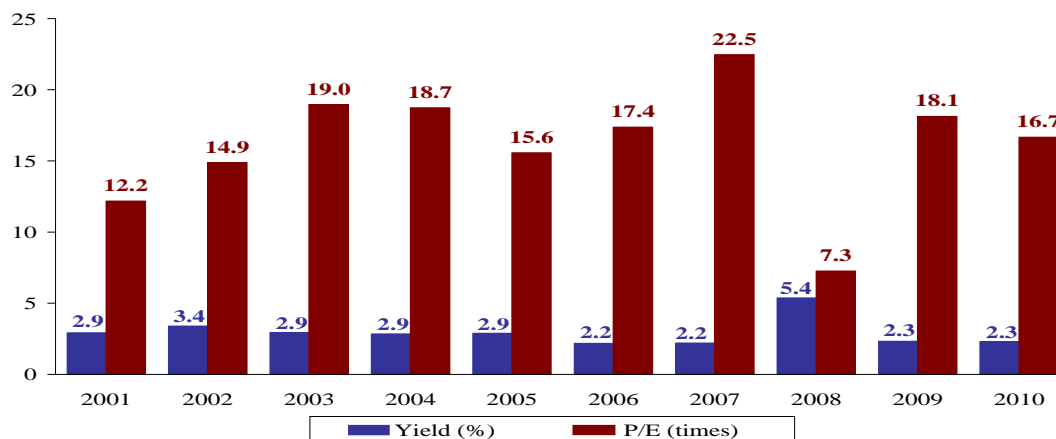
GEM – Total annual and average daily trading value



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



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



Main Board – New listings

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

Notes:

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

Automation of Stamp Duty Reporting and Payment

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

and 100,000 paper cheques will thereby be eliminated annually.

Changes to Trading Hours

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

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

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

Listing of RMB Products

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

ETF Market Development

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

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

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

Derivatives Market

Market Performance

The Derivatives Market turnover reached an all-time high of 116,054,377 contracts in 2010, surpassing the previous high of 105,006,736 contracts in 2008. In 2010, the turnover in the Derivatives Market was up about 18 per cent from last year. The growth was mainly driven by increases in trading of HSI options (up about 59 per cent), H-shares Index options (up 48 per

cent) and stock options (up about 29 per cent). Record high daily volume and open interest were achieved for the following products:

Record high daily volume and open interest achieved in 2010

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

Notes:

1 Launched on 1 November 2010

2 Launched on 8 February 2010

Derivatives Market statistics

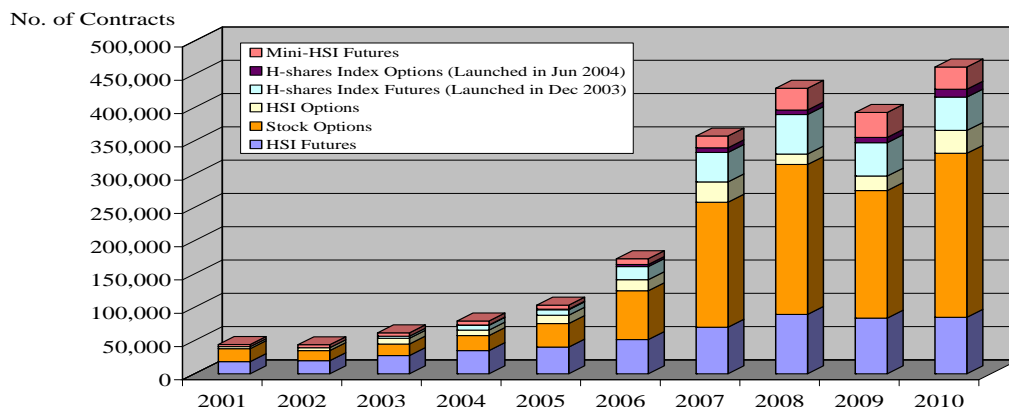
	2010		2009	
	Volume (Contracts)	Period-end open interest (Contracts)	Volume (Contracts)	Period-end open interest (Contracts)
Futures				
HSI Futures	21,031,085	88,816	20,728,034	68,456
Mini-HSI Futures	8,300,654	7,359	9,279,877	4,447
H-shares Index Futures	12,429,800	94,734	12,394,116	74,324
Mini H-shares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

Notes:

1 Launched on 1 November 2010

2 Launched on 8 February 2010

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



Enhancements to the Options Market

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

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

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

Stock options classes introduced in 2010

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

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

Greater Flexibility for Block Trade Executions

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

Rollout of Dividend Futures

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

Proposal for After-hours Derivatives Trading

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

Clearing

CCASS statistics (up to year-end)

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

CCASS Service Enhancements

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

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

DCASS Service Enhancements

DCASS was enhanced to allow Clearing Participants to use the Microsoft SQL Server software as an additional option to improve the data storage capacity from 22 March 2010 onwards. Moreover, HKCC and SEOCH have extended the DCASS service hours for processing

participants' requests of external position transfer and position reopening by 1 hour from 5:45 pm to 6:45 pm since 22 November 2010.

T+2 Finality for Stock Exchange Trades

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

Scripless Securities Market

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

Third Party Clearing Improvements

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

Participant Services

Non-transferability of Trading Rights (TRs)

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

Participant Training and Market Education

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

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

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

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

EP Recruitment

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

Number of trading right holders (as at the end of December 2010)

	SEHK		HKFE	
	Trading rights holders	Trading rights held	Trading rights holders	Trading rights held
EPs	516	938	179	202
Trading	485	904	179	202
Non-trading	31	34	N/A	N/A
Non-EPs	22	22	42	44
Total	538	960	221	246

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

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

Market Data

Market Performance

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

Introduction of Mainland TV Programme

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

Mainland Market Data Collaboration Programme

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

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

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

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

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

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

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

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

New Single Licence Regime

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

Under the new regime, the existing 4 separate market data license agreements for HKEx's securities market data, stock options market data, HKFE's market data and Issuer Information Feed Service are consolidated into a single agreement which also accommodates new datafeed products. Likewise, a new derivatives market data package including stock options market data as well as futures and stock index options market data has also been introduced under the Single Licence regime.

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

Introduction of Basic Market Prices Service

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

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

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

Enhancement of Derivatives Market Data Services

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

Compliance and Unauthorised Dissemination

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

Risk Management

Enhancements to Holiday Margin Arrangements

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

Enhanced Process for Provision of Financial Return Information

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

Market Contingency Rehearsal

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

Recovering Loss from Default of Yicko Futures Limited (Yicko)

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

Implementation of Enterprise Risk Management (ERM) Framework

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

Market Surveillance

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

Information Technology**Production Systems' Stability and Reliability**

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

System Capacity Planning and Technology Upgrades

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

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

In 2011, there will be additional capacity upgrades to prepare for HKEx's new business opportunities, namely, (i) the AMS/3 capacity increase by 10 times to 30,000 orders per second and order processing latency reduction by 16 times to 9 milliseconds by the end of 2011 (referred

to as AMS/3.8); (ii) the further upgrade of MDS to MDS/3.8 for capacity alignment with AMS/3.8; and (iii) the DCASS capacity increase by about 60 per cent to handle 475,000 account positions by mid-2011.

System Enhancements for RMB Products

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

Independent Review of Market Systems

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

Operational Efficiency

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

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

HKEx Website Revamp

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

Next Generation Data Centre (NGDC) and IT Office Consolidation

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

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

The NGDC will be built to meet the highest level of resilience, targeting at top-level Tier 4 data

centre requirements, and the LEED Gold standard for environmental friendliness.

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

Market Development

Platform Development and Strategy

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

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

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

Mainland Development

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

Issuer Marketing

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

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

HKEx's global reach in 2010



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

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

Major events organised by HKEx for Mainland enterprises in 2010

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

Date	Place	Event	Co-organiser(s)
Oct	Foshan, Guangdong	Guangdong – Hong Kong Financial Cooperation Seminar 2010	Guangdong Financial Affairs Office, Hong Kong Economic and Trade Office in Guangdong, Foshan Financial Affairs Bureau, InvestHK, and Hong Kong Trade Development Council

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

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

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

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

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

Listing Training Sessions

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

Different Market Surveys

HKEx published the Retail Investor Survey 2009 in March 2010, the Derivatives Market Transaction Survey 2009/10 in November 2010 and the Cash Market Transaction Survey 2009/10 in February 2011. The survey findings revealed that the contribution of overseas investors to the total market turnover remained at the relatively high level of more than

40 per cent in value terms in the securities market for the fifth consecutive year, and about a quarter in volume terms in the Derivatives Market, which was the highest level in the past five years. The participation of local retail investors remained high at 35 per cent of the Hong Kong adult population; retail investors were generally positive about the various operational aspects of the HKEx securities and derivatives markets.

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

Promoting HKEx's Markets

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

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

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

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

Date	Place	Event	HKEx's role
Jan	Hong Kong	Asian Financial Forum	Chairman and the CE delivered speeches on the latest development of the Hong Kong markets
Feb	Moscow	Russia Forum	Chairman as a panel speaker to discuss challenges and opportunities facing stock exchanges
Mar	Guangzhou	InvestHK "On Your Marks, Get-set, Go!" Seminar	CMO as a speaker to promote the Hong Kong financial services industry
April	Fuzhou	Mainland-Hong Kong Services Industry Symposium & Hong Kong Services Industry Delegation to Fuzhou, Fujian	CMO as a panel speaker to promote the Hong Kong financial services industry

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

Treasury

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

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

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

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

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

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

Credit exposure is well diversified. The Group's bond portfolio (which includes certain principal-guaranteed structured notes) held is of investment grade and, as at 31 December 2010, had a weighted average credit rating of Aa2 (2009: Aa2) and a weighted average maturity of 2.1 years (2009: 2.3 years). Deposits (which include certain principal-guaranteed structured deposits) are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk (VaR) and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (1 year is used by the Group). The overall risk, as measured by the VaR methodology, during 2010 and 2009 was as follows:

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

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

FINANCIAL REVIEW

Overall Performance

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

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

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

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

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

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

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

Revenue and Other Income

(A) Income Affected by Market Turnover

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

Key Market Indicators

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

Trading Fees and Trading Tariff

	2010 \$m	2009 \$m	Change
Trading fees and trading tariff were derived from:			
Securities traded on the Cash Market	2,030	1,834	11%
Derivatives contracts traded on the Derivatives Market	813	752	8%
Total	2,843	2,586	10%

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

The increase in trading fees and trading tariff from the Derivatives Market was mainly driven by the increase in the number of contracts traded. The total number of futures and options contracts traded was at record high in 2010.

Clearing and Settlement Fees

Clearing and settlement fees are derived predominantly from Cash Market transactions. In 2010, the increase in clearing and settlement fees was mainly due to higher turnover of the Cash Market. Clearing and settlement fees are also affected by the volume of SIs, and

despite being mostly ad valorem, they are subject to a minimum and a maximum per transaction and therefore may not always move exactly with the changes in the turnover of the Cash Market.

Depository, Custody and Nominee Services Fees

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

(B) Stock Exchange Listing Fees

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

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

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

Key Drivers for Annual Listing Fees

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

Key Drivers for Initial and Subsequent Issue Listing Fees

	2010	2009	Change
Number of newly listed DWs	7,826	4,230	85%
Number of newly listed CBBCs	6,541	8,072	(19%)
Number of newly listed companies on Main Board	106	68	56%
Number of newly listed companies on GEM	7	5	40%
Number of other newly listed securities on Main Board and GEM	119	91	31%
Total number of newly listed securities	14,599	12,466	17%

	2010 \$bn	2009 \$bn	Change
Total equity funds raised on Main Board			
– through IPOs	448.8	247.9	81%
– Post-IPO	396.7	389.8	2%
Total equity funds raised on GEM			
– through IPOs	0.7	0.4	75%
– Post-IPO	12.5	4.0	213%
Total	858.7	642.1	34%

(C) Market Data Fees

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

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

(D) Other Revenue

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

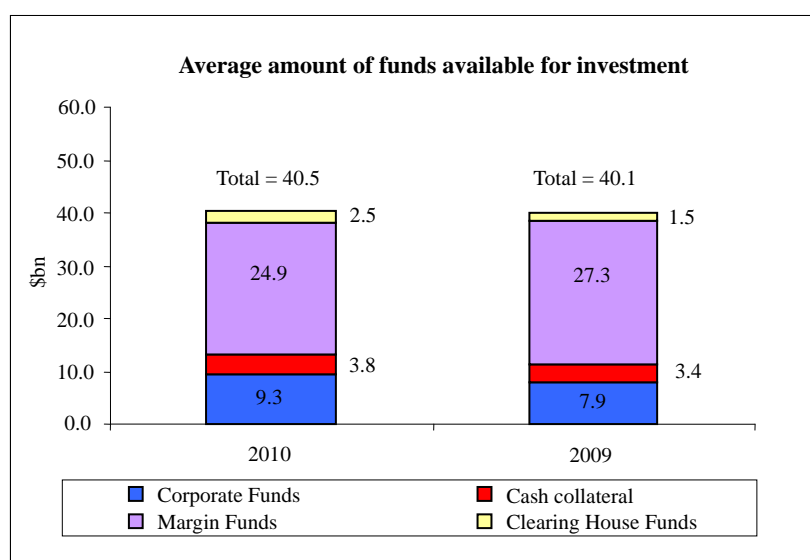
Network, terminal user, dataline and software sub-license fees rose mainly due to higher AMS/3 line rental income and HKATS-related usage fees, but the increase was partly offset by a drop in sales of additional throttle.

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

(E) Net Investment Income

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

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

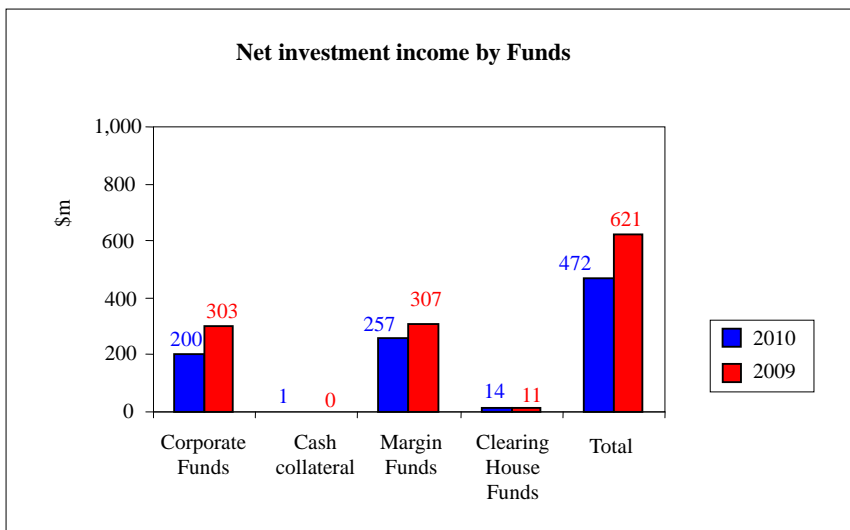


The average amount of Corporate Funds increased as 10 per cent of the profit is retained under the current dividend payment policy. In addition, the profit generated in the second half of 2009 was higher than that in the corresponding period of 2008 and the related dividend was not distributed until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

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

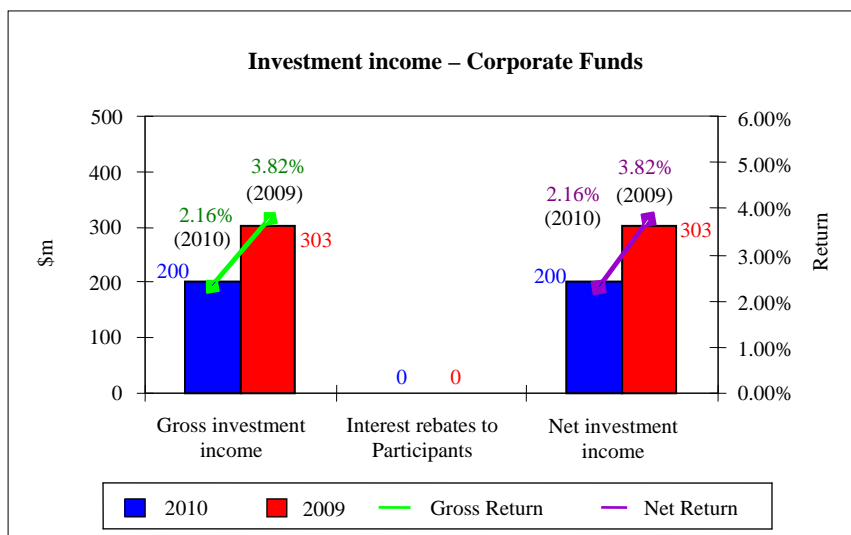
The higher average amount of Clearing House Funds was mainly due to the increase in additional contributions from Participants due to market fluctuations and changes in risk exposure.

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

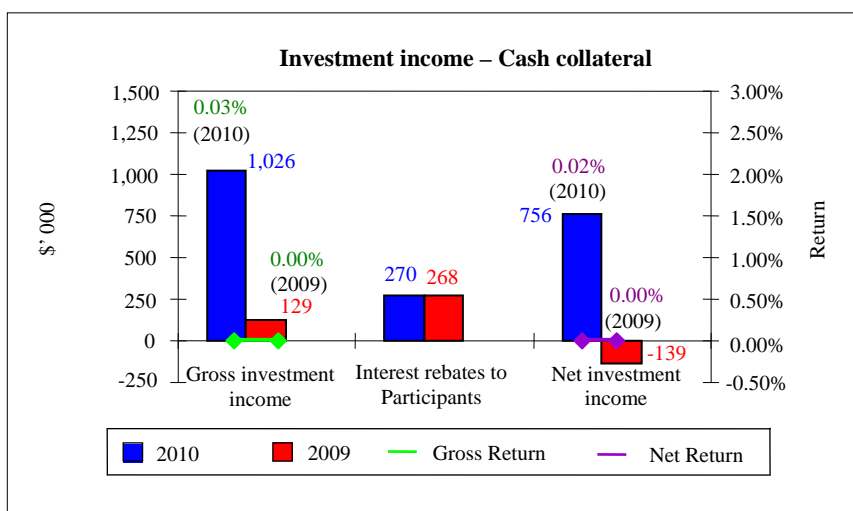


The lower net investment income was mostly due to the drop in net investment income of the Corporate Funds and Margin Funds.

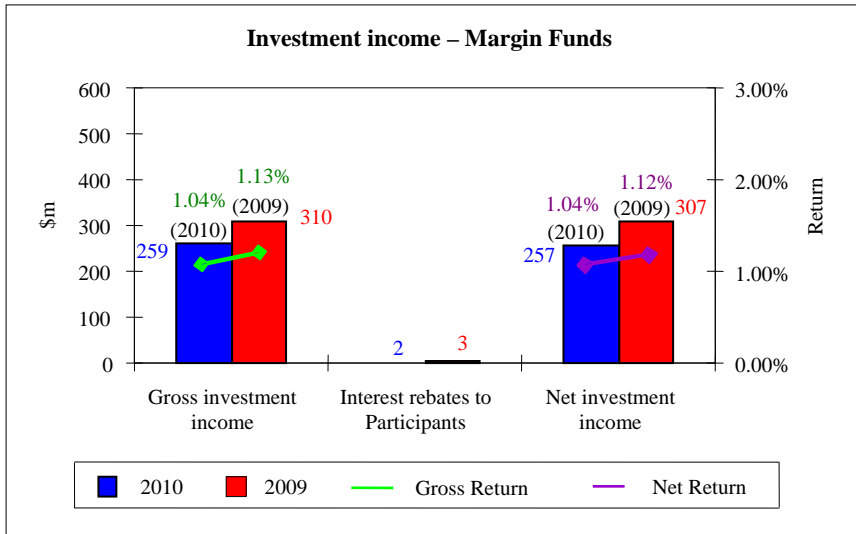
The analysis of investment income by Funds is as follows:



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

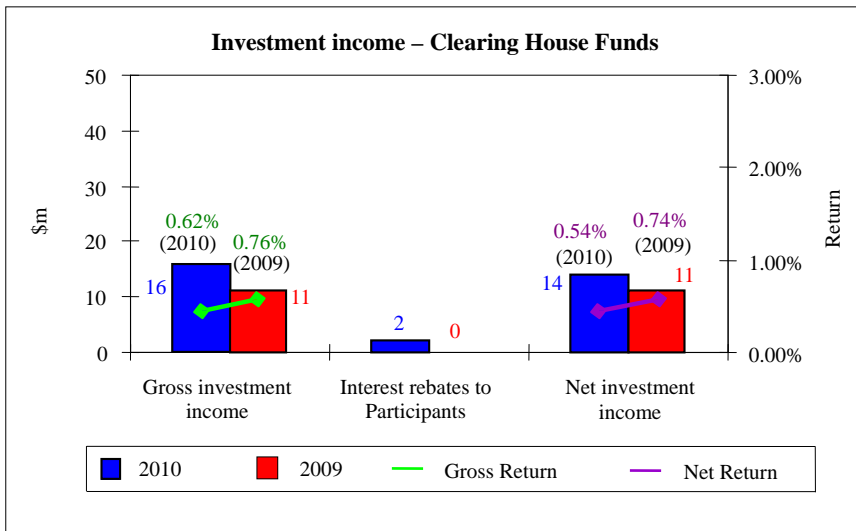


As the cash collateral is refundable within a very short period of time, it was only placed in savings accounts earning a very low rate of return in the past. In 2010, a small portion of the cash collateral was placed in longer-term time deposits for yield enhancement.



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

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



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

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

Operating Expenses

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

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

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

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

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

Taxation

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

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

Liquidity, Financial Resources, Gearing and Capital Commitment

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

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

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

At 31 December 2010, 99 per cent (31 December 2009: more than 99 per cent) of the Group's cash and cash equivalents (comprising cash on hand, bank balances and time deposits within 3 months of maturity when acquired) were denominated in HKD or USD.

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

Charges on Assets

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

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

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts have been used to hedge the currency exposure of the Group's non-HKD investments to mitigate risks arising from fluctuations in exchange rates.

As at 31 December 2010, the aggregate net open foreign currency positions amounted to HK\$2,401 million, of which HK\$375 million were non-USD exposures (31 December 2009: HK\$3,140 million, of which HK\$193 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK\$3,749 million (31 December 2009: HK\$3,405 million). All forward foreign exchange contracts would mature within 2 months (31 December 2009: 2 months).

Foreign currency margin deposits received by the Group are mainly hedged by investments in the same currencies, but unhedged investments in USD may not exceed 20 per cent of the Margin Funds.

Contingent Liabilities

The Group had a contingent liability in respect of potential calls to be made by the SFC to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$71 million (31 December 2009: \$72 million). Up to 31 December 2010, no calls had been made by the SFC in this connection.

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. In the unlikely event that all of its 484 trading Participants covered by the indemnity at 31 December 2010 (31 December 2009: 462) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$97 million (31 December 2009: \$92 million).

The Group and HKEx are currently being served a number of legal claims by certain independent parties. The Group and HKEx received legal advice and do not anticipate any material liabilities arising from the legal claims.

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 1 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.

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010**

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010**

	Note	At 31 Dec 2010			As restated At 31 Dec 2009			As restated At 1 Jan 2009		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS										
Cash and cash equivalents	10	19,361	–	19,361	14,738	–	14,738	27,784	–	27,784
Financial assets at fair value through profit or loss		–	–	–	–	–	–	3,020	–	3,020
Financial assets measured at fair value through profit or loss	10	9,949	1,241	11,190	12,466	1,559	14,025	–	–	–
Available-for-sale financial assets		–	–	–	–	–	–	19,394	–	19,394
Financial assets at amortised cost		–	–	–	–	–	–	3,664	47	3,711
Financial assets measured at amortised cost	10	7,021	783	7,804	4,157	768	4,925	–	–	–
Accounts receivable, prepayments and deposits	10, 11	9,203	3	9,206	11,334	3	11,337	8,535	3	8,538
Fixed assets		–	295	295	–	303	303	–	370	370
Lease premium for land		–	25	25	–	–	–	–	–	–
Deferred tax assets		–	3	3	–	4	4	–	5	5
Total assets		45,534	2,350	47,884	42,695	2,637	45,332	62,397	425	62,822
LIABILITIES AND EQUITY										
Liabilities										
Margin deposits from Clearing Participants on derivatives contracts		22,702	–	22,702	20,243	–	20,243	41,840	–	41,840
Cash collateral from HKSCC Clearing Participants		3,594	–	3,594	3,432	–	3,432	3,600	–	3,600
Accounts payable, accruals and other liabilities	12	9,946	–	9,946	11,827	–	11,827	8,894	–	8,894
Deferred revenue		473	–	473	424	–	424	393	–	393
Taxation payable		320	–	320	261	–	261	141	–	141
Other financial liabilities		58	–	58	42	–	42	118	–	118
Participants' contributions to Clearing House Funds		2,039	–	2,039	723	276	999	198	252	450
Provisions		28	29	57	33	26	59	36	25	61
Deferred tax liabilities		–	18	18	–	18	18	–	31	31
Total liabilities		39,160	47	39,207	36,985	320	37,305	55,220	308	55,528
Equity										
Share capital				1,078			1,076			1,075
Share premium				416			376			347
Shares held for Share Award Scheme				(219)			(52)			(65)
Employee share-based compensation reserve				56			43			47
Investment revaluation reserve				–			–			97
Designated reserves				580			563			552
Retained earnings	13			6,766			6,021			5,241
Shareholders' funds				8,677			8,027			7,294
Total liabilities and equity				47,884			45,332			62,822
Net current assets				6,374			5,710			7,177
Total assets less current liabilities				8,724			8,347			7,602

NOTES TO THE CONSOLIDATED ACCOUNTS

1. Basis of Preparation and Accounting Policies

These consolidated accounts have been prepared in accordance with HKFRSs issued by the HKICPA.

Early adoption of new / revised HKFRSs

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

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

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

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

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

Change in presentation of consolidated statement of financial position

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

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

Change in units of presentation of accounts

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

2. Turnover

Turnover consists of revenues from principal activities and is the same as Revenue in the consolidated income statement.

3. Operating Segments

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

The Group has 4 reportable segments which are managed separately as each business offers different products and services and requires different IT 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 DWs. Currently, the Group operates 2 Cash Market platforms, the Main Board and the GEM. The major sources of income of the business are trading fees, trading tariff and listing

fees. Results of the Listing Function are included in the Cash Market.

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

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

The **Market Data** (formerly Information Services) business is responsible for developing, promoting, compiling and sales of real-time, historical as well as statistical market data and issuer information. Its income comprises primarily market data fees of the Cash and Derivatives Markets.

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

	2010				
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Group \$m
Income from external customers	3,345	752	2,324	673	7,094
Net investment income	103	293	75	1	472
	3,448	1,045	2,399	674	7,566
Operating expenses					
Direct costs	629	162	319	61	1,171
Indirect costs	220	59	131	31	441
	849	221	450	92	1,612
Reportable segment profit before taxation	2,599	824	1,949	582	5,954
Interest income	19	102	16	–	137
Interest rebates to Participants	–	(2)	(2)	–	(4)
Depreciation	(49)	(17)	(38)	(3)	(107)
Other material non-cash items:					
Employee share-based compensation expenses	(20)	(4)	(9)	(3)	(36)
Reversal of provision for impairment losses	–	–	4	–	4
Additions to non-current assets other than financial assets and deferred tax assets	53	21	40	11	125

	2009				
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Group \$m
Income from external customers	2,905	704	2,110	695	6,414
Net investment income	129	339	152	1	621
	3,034	1,043	2,262	696	7,035
Operating expenses					
Direct costs	602	157	322	50	1,131
Indirect costs	175	51	111	25	362
	777	208	433	75	1,493
Reportable segment profit before taxation	2,257	835	1,829	621	5,542
Interest income	23	239	29	–	291
Interest rebates to Participants	–	(3)	–	–	(3)
Depreciation	(48)	(10)	(40)	(3)	(101)
Other material non-cash items:					
Employee share-based compensation expenses	(12)	(2)	(5)	(2)	(21)
Reversal of provision for impairment losses	1	–	–	–	1
Additions to non-current assets other than financial assets and deferred tax assets	7	23	4	1	35

- (a) The accounting policies of the reportable segments are the same as the Group's accounting policies. 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.
- (b) Geographical information

The Group's income from external customers is derived solely from its operations in Hong Kong. Its non-current assets (excluding financial assets and deferred tax assets) by geographical location are detailed below:

	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
Hong Kong	322	305
China	1	1
	323	306

- (c) Information about major customers

In 2010 and 2009, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's total revenue.

4. Other Revenue

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

5. Net Investment Income

	2010 \$m	2009 \$m
Interest income		
Available-for-sale financial assets		
– listed securities	–	7
– unlisted securities	–	162
	–	169
Loans and receivables		
– bank deposits	–	81
Financial assets measured at amortised cost		
– bank deposits	115	30
– listed securities	4	–
– unlisted securities	18	11
	137	41
Gross interest income	137	291
Interest rebates to Participants	(4)	(3)
Net interest income	133	288
Net fair value gains and interest income on financial assets at fair value through profit or loss		
<u>On designation</u>		
– exchange differences	–	2
<u>Held for trading</u>		
– listed securities	–	61
– unlisted securities	–	10
– exchange differences	–	90
	–	161
	–	163
Net fair value gains and interest income on financial assets mandatorily measured at fair value through profit or loss		
– listed securities	90	128
– unlisted securities	223	130
– bank deposits with embedded derivatives	15	1
– exchange differences	123	48
	451	307
Net fair value losses on financial liabilities mandatorily measured at fair value through profit or loss		
– listed securities	(6)	(3)
– exchange differences	(108)	(137)
	(114)	(140)
Losses on disposal of unlisted financial assets measured at amortised cost	(4)	–
Others	6	3
Net investment income	472	621

6. Other Operating Expenses

	2010 \$m	2009 \$m
Insurance	4	4
Financial data subscription fees	6	5
Custodian and fund management fees	11	11
Bank charges	15	13
Repair and maintenance expenses	11	10
License fees	16	15
Communication expenses	6	5
Overseas travel expenses	7	4
Contribution to Financial Reporting Council	4	3
Other miscellaneous expenses	27	37
	107	107

7. Taxation

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

	2010 \$m	2009 \$m
Provision for Hong Kong Profits Tax at 16.5 per cent (2009: 16.5 per cent)	918	837
Overprovision in respect of prior years	(2)	(6)
	916	831
Deferred taxation	1	7
	917	838

8. Dividends

	2010 \$m	2009 \$m
Interim dividend paid:		
\$1.89 (2009: \$1.84) per share	2,037	1,980
Less: Dividend for shares held by Share Award Scheme	(3)	(2)
	2,034	1,978
Final dividend proposed (notes (a) and (b)):		
\$2.31 (2009: \$2.09) per share based on issued share capital at 31 Dec	2,490	2,249
Less: Dividend for shares held by Share Award Scheme at 31 Dec	(4)	(1)
	2,486	2,248
	4,520	4,226

- (a) Actual 2009 final dividend paid was \$2,251 million (after eliminating \$1 million paid for shares held by the Share Award Scheme), of which \$3 million was paid for shares issued for employee share options exercised after 31 December 2009.
- (b) The final dividend proposed after 31 December has not been recognised as a liability at 31 December.
- (c) The 2010 final dividend will be payable in cash with a scrip dividend alternative subject to the permission of the SFC of the listing of and permission to deal in the new shares to be issued.

9. Earnings Per Share

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

(a) Basic earnings per share

	2010	2009
Profit attributable to shareholders (\$m)	5,037	4,704
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,076,404	1,074,704
Basic earnings per share (\$)	4.68	4.38

(b) Diluted earnings per share

	2010	2009
Profit attributable to shareholders (\$m)	5,037	4,704
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,076,404	1,074,704
Effect of employee share options (in '000)	1,743	3,246
Effect of Awarded Shares (in '000)	916	903
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,079,063	1,078,853
Diluted earnings per share (\$)	4.67	4.36

10. Financial Assets

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

	At 31 Dec 2010 \$m	At 31 Dec 2009 \$m
Clearing House Funds		
Cash and cash equivalents	2,155	1,280
Financial assets measured at fair value through profit or loss	359	410
Financial assets measured at amortised cost	130	51
	2,644	1,741
Margin Funds		
Cash and cash equivalents	12,418	8,707
Financial assets measured at fair value through profit or loss	5,954	8,673
Financial assets measured at amortised cost	4,323	2,854
Accounts receivable, prepayments and deposits	7	9
	22,702	20,243
Cash collateral		
Cash and cash equivalents	2,843	3,432
Financial assets measured at amortised cost	751	-
	3,594	3,432
	28,940	25,416

11. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement money obligations under the T+2 settlement cycle, which accounted for 90 per cent (31 December 2009: 92 per cent) of the total accounts receivable, prepayments and deposits. Continuous Net Settlement money obligations receivable mature within 2 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 3 months.

12. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's Continuous Net Settlement money obligations payable under T+2 settlement cycle, which accounted for 83 per cent (31 December 2009: 89 per cent) of the total accounts payable, accruals and other liabilities. Continuous Net Settlement money obligations payable mature within 2 days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within 3 months.

13. Retained Earnings (Including Proposed Dividend)

	2010 \$m	2009 \$m
At 1 Jan	6,021	5,241
Profit attributable to shareholders	5,037	4,704
Transfer to Clearing House Funds reserves	(17)	(11)
Dividends:		
2009/2008 final dividend	(2,251)	(1,935)
2010/2009 interim dividend	(2,034)	(1,978)
Unclaimed dividends forfeited	16	4
Vesting of shares of Share Award Scheme	(6)	(4)
At 31 Dec	6,766	6,021
Representing:		
Retained earnings	4,280	3,773
Proposed dividend	2,486	2,248
At 31 Dec	6,766	6,021

REVIEW OF 2010 CONSOLIDATED FINANCIAL STATEMENTS

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

DISTRIBUTABLE RESERVES

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

In the light of the publication of the Guidance, HKEx conducted a review of its approach to the determination of its “realised profits” and profits available for distribution (Distributable Reserves) and the payment of dividends. HKEx confirms that, on a consolidated basis, the Group has at all times previously had sufficient profits available for its past dividends. However, HKEx notes that, by reference to the Guidance, Merger Reserve is not distributable until it becomes a “realised profit” and, in respect of certain years, HKEx's individual unconsolidated financial statements technically did not have sufficient Distributable Reserves at the time of past dividend payments. This is because the declaration and payment of corresponding dividends by its operating subsidiaries to HKEx did not occur sufficiently early to be reflected in the relevant HKEx accounts. HKEx has addressed these issues in relation to the final dividend in respect of the 2010 financial year. In the light of the Guidance, HKEx will no longer treat the Merger Reserve as available for distribution except to the extent realised.

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

FINAL DIVIDEND

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

SCRIP DIVIDEND ALTERNATIVE

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

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

CLOSURE OF REGISTER OF MEMBERS

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

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

ANNUAL GENERAL MEETING

The 2011 AGM will be held on Wednesday, 20 April 2011. The Notice of the 2011 AGM which constitutes part of the circular to Shareholders will be sent together with the 2010 Annual Report. The Notice of the 2011 AGM and the proxy form will also be available on the HKEx website.

APPOINTMENT AND ELECTION OF DIRECTORS

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

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

On 2 March 2011, the Nomination Committee, in accordance with the Nomination Policy, nominated Dr Bill Kwok and Mr Vincent Lee to stand for election by Shareholders at the 2011 AGM. On the same day, the said nominations were accepted by the Board with Dr Kwok and Mr Lee each abstaining from voting on the proposition of himself for election by Shareholders. Dr Kwok and Mr Lee do not have any service contracts with any member of the Group that are not determinable by the Group within 1 year without compensation (other than statutory compensation); their particulars will be set out in the circular to Shareholders to be sent together with the 2010 Annual Report.

EMPLOYEES

As of 31 December 2010, the Group had 866 permanent employees (2009: 841) and 17 temporary employees (2009: 9). Recognising that quality and dedicated staff are valuable assets contributing to the Group's success, our remuneration policy is to ensure an equitable, performance-oriented, motivating and market-competitive remuneration package is offered to each of them. Our employee's remuneration package (including that of the Chief Executive) comprises fixed and variable components benchmarked against companies in the financial services sector. Employees' rewards are differentiated based on a 6-level performance rating scale. A performance development process is in place to help employees set performance objectives, focus on performance improvement and identify training and development opportunities. Information about employees' training will be set out in the 2010 CSR Report. Other benefits include the provident fund, medical insurance, dental insurance, life and personal accident insurance, employee compensation insurance and business travel insurance.

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

CORPORATE GOVERNANCE

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

For the 2011 AGM, apart from normal business, the Board has proposed to request general mandates to repurchase HKEx shares and to issue HKEx shares, to raise the remuneration of non-executive Directors and members of certain Board Committees, and to make certain amendments to HKEx's Articles for Shareholders' approval. Details will be set out in the circular to Shareholders to be sent together with the 2010 Annual Report.

PURCHASE, SALE OR REDEMPTION OF HKEX'S LISTED SECURITIES

In 2010, neither HKEx nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Exchange a total of 1,297,400 HKEx shares at a total consideration of \$188 million.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the HKExnews website at www.hkexnews.hk and the HKEx website at www.hkex.com.hk/eng/exchange/invest/results/2011Results.htm. The 2010 Annual Report will be available on the HKExnews and HKEx websites on or about Monday, 14 March 2011, and despatched to Shareholders on or about Thursday, 17 March 2011.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of Directors of HKEx comprises 12 INEDs, namely Mr Ronald Joseph ARCULLI (Chairman), Mrs CHA May-Lung, Laura, Mr CHAN Tze Ching, Ignatius, Dr CHENG Mo Chi, Moses, Dr CHEUNG Kin Tung, Marvin, Mr HUI Chiu Chung, Stephen, Dr KWOK Chi Piu, Bill, Mr LEE Kwan Ho, Vincent Marshall, Mr LEE Tze Hau, Michael, Mr John Estmond STRICKLAND, Mr John Mackay McCulloch WILLIAMSON and Mr WONG Sai Hung, Oscar, and one Executive Director, Mr LI Xiaojia, Charles, who is also the Chief Executive.

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

Hong Kong, 2 March 2011

Glossary

2010 Annual Report	HKEx's annual report for the year ended 31 December 2010
2011 AGM	HKEx's annual general meeting to be held on 20 April 2011
AMS/3	The Automatic Order Matching and Execution System/Third Generation
Awarded Shares	Shares awarded under the Share Award Scheme
Board	Board of HKEx
Cash Market	HKEx's securities related business excluding stock options
CBBC(s)	Callable Bull/Bear Contract(s)
CCASS	The Central Clearing and Settlement System
CCASS/3	The Latest Generation of CCASS
CG Code	Code on Corporate Governance Practices
CNS	Continuous Net Settlement
CSR	Corporate Social Responsibility
DCASS	The Derivatives Clearing and Settlement System
Derivatives Market	HKEx's derivatives related business including stock options
Director(s)	Director(s) of HKEx
DI	Disclosure of Interests
DW(s)	Derivative Warrant(s)
eIPO	Electronic IPO
Elected Director(s)	Director(s) elected by the Shareholders at general meetings
ELI(s)	Equity Linked Instrument(s)
EP(s) or Participant(s)	Exchange Participant(s)
ETF(s)	Exchange Traded Fund(s)
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of the HKSAR
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
FSTB	Financial Services and the Treasury Bureau
GEM	The Growth Enterprise Market
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKAS	Hong Kong Accounting Standard
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKEx's Articles	HKEx's Articles of Association
HKFRS(s)	Hong Kong Financial Reporting Standard(s)
HKICL	Hong Kong Interbank Clearing Limited
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSAR	Hong Kong Special Administrative Region of the People's Republic of China
HKSCC	Hong Kong Securities Clearing Company Limited
HKSI	Hong Kong Securities Institute
Hong Kong Government or Government	HKSAR Government
H-shares Index or HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index
ICAC	Independent Commission Against Corruption
INEDs	Independent Non-executive Directors

IP(s)	Investor Participant(s)
IPO(s)	Initial Public Offering(s)
ISIs	Investor SIs
IT	Information Technology
IV(s)	Information Vendor(s)
Listing Committees	Listing Committee and GEM Listing Committee
Listing Rules or Rule	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDF	The Market Datafeed
MDS	The Market Data System
MOU	Memorandum of Understanding
OTC	Over-the-counter
OTEPs	Options Trading Exchange Participants
PRC	People's Republic of China
PRS	The Price Reporting System
REITs	Real Estate Investment Trusts
RMB	Renminbi
ROM	Register of Members
SECH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
SIs	Settlement Instructions
Shareholders	Shareholders of HKEX
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006 and 13 May 2010
UK	United Kingdom
US	United States
USD	United States dollar
\$/HKD	Hong Kong dollar
\$bn/bn	Hong Kong dollar in billion/billion
\$m/m	Hong Kong dollar in million/million