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

2011 Corporate Governance Report

2011 CORPORATE GOVERNANCE REPORT

(Financial figures in this report are expressed in Hong Kong dollar)

Corporate Governance Principles and Practices

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

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

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

CG Code Compliance

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

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

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

2010-2012 Strategic Plan

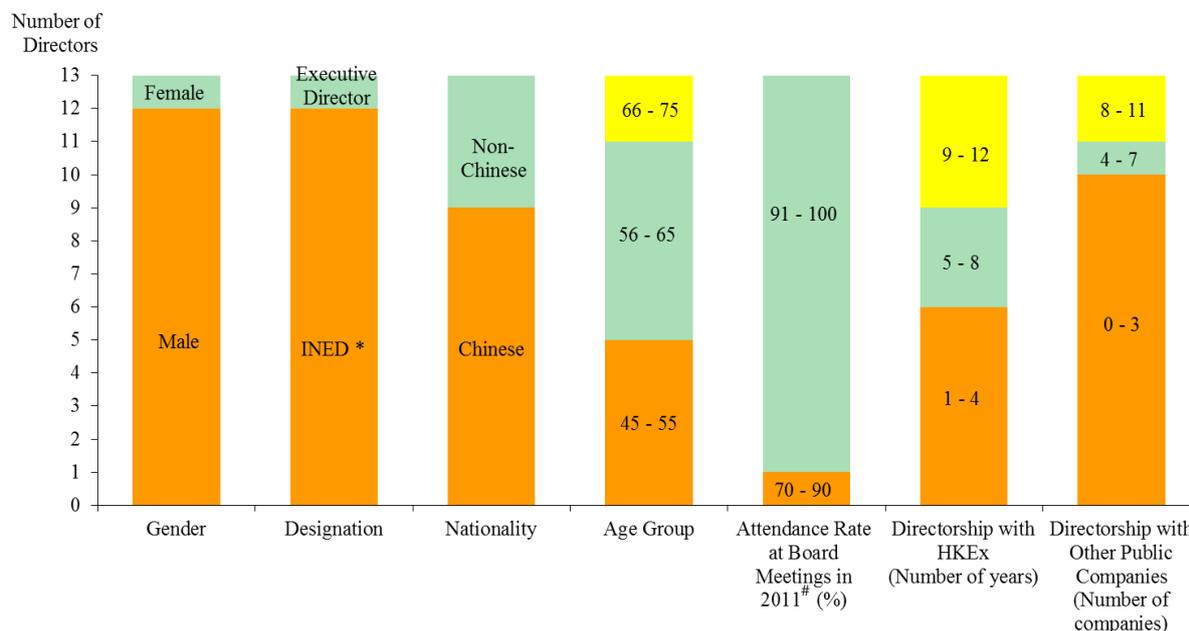
The Board plays an active role in the Group's strategy development and planning process. At the offsite meetings led by HKEx's Chief Executive held in April 2011 and January 2012, management presented to the Board for approval the proposed initiatives based on the 2010-2012 Strategy Plan for the year,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

2011 CORPORATE GOVERNANCE REPORT

The Board

Board Composition

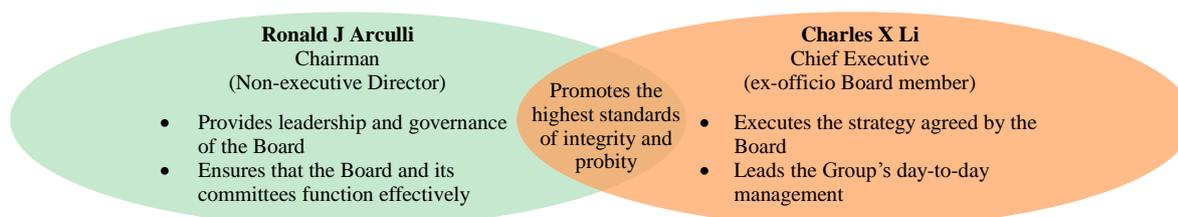
The Board structure is governed by Article 90 of HKEx's Articles and Section 77 of the SFO under which the Financial Secretary may appoint any person as a Government Appointed Director and the number of such shall not exceed the number of Elected Directors, excluding the Chief Executive. The Board currently comprises 13 members who are either professionals or financial experts. The list of Directors, their biographies (including their roles and functions at HKEx) and their respective terms of office are available on the HKEx website, and will be set out in the Board of Directors and Senior Management section of the 2011 Annual Report.



* 6 Government Appointed Directors and 6 Elected Directors
Including 1 offsite meeting

Chairman and Chief Executive

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



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

2011 CORPORATE GOVERNANCE REPORT

Roles and Responsibilities

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

Key non-routine matters addressed by the Board during 2011

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

2011 Board meeting dates and duration

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

Appointment and Election of Directors

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

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

2011 CORPORATE GOVERNANCE REPORT

Nomination of Candidates as Elected Directors

On 29 February 2012, the Nomination Committee (NC), taking into account the results of the Board performance evaluation 2011, confirmed that Messrs Ignatius Chan and John Williamson continue to contribute effectively and are committed to their roles. Accordingly, the NC, in accordance with the Nomination Policy, nominated Messrs Chan and Williamson to stand for election by Shareholders at the 2012 AGM. On the same day, the said nominations were accepted by the Board with Messrs Chan and Williamson each abstaining from voting on the proposition of himself for election by Shareholders. Messrs Chan and Williamson do not have any service contracts with any member of the Group that are not determinable by the Group within 1 year without compensation (other than statutory compensation), and their particulars will be set out in the circular to Shareholders to be sent together with the 2011 Annual Report.

Induction and Development

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

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

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

Independence of Non-executive Directors

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

2011 CORPORATE GOVERNANCE REPORT

Assessments of Non-executive Directors' independence for 2011

Assessment upon Director's appointment

Mr John Harrison, the Non-executive Director newly appointed in April 2011, confirmed in writing to the SFC upon his appointment –

- his independence with reference to the criteria affecting independence, as set out in Rule 3.13 of the Main Board Listing Rules; and
- he has no past or present financial or other interest in the Group's business and no connection with any of the Company's connected persons (as defined in the Main Board Listing Rules).

Annual assessment

On 29 February 2012, the NC held a meeting to assess the annual confirmation of independence received from each of the INEDs with reference to the factors as set out in Rule 3.13 of the Main Board Listing Rules.

- As a good corporate governance practice, every NC member abstained from assessing his own independence.
- Particular scrutiny was applied in assessing the continued independence of the Government Appointed Directors with 2 of them being Executive Councillors and the Government being one of the Company's Minority Controllers.
- Particular consideration was also applied in assessing Dr Bill Kwok, Mr Vincent Lee and Mr John Strickland who have been serving on the Board for more than 11 years.
- Mr Ronald Arculli is a senior partner of King & Wood - Hong Kong Office. In July 2011, a wholly-owned HKEx's subsidiary, HKEx Information Services Limited (HKEx-IS), appointed King & Wood - Shanghai Office (K&W-SO) as its PRC legal counsel to advise on the legal issues relating to the establishment of a subsidiary in Shanghai. The legal fee incurred for the year ended 31 December 2011 was \$266,765.81. Taking into account that K&W-SO was selected under a fair and established quotation process, and that the services provided by K&W-SO were on normal commercial terms and in the ordinary course of HKEx-IS' business, the NC affirmed that Mr Arculli remains independent.
- In addition, the NC affirmed that all INEDs provided a strong independent element on the Board, were free from any business or other relationship which could materially interfere with the exercise of their judgement, and remained independent for the year ended 31 December 2011.

Ongoing assessment

- Each INED is required to inform the Company as soon as practicable if there is any change in his or her own personal particulars that may affect his or her independence. No such notification was received during 2011.
- All Directors do not have any financial, business, family or other material/relevant relationships with each other. In particular, there are none between HKEx's Chairman and Chief Executive.
- Details of the Directors' interests in the Group's business are set out in the Continuing Connected Transactions and Material Related Party Transactions sections of this report.

Board Process

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

2011 CORPORATE GOVERNANCE REPORT

Key features of Board process in 2011

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

Attendance record of Directors and Committee Members in 2011

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

Notes:

- 1 Including 1 offsite meeting
- 2 Renamed from the CSR Committee effective 21 April 2011
- 3 Mr Arculli was appointed the chairman, and Mrs Cha was appointed a member of the ESG Committee on 21 April 2011.
- 4 Dr Cheung retired from the Board and the committees on 20 April 2011.
- 5 Mr Harrison was appointed a Board member on 20 April 2011, and the chairman of the Audit Committee, and a member of the ESG Committee and Remuneration Committee on 21 April 2011.

2011 CORPORATE GOVERNANCE REPORT

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

Performance Evaluation

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

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

Delegation by the Board

Board Committees

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

Consequent upon the HKExnews website services disruption on 10 August 2011, the Board, in September 2011, established an ad hoc Review Committee for the purposes of reviewing HKEx's IT security plans and the existing contingency measures with the aim of ensuring uninterrupted, fair and even distribution of market information for maintaining an orderly and open market. The Review Committee comprises 3 Board members, namely Mr Ronald Arculli, Dr Bill Kwok and Mr John Williamson, as well as 3 advisors who have extensive knowledge of the financial industry and strong expertise in IT, namely Messrs Raymond Cheng, Tan Yong Wah, and Carlson Tong. External IT security specialists have been commissioned to give professional advice to the Review Committee. The Review Committee convened 2 meetings in 2011 (with an attendance rate of 83 per cent) to (i) review the

2011 CORPORATE GOVERNANCE REPORT

HKExnews website services disruption, (ii) assess the adequacy of the immediate interim technical measures taken to enhance the resilience of the HKExnews website, and (iii) conduct a comprehensive review covering all HKEx's externally connected systems to assess the potential risk, security management framework and security infrastructure.

The Committees' terms of reference are reviewed and updated regularly to ensure they continue to be at the forefront of best practice, and they are available on the HKEx website. Committee's membership is reviewed by the Board annually. The member lists of the Committees are available on the HKEx website, and will be set out in the Board and Committees section of the 2011 Annual Report. The attendance record of Committee members is shown on page 7 of this report.

The Nomination Committee

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

Major accomplishments in 2011

- Nominated Dr Bill Kwok and Mr Vincent Lee for the Board's recommendation to stand for election by Shareholders at the 2011 AGM
 - Reviewed and confirmed the independence of the 12 INEDs for the year ended 31 December 2010
-

Consultative Panels

In addition to the Board Committees, there are 3 Consultative Panels, namely the Cash Market Consultative Panel, Derivatives Market Consultative Panel, and Clearing Consultative Panel established by the Board.

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

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

Management Functions

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

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

2011 CORPORATE GOVERNANCE REPORT

Major changes to organisational structure

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

The list of Senior Management and their biographies will be set out in the Board of Directors and Senior Management section of the 2011 Annual Report.

Company Secretary

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

Remuneration of Directors and Senior Management

A formal and transparent procedure for fixing the remuneration packages of individual Directors and Senior Management is in place. Details of remuneration policies and other relevant information are set out in the 2011 Remuneration Committee Report.

Directors' Securities Transactions and Interests in HKEx

Compliance with Model Code

HKEx has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the Model Code throughout the year ended 31 December 2011.

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

As at 31 December 2011, the interests and short positions of Directors and HKEx's Chief Executive in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code are set out below.

2011 CORPORATE GOVERNANCE REPORT

Long positions in shares and underlying shares of HKEx

Name of Director	Number of shares/underlying shares held				Total	% of the issued ¹ share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Charles X Li	188,858 ²	–	–	–	188,858	0.01
John E Strickland	18,000 ³	–	–	–	18,000	0.00

Notes:

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

Save for those disclosed above, as at 31 December 2011, none of the Directors or HKEx's Chief Executive had any interests or short positions in the shares, underlying shares or debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code.

Apart from the Awarded Shares as disclosed in the 2011 Remuneration Committee Report, none of the Directors or HKEx's Chief Executive (including their spouses and children under the age of 18), during the year ended 31 December 2011, held any interests in or was granted any right to subscribe for the securities of HKEx and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

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

Minority Controllers

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

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

As at the date of this report, the SFC has granted approval to 8 entities to be Minority Controllers on the basis that the shares are held by them in custody for their clients. According to the Participant Shareholding Report as at 31 December 2011, the 8 approved Minority Controllers in aggregate held approximately 59 per cent of HKEx's issued share capital.

2011 CORPORATE GOVERNANCE REPORT

As at 31 December 2011, other persons' interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange are set out below.

Long positions in shares and underlying shares of HKEx

Name	Capacity	Number of shares /underlying shares held	Total	% of the issued ¹ share capital
Deutsche Bank Aktiengesellschaft	Beneficial owner	41,479,449	81,296,028 ²	7.52
	Investment manager	1,861,935		
	Person having a security interest in shares	36,429,835		
	Custodian corporation/ approved lending agent	1,524,809		
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	62,919,500 ³	62,919,500	5.82

Short positions in shares and underlying shares of HKEx

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

Notes:

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

Save for those disclosed above, as at 31 December 2011, no other persons had any interests or short positions in the shares or underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange.

Senior Management

Senior Management are obliged to strictly follow the Company's restrictions on dealing in securities, futures contracts and derivatives, which are on terms no less stringent than the Model Code, as set out in the Human Resources Manual. As at 31 December 2011, Senior Management's interests in the shares and underlying shares of HKEx are set out below.

2011 CORPORATE GOVERNANCE REPORT

Name of employee	Number of shares held	Number of shares issuable under share options granted	Number of [*] Awarded Shares	Derivatives (number of underlying shares)
Gerald D Greiner	57,853	125,000	104,921	–
Mark F Dickens	15,901	–	113,631	–
Lawrence K M Fok	1,011,312	–	8,007	–
Kevin T King	–	–	6,361	–
Romnesh Lamba	–	–	80,539	–
Henry M W Law	87,403	–	35,987	–
Christine O M Wong	2,500	–	37,635	–
Samuel S F Wong	–	–	21,899	–

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

Continuing Connected Transactions

In June 2000, the SFC granted a waiver (Waiver) to HKEx from strict compliance with the Main Board Listing Rules with respect to certain continuing connected transactions as referred to in (A), (B) and (C) below. The Waiver has since then remained valid. During the year ended 31 December 2011 and subject to the Waiver, the Group had the following continuing connected transactions.

Continuing connected transactions for the year ended 31 December 2011

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

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

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

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

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

- (a) Dr Bill Kwok, an INED, was interested in the Buy-in Transactions entered into by WSL which is Dr Kwok's associate by virtue of the Main Board Listing Rules. For the year ended 31 December 2011, the total consideration of such transactions, being the brokerage commission earned by WSL, amounted to \$68,895.

2011 CORPORATE GOVERNANCE REPORT

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

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

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

Material Related Party Transactions

During the year ended 31 December 2011, the Group also entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of these material related party transactions are disclosed in note 44 to the Consolidated Financial Statements for the year ended 31 December 2011.

Accountability and Audit

Financial Reporting

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

2011 CORPORATE GOVERNANCE REPORT

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

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

Internal Controls and Their Effectiveness

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

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

Key control measures undertaken for 2011

- A clear organisational structure with defined responsibilities was established and further refined in 2011 to align with the Strategic Plan 2010-2012 as set out under the Management Functions section of this report.
 - Different policies, procedures and guidelines have been adopted with defined authority for effective segregation of duties and controls, and are kept under regular review. For example, the Board approved the revised Expense Approval Guide to streamline certain approval requirements for improving operational efficiency.
 - All division/department Heads confirmed that appropriate internal control policies and procedures had been established and properly complied with in 2011.
 - The Risk Management Division continued to identify and assess risks on different areas across the organisation using a common platform and standardised process. More information in this regard will be set out in the Business Review section of the 2011 Annual Report.
 - Information about the Group's management of its financial risks is set out in note 47 to the Consolidated Financial Statements for the year ended 31 December 2011.
 - An Escalation and Incident Reporting Policy is in place to facilitate swift action and timely communication with stakeholders. Under the policy, the hacking incident on the HKExnews website happened in August 2011 was reported to the Board, the SFC and the Risk Management Committee to ensure that listed issuers and the public were informed of the incident in a timely manner and the follow-up measures shortly after the incident.
 - Guidelines on reporting and disseminating price-sensitive information, maintaining confidentiality and dealing restrictions are in place for employees to follow. The Company Secretary closely monitored the legislative progress on the statutory codification of certain requirements to disclose price-sensitive information as formulated in the Securities and Futures (Amendment) Bill 2011, to ensure compliance with obligations under applicable rules, regulations and laws.
 - A Whistle-blowing Policy is in place to facilitate internal reporting on any malpractice without fear of reprisal or victimisation. A review of the policy was conducted in 2011, and it was concluded that the policy was comprehensive and working well.
 - The Group's IT systems are subject to independent reviews to ensure their integrity, reliability, availability and stability. The reviews of CCASS/3, AMS/3.8 and MDS/3.8 completed in 2011 have re-affirmed that the Group's cash market systems are managed and operated at a high standard of compliance with international best practices.
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2011 CORPORATE GOVERNANCE REPORT

Internal Audit

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

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

Assessment of Internal Control System

The AC, on behalf of the Board, assesses the effectiveness of the internal control system in detecting fraud and other irregularities on a regular basis by reviewing the IAD's work and findings.

More information about the AC's work in 2011 and its review of the Group's internal control system, and accounting and financial reporting function will be set out in the Audit Committee Report of the 2011 Annual Report.

Independence of External Auditor

The AC is mandated to monitor the independence of the external auditor to ensure true objectivity in the financial statements. Prior to the commencement of the audit of the Group's 2011 financial statements, the AC received written confirmation from the external auditor on its independence and objectivity. The external auditor is refrained from engaging in non-assurance services except for limited tax-related services or specifically approved items. The AC reviews the external auditor's statutory audit scope and non-audit services and approves its fees. Details of the external auditor's fees are set out in note 13 to the Consolidated Financial Statements for the year ended 31 December 2011.

Pursuant to the Group's 5-year rotation policy, the engagement partner of the external auditor was last rotated in 2010. The Group has also adopted a policy of not hiring employees of the external auditor who are or have been involved in the Group's audit so as to ensure no impairment of the auditor's judgement and independence with respect to an audit. These policies have been strictly complied with since their adoption.

More information about the external auditor's responsibilities will be set out in the Auditor's Report of the 2011 Annual Report.

Shareholder Relations

Shareholder Engagement

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

2011 CORPORATE GOVERNANCE REPORT

Key shareholder engagement

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

The Company also maintains an ongoing, active dialogue with institutional shareholders. Our Investor Services Team under the Corporate Communications Department is the focal point of contact for investors and analysts. Information about the key investor relations activities conducted during 2011 is set out in the 2011 CSR Report which will be available on the HKEx website on or about 15 March 2012.

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

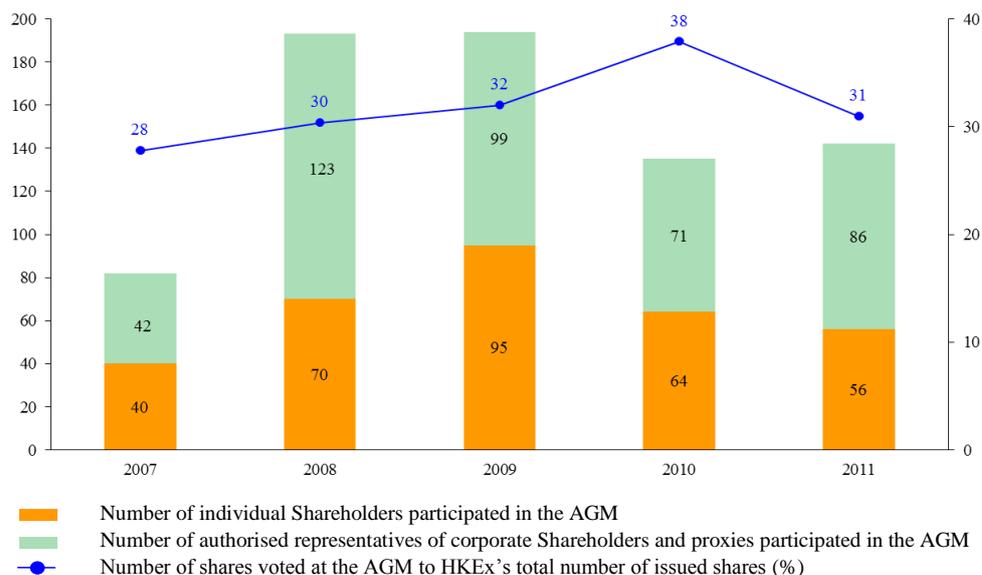
The Board always ensures that Shareholders' and stakeholders' views are heard and understood, and welcomes their questions and concerns relating to the Group's management and governance. Shareholders and other stakeholders may at any time send their enquiries and concerns to the Board by addressing them to Company Secretary by post or email at ssd@hkex.com.hk. The contact details will be set out in the Information for Stakeholders section of the 2011 Annual Report.

2011 Annual General Meeting

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

2011 CORPORATE GOVERNANCE REPORT

Participation in annual general meetings



Moreover, all Directors, including the Chairman (who was also the chairman of the Remuneration Committee and the NC) and the chairman of the AC, together with key executives and the external auditor attended the 2011 AGM. HKEx continued with the procedure of proposing a separate resolution for each substantive issue, including the election of individual Directors. The poll voting results and the minutes of the meeting are available on the HKEx website. The matters resolved thereat are summarised below.

Matters resolved at the 2011 AGM

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

2011 CORPORATE GOVERNANCE REPORT

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

2012 Annual General Meeting

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

Apart from normal business, the Board has proposed to request general mandates to repurchase HKEx shares and to issue HKEx shares, and to raise the remuneration of Non-executive Directors (including the Chairman) and members (excluding the Executive Director) of certain Board Committees at the 2012 AGM. Further details will be set out in the circular to Shareholders to be sent together with the 2011 Annual Report.

Corporate Governance Recognition

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

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

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

2011 CORPORATE GOVERNANCE REPORT

Changes after Closure of Financial Year

This report takes into account the changes that have occurred since the end of the 2011 to the date of approval of this report.

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

Hong Kong, 29 February 2012

2011 CORPORATE GOVERNANCE REPORT

Board of Directors

As at 29 February 2012, the Board comprises 12 INEDs, namely Mr Ronald Joseph ARCULLI (Chairman), Mrs CHA May-Lung, Laura, Mr CHAN Tze Ching, Ignatius, Dr CHENG Mo Chi, Moses, Mr John Barrie HARRISON, 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 HKEx's Chief Executive.

Glossary

2011 Annual Report	HKEx's annual report for the year ended 31 December 2011 (which will be available on the HKEx website on or about 15 March 2012)
2011 AGM	Annual general meeting held on 20 April 2011 at 4:30 pm at the Exchange Auditorium in the Exchange Exhibition Hall of the Stock Exchange
2012 AGM	Annual general meeting to be held on 23 April 2012
AGM	HKEx's annual general meeting
AMS/3	The Automatic Order Matching and Execution System/Third Generation
Awarded Shares	Shares awarded under the Share Award Scheme
Board	HKEx's board of directors
CCASS	The Central Clearing and Settlement System
CG Code	Code on Corporate Governance Practices
CP(s)	Clearing Participant(s)
CSR	Corporate Social Responsibility
Director(s)	HKEx's director(s)
Elected Directors	Directors elected by the Shareholders at general meetings
EP(s) or Participant(s)	Exchange Participant(s)
ESG	Environmental, Social and Governance
Exchange or Stock Exchange	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of the Hong Kong Special Administrative Region of the PRC
Government	Government of the Hong Kong Special Administrative Region of the PRC
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKEx's Articles	HKEx's Articles of Association
HKSCC	Hong Kong Securities Clearing Company Limited
HKICPA	Hong Kong Institute of Certified Public Accountants
INED(s)	Independent Non-executive Director(s)
IT	Information Technology
Main Board Listing Rules or Rule	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDS	The Market Data System
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
OTC	Over-the-counter
PRC	People's Republic of China
RMB	Renminbi
Senior Management	HKEx's senior executives as referred to in the 2011 Annual Report
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	HKEx's shareholders
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006 and 13 May 2010