



Hong Kong Exchanges and Clearing Limited  
香港交易及結算所有限公司

# Quarterly Report 2010

For the nine months ended 30 September

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(Financial figures in this quarterly report are expressed in HKD unless otherwise stated)

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# FINANCIAL HIGHLIGHTS

	Nine months ended 30 Sept 2010	Nine months ended 30 Sept 2009	Change	Three months ended 30 Sept 2010	Three months ended 30 Sept 2009	Change
<b>KEY MARKET STATISTICS</b>						
Average daily turnover value on the Stock Exchange (\$bn)	63.1	61.3	3%	61.8	66.7	(7%)
Average daily number of derivatives contracts traded on the Futures Exchange	212,953	210,503	1%	204,094	204,637	(0%)
Average daily number of stock options contracts traded on the Stock Exchange	219,892	193,147	14%	216,830	168,876	28%

	Nine months ended 30 Sept 2010 \$m	As restated Nine months ended 30 Sept 2009 \$m	Change	Three months ended 30 Sept 2010 \$m	As restated Three months ended 30 Sept 2009 \$m	Change
<b>RESULTS</b>						
Revenue and other income	5,291	5,163	2%	1,837	1,824	1%
Operating expenses	1,178	1,140	3%	402	380	6%
Profit before taxation	4,113	4,023	2%	1,435	1,444	(1%)
Taxation	(635)	(610)	4%	(215)	(218)	(1%)
Profit attributable to shareholders	3,478	3,413	2%	1,220	1,226	(0%)
Basic earnings per share	\$3.23	\$3.18	2%	\$1.13	\$1.14	(1%)
Diluted earnings per share	\$3.22	\$3.16	2%	\$1.13	\$1.14	(1%)

	At 30 Sept 2010	At 31 Dec 2009	Change
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## KEY ITEMS IN CONDENSED CONSOLIDATED

### STATEMENT OF FINANCIAL POSITION

Shareholders' funds (\$m)	7,196	8,027	(10%)
Total assets <sup>1</sup> (\$m)	57,239	45,332	26%
Net assets per share <sup>2</sup> (\$)	6.68	7.46	(10%)

Notes:

- The Group's total assets include the Margin Funds received from Participants on futures and options contracts.
- Based on 1,076,645,780 shares as at 30 September 2010, being 1,078,074,346 shares issued and fully paid less 1,428,566 shares held for the Share Award Scheme (31 December 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).

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# BOARD AND COMMITTEES

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## Board

### Independent Non-executive Chairman

Ronald Joseph ARCULLI \* <sup>1</sup> GBM, GBS, JP

### Executive Director, Chief Executive

CHOW Man Yiu, Paul <sup>2</sup> GBS, JP

LI Xiaojia, Charles <sup>3</sup>

### Independent Non-executive Directors

CHA May-Lung, Laura \* <sup>4</sup> GBS, JP

CHAN Tze Ching, Ignatius BBS, JP

CHENG Mo Chi, Moses \* <sup>4</sup> GBS, JP

CHEUNG Kin Tung, Marvin \* GBS, JP

HUI Chiu Chung, Stephen \* JP

KWOK Chi Piu, Bill JP

LEE Kwan Ho, Vincent Marshall

LEE Tze Hau, Michael \*

John Estmond STRICKLAND <sup>5</sup> GBS, JP

John Mackay McCulloch WILLIAMSON

WONG Sai Hung, Oscar <sup>5</sup>

## Committees

### Audit Committee

CHEUNG Kin Tung, Marvin (Chairman)

LEE Kwan Ho, Vincent Marshall (Deputy Chairman)

CHAN Tze Ching, Ignatius

CHENG Mo Chi, Moses <sup>6</sup>

KWOK Chi Piu, Bill <sup>7</sup>

John Mackay McCulloch WILLIAMSON

### Executive Committee

Ronald Joseph ARCULLI <sup>8</sup> (Chairman)

CHOW Man Yiu, Paul <sup>2</sup>

KWOK Chi Piu, Bill

LEE Kwan Ho, Vincent Marshall

LI Xiaojia, Charles <sup>3</sup>

John Mackay McCulloch WILLIAMSON

### Investment Advisory Committee

John Estmond STRICKLAND <sup>9</sup> (Chairman)

WONG Sai Hung, Oscar <sup>9</sup> (Deputy Chairman)

HUI Chiu Chung, Stephen

LEE Tze Hau, Michael

LUI Yin Tat, David

## Committees (continued)

### Nomination Committee

Ronald Joseph ARCULLI <sup>9</sup> (Chairman)

CHAN Tze Ching, Ignatius

CHENG Mo Chi, Moses <sup>9</sup>

John Estmond STRICKLAND <sup>9</sup>

WONG Sai Hung, Oscar <sup>9</sup>

### Panel Member Nomination Committee

CHA May-Lung, Laura <sup>9</sup> (Chairman)

KWOK Chi Piu, Bill

LEE Kwan Ho, Vincent Marshall

LEE Tze Hau, Michael

WONG Sai Hung, Oscar <sup>9</sup>

### Remuneration Committee

Ronald Joseph ARCULLI <sup>9</sup> (Chairman)

CHA May-Lung, Laura <sup>9</sup>

CHENG Mo Chi, Moses <sup>9</sup>

LEE Kwan Ho, Vincent Marshall

John Mackay McCulloch WILLIAMSON

### Risk Management Committee <sup>Δ</sup>

Ronald Joseph ARCULLI <sup>8</sup> (Chairman)

CHAN Ka-lok \*\*

CHEUNG Kin Tung, Marvin

FONG Hup \*\*

HUNG Pi Cheng, Benjamin \*\* <sup>10</sup>

KWOK Chi Piu, Bill

LAU Ying Pan, Edmond \*\*

LUI Kei Kwong, Keith \*\*

Mark Seumas McCOMBE \*\* <sup>11</sup>

WONG Tung Shun, Peter \*\* <sup>12</sup>

### Corporate Social Responsibility Committee

LI Xiaojia, Charles <sup>3</sup> (Chairman)

CHOW Man Yiu, Paul <sup>2</sup> (ex-Chairman)

CHOW Lok Sum, Eddie <sup>13</sup>

Peter Joseph CURLEY <sup>14</sup>

LEE Kwok Keung, Roger <sup>15</sup>

MAU Kam Shing, Joseph

WONG Kwok Kuen, Alfred <sup>16</sup>

YEN Tai Mui, Brenda

## Company Secretary

MAU Kam Shing, Joseph

Notes:

\* Government Appointed Directors

\*\* Appointed by the Financial Secretary

Δ Established under Section 65 of the SFO

<sup>1</sup> Re-appointed as Director and Chairman on 22 and 27 April 2010 respectively

<sup>2</sup> Retired on 16 January 2010

<sup>3</sup> Appointment effective 16 January 2010

<sup>4</sup> Re-appointment effective 22 April 2010

<sup>5</sup> Re-elected on 22 April 2010

<sup>6</sup> Appointment ceased effective 23 April 2010

<sup>7</sup> Appointment effective 23 April 2010

<sup>8</sup> Re-appointment effective 27 April 2010

<sup>9</sup> Re-appointment effective 23 April 2010

<sup>10</sup> Appointment ceased effective 20 January 2010

<sup>11</sup> Appointment effective 28 July 2010

<sup>12</sup> Appointment for the period from 20 January to 27 July 2010

<sup>13</sup> Retired on 1 June 2010

<sup>14</sup> Appointment ceased effective 1 August 2010

<sup>15</sup> Appointment effective 1 September 2010

<sup>16</sup> Retired on 1 September 2010

## Other Changes in Directors' Information

Other changes in Directors' information after the date of the 2010 Interim Report are set out below.

	Appointment (effective)	Cessation of Office (effective)
<b>Ronald J Arculli</b>		
• World Federation of Exchanges	–	12 Oct 2010
– vice-chairman		
– chairman	12 Oct 2010	–
<b>Laura M Cha</b>		
• Bank of Communications Co Ltd – non-executive director	–	19 Aug 2010
<b>Ignatius T C Chan</b>		
• Mongolian Mining Corporation – non-executive director	16 Sept 2010	–
• CVC Capital Partners Limited – senior adviser	1 Nov 2010	–
<b>Moses M C Cheng</b>		
• ARA Asset Management (Fortune) Limited – non-executive director	–	1 Sept 2010
<b>Vincent K H Lee</b>		
• Tung Tai Group of Companies		
– managing director	–	18 Oct 2010
– chairman	18 Oct 2010	–
<b>Charles X Li</b>		
• Shanghai Pudong Development Bank Co Ltd – non-executive director	–	20 Sept 2010
<b>John E Strickland</b>		
• Integrated Distribution Services Group Limited – non-executive director	–	1 Nov 2010

Directors' updated biographies are available on the HKEx website.

Save for those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B (1) of the Main Board Listing Rules.

## Listing

### Consultations on Proposed Changes to Listing Rules

On 10 September 2010, HKEx published 2 consultation papers, namely: (i) a proposed change in the minimum number of shareholders required for applicants listing under the Market Capitalisation / Revenue Test of the Main Board Listing Rules from 1,000 to 300 shareholders; and (ii) proposals to relax the Listing Rules on notifiable and connected transactions in which property developers acquire government land through public auctions or tenders in their ordinary and usual course of business, and the Rules on the treatment of joint ventures. Both consultations will end on 12 November 2010.

### Report on Listed Issuers' Corporate Governance Practices Disclosure and Review of CG Code

On 24 September 2010, HKEx published the findings of its fourth review of listed issuers' corporate governance practices, which analysed corporate governance disclosure in the 2009 annual reports of a representative sample of 132 issuers. In addition to the areas covered in the previous reviews, the fourth review also analysed issuers' practice on setting up board committees such as nomination committee, remuneration committee and corporate governance committee. The Stock Exchange will use the results of the analysis in the current review of the CG Code. A market consultation on proposed changes to the CG Code will be conducted before the end of 2010.

### Review of Other Proposals

The Exchange continues to work with the SFC on the joint consultation conclusions on the issue of paper application forms with electronic listing documents. Other policy matters under review include: (i) possible guidelines on environmental and social reporting; (ii) current property valuation requirements; (iii) requirements for listing of debt issues for professionals only; (iv) amendments to the proposed statutory backing of the continuing disclosure obligations of the Listing Rules; and (v) amendments to the Listing Rules arising from the SFC's consultations on structured products and selling practices, and reforms to the prospectus regime.

## Cash Market

### Market Performance

In the first nine months of 2010, 54 companies (including 7 transferred from GEM) and 4 companies were newly listed on the Main Board and GEM respectively, and 5 Main Board and 7 GEM companies were delisted. Total capital raised reached \$335.8 billion (including funds raised through IPOs of \$160.4 billion). As at 30 September 2010, 1,194 and 171 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about \$19,687 billion. In addition, there were 4,348 DWs, 974 CBBCs, 8 REITs, 66 ETFs and 160 debt securities listed as at 30 September 2010. The average daily turnover in the first nine months of 2010 was about \$62.6 billion on the Main Board and about \$0.5 billion on GEM.

## 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 be submitted through the ECP and the reported stamp duty amounts will be directly debited from the EP's Designated Bank Account. HKEx estimates over 120,000 paper stamp duty submissions and 100,000 paper cheques will be eliminated each year as a result of the automation.

## Proposed Changes to Trading Hours

On 17 September 2010, HKEx published a consultation paper to seek public views on proposed changes to the trading hours of its securities and derivatives markets. HKEx believes that extended trading hours would enhance its price discovery function for Mainland-related securities and strengthen its competitiveness in the region. The consultation ended on 29 October 2010 and the review of the responses is underway.

## Trading and Clearing of RMB Products

HKEx has undertaken a series of initiatives to help EPs prepare for the trading and clearing of RMB denominated products, such as offering system testing sessions and establishing a designated corner on the HKEx website with frequently asked questions and checklists for EPs' reference. HKEx will continue to work with EPs and other market participants to assist them in their preparation for RMB business.

## ETF Market Development

In the third quarter of 2010, a total of 4 ETFs (3 tracking Mainland A-share indexes and 1 tracking a Greater China Region index) were newly listed. Since the end of last year, the total number of ETFs listed on the Stock Exchange has increased by 53 per cent to 66, including 24 ETFs on Mainland A-share indexes.

## Derivatives Market

### Market Performance

The turnover of all futures and options for the first nine months of 2010 was 80,076,390 contracts, an increase of 7 per cent against the same period in 2009. On 30 September 2010, the open interest for all futures and options was 5,727,067 contracts, up 33 per cent from that of the end of 2009.

In the third quarter of 2010, record daily volume and open interest were achieved for various products, as highlighted below.

Product	Record High Volume		Record High Open Interest	
	Date	Number of Contracts	Date	Number of Contracts
Mini-HSI Options	N/A	N/A	28 Sept 2010	13,064
Flexible HSI Options	12 Jul 2010	2,847	9 Jul 2010	2,847
Flexible H-shares Index Options	5 Aug 2010	1,032	25 Aug 2010	1,032
Gold Futures	N/A	N/A	15 Jul 2010	301

### New Options

HKEx introduced options on the iShares FTSE/Xinhua A50 China Index ETF and options on the WISE CSI 300 China Tracker for trading on 12 July 2010 and options on shares of Agricultural Bank of China on 16 July 2010, the shares' listing day. As of 30 September 2010, there were 54 stock options classes available for trading at HKEx.

## Introduction of Dividend Futures

To offer exchange-traded derivatives for hedging and managing dividend exposure of index-linked products, HKEx introduced HSI Dividend Point Index Futures and the HSCEI Dividend Point Index Futures on 1 November 2010. These futures contracts, which measure the total cash dividend value of all constituent stocks of the respective underlying indexes, complement HKEx's stock index futures and options markets.

## Clearing

### 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 the Hong Kong Interbank Clearing Limited (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. The modified T+2 finality arrangement for CCASS money settlement is expected to be implemented in the third quarter of 2011.

### CCASS Money Settlement in RMB

On 13 September 2010, HKEx with the support from the Hong Kong Monetary Authority and HKICL launched a settlement service for RMB transactions, which facilitates the distribution of dividends in RMB and prepares for the listing of RMB products on the Stock Exchange. At the end of September 2010, a total of 22 banks were admitted as CCASS Designated Banks to provide RMB settlement services to CCASS Participants.

## 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. A consultation focusing on the framework for regulating the scripless environment will be conducted in early 2011, and the first pilot run of the scripless regime is expected to commence in late 2013.

## Participant Services

### Participant Training and Market Education

For the nine months ended 30 September 2010, 40 courses were organised for over 600 participants from EPs to familiarise them with the operation of HKEx's trading and clearing systems and the relevant rules and procedures. HKEx also conducted 35 EP briefing sessions and 7 seminars on derivatives which had a total of over 3,400 attendees.

HKEx and 8 EPs have launched a joint promotional programme on stock options, which includes training for EPs' staff and seminars for retail investors to raise their awareness of and increase retail participation in HKEx's stock options market. The joint effort started in July 2010 and ends in December 2010. As at the end of September 2010, over 750 individuals had enrolled in the programme.

## **EP Recruitment**

In the first nine months of 2010, 16 SEHK Participants and 12 HKFE Participants from the Mainland and overseas, including firms from Australia, France, Japan, Russia, Taiwan, the United Kingdom and the United States, were newly admitted.

As at the end of September 2010, there were 508 SEHK Participants and 177 HKFE Participants. For HKSCC, there were 23,604 CCASS Participants, including 8 Direct Clearing Participants and 947 IPs newly admitted in the first nine months of 2010.

## **Market Data**

### **Marketing Programme in the Mainland**

To enhance the distribution of HKEx market data in the Mainland, a marketing programme for television distribution of real-time market data was introduced on 1 April 2010. As at the end of September 2010, licences had been granted to 2 Mainland television stations. The third application is being processed.

### **Discount Programme for Mainland Users of HKEx's Real-time Trading Information**

The discount programme for Mainland users of HKEx's real-time securities trading information (which was due to end in December 2010) will continue with the current fees of \$80 per month (retail clients) / \$120 per month (corporate clients) until 31 December 2011.

### **Streamlining of Licensing Process**

HKEx will implement a single licence regime for IVs in the fourth quarter of 2010, aiming to align the contracts, policies and fees structure for its securities and derivatives market data and to consolidate the current market data licence agreements into a single licence agreement to accommodate multiple datafeed products.

## **Risk Management**

### **Market Contingency Rehearsal**

On 8 May 2010, HKEx joined the Market Contingency Rehearsal Exercise 2010, a cross-financial sector activity led by the Financial Services and the Treasury Bureau (FSTB) of the Hong Kong Government. 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.

### **Market Surveillance**

Under the MOU between the SFC and HKEx on matters relating to market surveillance, HKEx referred a total of 12 cases 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 the nine months ended 30 September 2010.

## **Information Technology**

### **Production Systems' Stability and Reliability**

During the first nine months of 2010, all major trading, clearing and settlement and market data dissemination systems for the markets operated by HKEx remained stable and continued to perform reliably.

## System Upgrade and Enhancement

HKEx continues to upgrade its systems to capture new business opportunities and achieve sustainable competitiveness. The enhancements include: (i) modification of AMS/3 and CCASS/3 to support the trading and settlement of RMB in September 2010; (ii) capacity upgrade of HKATS by 250 per cent to 21,000 orders per second in October 2010; (iii) increasing the stock pages update rate of MDS to 1,000 per second by late 2010; (iv) increasing the DCASS capacity by about 60 per cent to handle 475,000 account positions by mid-2011; (v) increasing the AMS/3 capacity by 10 times to 30,000 orders per second and reducing the order processing latency by 16 times to 9 milliseconds by the end of 2011 (AMS/3 will be referred to as AMS/3.8 after the changes); and (vi) further upgrading MDS to MDS/3.8 for capacity alignment with the AMS/3.8 by the end of 2011.

HKEx completed the replacement and upgrade of the ageing CCASS IP Internet and CCASS middle-tier servers on 12 July 2010 to ensure the system's continued reliability, availability and serviceability.

## Operational Efficiency

HKEx has implemented an enterprise risk management (ERM) software tool to support its ERM framework. In addition, it is working on the Structured Products Integrated Transaction System (SPRINTS) automation and Enterprise Content Management (ECM) system for launch in early and mid-2011 respectively to facilitate automation of the approval process for DW and CBBC listing applications.

For operational efficiency and environmental protection, HKEx has rolled out an e-salary record system to automate salary-related payment records and workflow. HKEx is also upgrading its corporate system platform for alignment with the manufacturer's product support lifecycle and the corporate email system.

## Independent Review of Market Systems

Following the completion of the review of the Derivatives Market systems in April 2010, a review of CCASS is in progress and is scheduled for completion in early 2011.

## Data Centre and IT Office Consolidation

Schematic design for the Next Generation Data Centre (NGDC) is in progress and will be submitted to the Hong Kong Government for approval shortly. In order to provide room for HKEx's new strategic initiatives such as co-location and hosting services, the planned total floor area was increased from the initial plan of 13,300 square metres to about 31,400 square metres making full use of the allowable plot ratio, thereby revising the total estimated costs from \$700 million to about \$1 billion. The NGDC is scheduled to be completed in 2013.

## Market Development

### Promotion of Listing in Hong Kong

In addition to promoting listing in Hong Kong by participating in events in more than 15 cities and provinces in the Mainland, HKEx organised listing promotion events in Guangdong, Yunnan and Zhejiang during the third quarter of 2010. HKEx took the opportunity to meet with potential listing applicants, government authorities and intermediaries during those events.

Following the introduction of the new Listing Rules for mineral companies, activities were arranged to promote Hong Kong as an international fund raising centre for companies from the minerals industry. In June 2010, HKEx visited Ulaanbaatar, the capital of Mongolia, to meet with some senior ministers and local mining companies. In August and September 2010, our Chairman joined a delegation led by the Chief Executive of the Hong Kong Government for a trip to Russia to meet the country's president. Our Chairman hosted a panel discussion at a conference on listing in Hong Kong during the visit.

Efforts to attract international companies continued in the third quarter of 2010 with visits to Australia, Japan and Taiwan to meet with potential listing candidates, intermediaries and private equity firms and provide them with information on recent developments at HKEx and key advantages of listing in Hong Kong. In mid-October 2010, our Chairman visited potential issuers in France and Italy to invite them to list in Hong Kong.

### Promotion of HKEx's Markets

During the period under review, our Chairman and Chief Executive attended various large-scale conferences held in Hong Kong to promote HKEx and its markets, including the CLSA Investors' Forum and Russia & CIS Investment Summit 2010. In July 2010, HKEx, the FSTB and the Invest Hong Kong organised a major finance forum in Shanghai to discuss the important issues related to China's ongoing opening up, reform and internationalisation of its financial markets.

In September 2010, HKEx received high-level delegations from Japan and Ukraine and briefed them on its markets. Moreover, on 11 October 2010, HKEx signed a MOU with GreTai Securities Market of Taiwan on cooperation and exchange of information. On 12 and 13 October 2010, HKEx took the opportunity as a co-host sponsor of the Asia Pacific Financial Information Conference held in Hong Kong to update the market about our latest developments for market data products, system upgrades and the new data centre.

### Treasury

The Group's funds available for investment comprise Corporate Funds, cash collateral, Margin Funds and Clearing House Funds, totalling \$38.0 billion on average for the nine months ended 30 September 2010 (30 September 2009: \$41.1 billion).

As compared with 30 June 2010, the overall size of funds available for investment as at 30 September 2010 increased by 30 per cent or \$10.0 billion to \$43.3 billion (30 June 2010: \$33.3 billion). Details of the asset allocation of the investments as at 30 September 2010 against those as at 30 June 2010 are set out below.

	Investment Fund Size \$bn		Bonds *		Cash or Bank Deposits *		Global Equities	
	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun
Corporate Funds	<b>8.8</b>	8.7	<b>60%</b>	60%	<b>36%</b>	37%	<b>4%</b>	3%
Cash collateral	<b>5.7</b>	3.7	<b>0%</b>	0%	<b>100%</b>	100%	<b>0%</b>	0%
Margin Funds	<b>25.7</b>	18.7	<b>23%</b>	31%	<b>77%</b>	69%	<b>0%</b>	0%
Clearing House Funds	<b>3.1</b>	2.2	<b>12%</b>	19%	<b>88%</b>	81%	<b>0%</b>	0%
Total	<b>43.3</b>	33.3	<b>27%</b>	34%	<b>72%</b>	65%	<b>1%</b>	1%

\* Included 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 30 September 2010 and \$0.2 billion as at 30 June 2010), which have no maturity date, the maturity profiles of the remaining investments as at 30 September 2010 (\$42.9 billion) and 30 June 2010 (\$33.1 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	
	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun
	Corporate Funds	8.4	8.5	17%	14%	11%	1%	22%	32%	37%	39%	13%
Cash collateral	5.7	3.7	100%	100%	0%	0%	0%	0%	0%	0%	0%	0%
Margin Funds	25.7	18.7	23%	22%	24%	21%	34%	30%	19%	27%	0%	0%
Clearing House Funds	3.1	2.2	76%	73%	12%	8%	0%	0%	12%	19%	0%	0%
Total	42.9	33.1	36%	32%	17%	12%	24%	25%	20%	27%	3%	4%

Credit exposure is well diversified. The Group's bond portfolio (which includes certain principal-guaranteed structured notes) held is of investment grade and, as at 30 September 2010, had a weighted average credit rating of Aa2 (30 June 2010: Aa2) and a weighted average maturity of 2.1 years (30 June 2010: 2.2 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 the third quarter of 2010 and the second quarter of 2010 was as follows:

	Average VaR \$m		Highest VaR \$m		Lowest VaR \$m	
	Jul-Sept	Apr-Jun	Jul-Sept	Apr-Jun	Jul-Sept	Apr-Jun
	Corporate Funds	18.4	16.5	20.4	18.6	16.9
Cash collateral	0.0	0.0	0.0	0.0	0.0	0.0
Margin Funds	8.9	13.9	10.2	17.7	7.7	10.5
Clearing House Funds	2.0	1.5	2.3	2.4	1.6	1.1

Details of the Group's net investment income are set out in the Revenue and Other Income section under the Financial Review and note 6 to the condensed consolidated accounts of this quarterly report.

# FINANCIAL REVIEW

## Overall Performance

	Note	Nine months ended 30 Sept 2010 \$m	As restated Nine months ended 30 Sept 2009 \$m	Change
<b>RESULTS</b>				
Revenue and other income:				
Income affected by market turnover	(A)	3,488	3,407	2%
Stock Exchange listing fees	(B)	657	514	28%
Market data fees	(C)	495	513	(4%)
Other revenue	(D)	319	277	15%
Net investment income	(E)	332	452	(27%)
Operating expenses		5,291 1,178	5,163 1,140	2% 3%
Profit before taxation		4,113	4,023	2%
Taxation		(635)	(610)	4%
Profit attributable to shareholders		3,478	3,413	2%

The Group recorded a profit attributable to shareholders of \$3,478 million for the first nine months of 2010 (first quarter: \$1,127 million; second quarter: \$1,131 million; third quarter: \$1,220 million) compared with \$3,413 million for the same period in 2009 (2009 first quarter: \$834 million; second quarter: \$1,353 million; third quarter: \$1,226 million).

The rise in profit for the nine months ended 30 September 2010 against that for 2009 was primarily attributable to the increase in Stock Exchange listing fees and the higher turnover-related income resulting from the increase in activity in the Cash Market, but was partly offset by the drop in net investment income on account of lower net interest income earned in 2010.

Total operating expenses rose during the period mainly due to higher staff costs and IT and computer maintenance expenses but were partly offset by a decrease in premises expenses.

## Revenue and Other Income

### (A) Income Affected by Market Turnover

	Nine months ended 30 Sept 2010 \$m	Nine months ended 30 Sept 2009 \$m	Change
Trading fees and trading tariff	1,942	1,914	1%
Clearing and settlement fees	1,085	1,044	4%
Depository, custody and nominee services fees	461	449	3%
Total	3,488	3,407	2%

The increase in trading fees and trading tariff was mainly due to the higher turnover of the Cash Market for the first nine months of 2010 against that for the corresponding period last year.

Clearing and settlement fees are derived predominantly from Cash Market transactions. The increase in clearing and settlement fees for the first nine months of 2010 was mainly due to the higher turnover of the Cash Market. Clearing and settlement fees are also affected by the volume of SIs and, despite being mostly ad valorem fees, are subject to a minimum and a maximum fee per transaction and therefore may not always move exactly with changes in the turnover of the Cash Market. For the first nine months of 2010, the percentage increase in clearing and settlement fees was marginally higher than that of the turnover of the Cash Market due to the higher increase in transaction value of SIs.

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

#### Key Market Indicators

	Nine months ended 30 Sept 2010	Nine months ended 30 Sept 2009	Change
Average daily turnover value on the Stock Exchange (\$bn)	63.1	61.3	3%
Average daily number of derivatives contracts traded on the Futures Exchange	212,953	210,503	1%
Average daily number of stock options contracts traded on the Stock Exchange	219,892	193,147	14%

#### (B) Stock Exchange Listing Fees

	Nine months ended 30 Sept 2010 \$m	Nine months ended 30 Sept 2009 \$m	Change
Annual listing fees	295	268	10%
Initial and subsequent issue listing fees	359	242	48%
Others	3	4	(25%)
<b>Total</b>	<b>657</b>	<b>514</b>	<b>28%</b>

The increase in annual listing fees was attributable to the higher number of listed companies. The rise in initial and subsequent issue listing fees was due to the increase in the number of newly listed companies and DWs, but was partly offset by the drop in the number of newly listed CBBCs.

## Key Drivers for Annual Listing Fees

	At 30 Sept 2010	At 30 Sept 2009	Change
Number of companies listed on Main Board	1,194	1,114	7%
Number of companies listed on GEM	171	172	(1%)
<b>Total</b>	<b>1,365</b>	<b>1,286</b>	<b>6%</b>

## Key Drivers for Initial and Subsequent Issue Listing Fees

	Nine months ended 30 Sept 2010	Nine months ended 30 Sept 2009	Change
Number of newly listed DWs	5,123	2,728	88%
Number of newly listed CBBCs	4,728	6,018	(21%)
Number of newly listed companies on Main Board	54	31	74%
Number of newly listed companies on GEM	4	2	100%
Total equity funds raised on Main Board			
– through IPOs (\$bn)	160.2	63.0	154%
– Post-IPO (\$bn)	167.8	299.2	(44%)
Total equity funds raised on GEM			
– through IPOs (\$bn)	0.2	0.1	100%
– Post-IPO (\$bn)	7.6	2.5	204%

## (C) Market Data Fees

	Nine months ended 30 Sept 2010 \$m	Nine months ended 30 Sept 2009 \$m	Change
Market data fees	495	513	(4%)

Despite an increase in the average daily turnover of the Cash Market in the first nine months of 2010, market data fees decreased as certain fees charged on a per quote basis dropped.

## (D) Other Revenue

	Nine months ended 30 Sept 2010 \$m	Nine months ended 30 Sept 2009 \$m	Change
Network, terminal user, dataline and software sub-license fees	252	209	21%
Participants' subscription and application fees	26	26	0%
Trading booth user fees	12	11	9%
Sales of Trading Rights	7	9	(22%)
Miscellaneous revenue	22	22	0%
<b>Total</b>	<b>319</b>	<b>277</b>	<b>15%</b>

In line with improved market activities, network, terminal user, dataline and software sub-license fees rose mainly due to an increase in sales of additional throttle and higher AMS/3 line rental income.

**(E) Net Investment Income**

	Nine months ended 30 Sept 2010 \$m	As restated Nine months ended 30 Sept 2009 \$m	Change
Gross investment income	335	455	(26%)
Interest rebates to Participants	(3)	(3)	0%
<b>Net investment income</b>	<b>332</b>	<b>452</b>	<b>(27%)</b>

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

	Nine months ended 30 Sept 2010 \$bn	Nine months ended 30 Sept 2009 \$bn	Change
Corporate Funds	9.1	7.9	15%
Cash collateral	3.6	3.2	13%
Margin Funds	23.0	28.7	(20%)
Clearing House Funds	2.3	1.3	77%
<b>Total</b>	<b>38.0</b>	<b>41.1</b>	<b>(8%)</b>

The average amount of Corporate Funds increased because 10 per cent of the profit is retained under the current dividend payout policy. In addition, the profit generated in the second half of 2009 was higher than that in the corresponding period of the previous year, and the dividend relating to which was not distributed until May 2010.

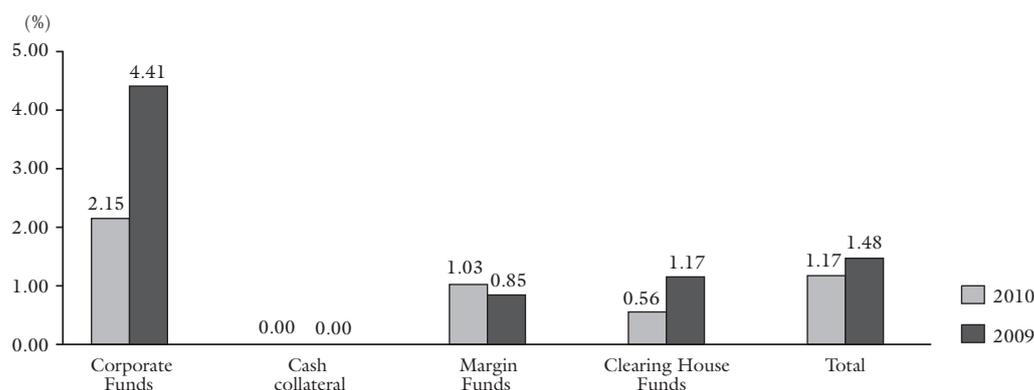
The significant drop in the average amount of Margin Funds available for investment during the period was primarily caused by the lower margin rate required per contract.

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

The lower net investment income was primarily attributable to the decrease in net interest income due to lower Margin Funds size and interest rates during the first nine months of 2010 as compared to the corresponding period in 2009, but was partly offset by the increase in fair value gains including interest of investments that were measured at fair value, reflecting market movements.

The annualised gross return on funds available for investment during the first nine months is set out below.

**Annualised Gross Return on Funds Available for Investment**



The decrease in gross return of Corporate Funds was mainly attributable to the drop in net realised and unrealised fair value gains of investments that were measured at fair value (including certain principal-guaranteed structured notes and principal-guaranteed structured deposits) during the nine months ended 30 September 2010.

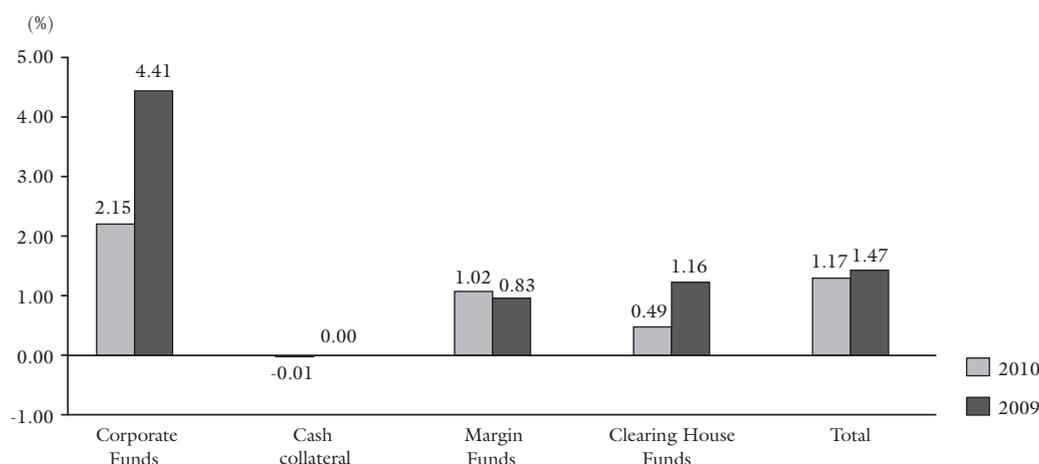
The increase in gross return of Margin Funds was due to the higher net realised and unrealised fair value gains including interest of the investments that were measured at fair value (including certain principal-guaranteed structured notes and principal-guaranteed structured deposits) during the nine months ended 30 September 2010.

As the valuation of the investments reflects movements in their market prices, unrealised gains or losses may fluctuate or reverse until the investments are sold or mature.

The decrease in gross return of the Clearing House Funds was mainly attributable to the drop in interest rates.

The annualised net return on funds available for investment after the deduction of interest rebates to Participants during the first nine months is set out below.

**Annualised Net Return on Funds Available for Investment**



The net returns of all the funds in 2010 and 2009 were similar to their gross returns as very little interest rebates were paid to Participants under the current almost zero interest rate environment (paid at predominantly savings rate).

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

## Operating Expenses

	Nine months ended 30 Sept 2010 \$m	As restated Nine months ended 30 Sept 2009 \$m	Change
Staff costs and related expenses	645	619	4%
IT and computer maintenance expenses	195	182	7%
Premises expenses	158	166	(5%)
Product marketing and promotion expenses	11	9	22%
Legal and professional fees	10	9	11%
Depreciation	79	74	7%
Other operating expenses	80	81	(1%)
<b>Total</b>	<b>1,178</b>	<b>1,140</b>	<b>3%</b>

Staff costs and related expenses increased by \$26 million, primarily due to the higher salary costs as a result of the salary adjustments to keep up with the market trend, and the increase in employee share-based compensation expenses arising from the new Awarded Shares granted in 2010.

The Group's IT and computer maintenance expenses, excluding costs of services and goods directly consumed by the Participants of \$89 million (2009: \$77 million), were \$106 million (2009: \$105 million). The rise in costs of services and goods directly consumed by the Participants was caused by the 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 the consolidation of the data centres for derivatives and cash trading at lower cost premises.

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

## Taxation

	Nine months ended 30 Sept 2010 \$m	As restated Nine months ended 30 Sept 2009 \$m	Change
Taxation	635	610	4%

Taxation increased mainly attributable to an increase in profit before taxation, and a decrease in non-taxable investment income.

## Comparison of 2010 Third Quarter Performance with 2010 Second Quarter Performance

	Three months ended 30 Sept 2010 \$m	Three months ended 30 Jun 2010 \$m	Change
Revenue and other income:			
Income affected by market turnover:			
Trading fees and trading tariff	657	632	4%
Clearing and settlement fees	358	362	(1%)
Depository, custody and nominee services fees	141	247	(43%)
	1,156	1,241	(7%)
Stock Exchange listing fees	232	204	14%
Market data fees	160	166	(4%)
Other revenue	115	96	20%
Net investment income	174	33	427%
	1,837	1,740	6%
Operating expenses	402	391	3%
Profit before taxation	1,435	1,349	6%
Taxation	(215)	(218)	(1%)
Profit attributable to shareholders	1,220	1,131	8%

Profit attributable to shareholders increased from \$1,131 million in the second quarter of 2010 to \$1,220 million in the third quarter. The increase in profit was mainly driven by the increase in revenue and other income, but was partly offset by the increase in operating expenses.

Despite a drop in average daily activity in the Cash and Derivatives Markets, trading fees and trading tariff increased as there were more trading days in the third quarter (64 days) as compared to the second quarter (60 days). Stock Exchange listing fees increased as there were more newly listed companies and DWs in the third quarter than in the second quarter. Depository, custody and nominee services fees dropped mainly due to seasonal fluctuations. Net investment income rose significantly mainly due to the higher fair value gains including interest of Corporate Fund and Margin Fund investments that were measured at fair value (including certain principal-guaranteed structured notes and principal-guaranteed structured deposits) in the third quarter of 2010 than in the second quarter, reflecting market movements.

### Key Market Indicators

	Three months ended 30 Sept 2010	Three months ended 30 Jun 2010	Change
Average daily turnover value on the Stock Exchange (\$bn)	61.8	62.9	(2%)
Average daily number of derivatives contracts traded on the Futures Exchange	204,094	223,654	(9%)
Average daily number of stock options contracts traded on the Stock Exchange	216,830	237,708	(9%)

Operating expenses increased by 3 per cent mainly due to the increase in staff costs attributable to the increase in performance bonus accruals on account of the improved performance of the Group in the third quarter, and the increase in employee share-based compensation expenses arising from the new Awarded Shares granted during May to July 2010.

Taxation decreased in the third quarter mainly attributable to the increase in non-taxable investment income and the reversal of prior year over-provision of profits tax, but was partly offset by the increase in taxation charge due to higher profit before taxation.

## **Working Capital**

Working capital fell by \$514 million or 9 per cent to \$5,196 million as at 30 September 2010 (31 December 2009: \$5,710 million). The reduction was primarily due to the payment of the 2009 final dividend of \$2,251 million in May 2010 and the 2010 interim dividend of \$2,034 million in September 2010, the purchase of shares for the Share Award Scheme of \$96 million, but was partly offset by the profit generated during the nine months of \$3,478 million, the decrease in financial assets maturing over 1 year of \$308 million, proceeds from issuing shares upon the exercise of employee share options of \$34 million and the increase in other working capital of \$47 million.

## **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 30 September 2010, the aggregate net open foreign currency positions amounted to HK\$2,393 million, of which HK\$308 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\$3,406 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 25 per cent of the HKD liabilities may be invested in USD deposits for a maximum maturity of 2 weeks.

## **Contingent Liabilities**

Details of contingent liabilities are included in note 27 to the condensed consolidated accounts of this quarterly report.

## **Changes since 31 December 2009**

There were no other significant changes in the Group's financial position and from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2009.

It is the Group's plan to declare dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the third quarter ended 30 September 2010 (third quarter of 2009: \$Nil).

Due to fluctuations in market conditions and changes in the operating environment, certain categories of income and operating expenses may vary substantially from quarter to quarter. Therefore, quarterly results should not be extrapolated to project the Group's full-year performance.

### **Review of Accounts**

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the nine months ended 30 September 2010 in conjunction with HKEx's external auditor.

Management has appointed the external auditor to carry out certain agreed-upon procedures in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated financial statements for the nine months ended 30 September 2010.

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# OPERATIONAL REVIEW

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## Organisational Changes

To strengthen our organisational structure to achieve the strategic goals laid down in our 2010-2012 Strategic Plan, Ms Yang Qiumei was appointed Deputy Head of Market Development Division and Head of the Mainland Development Department effective 18 October 2010. With Ms Yang's strong credentials and extensive experience in the regulation of the Mainland securities market at the China Securities Regulatory Commission, we will have an even stronger team for the further development of our Mainland-related initiatives.

In addition, with the combination of the Cash Market and Derivatives Market departments into the new Trading Division that took effect on 1 July 2010, Mr Eric Yip, the former Head of the Cash Market Department, was appointed Deputy Chief Operating Officer to focus on the implementation of certain initiatives of the 2010-2012 Strategic Plan. The new Trading Division is headed by Mr Calvin Tai, the former Head of the Derivatives Market Department.

Other changes included the appointment of Mr Bill Chow, the former Deputy Head of the Information Technology Division (ITD), and Mr Roger Lee, the former Head of Listing Operations, as the co-Heads of the ITD effective 1 September 2010 upon the retirement of Mr Alfred Wong. Mr Chow, who also succeeded as the Chief Technology Officer, is in charge of technology development for our IT infrastructure, and Mr Lee is responsible for resource management, operations, administration and governance of the ITD.

Mr Samuel Wong joined HKEx on 2 July 2010 as the Chief Financial Officer and Head of the Finance and Administration Division whilst Ms Christine Wong became the Chief Counsel and Head of the Legal Services Department on 1 August 2010.

The updated organisation chart is posted on the HKEx website.

## Share Option Schemes

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

Details of the movement in the share options granted under the Share Option Schemes during the nine-month period and outstanding as at 30 September 2010 are set out below.

### Pre-Listing Scheme

Date of grant	Exercise price \$	Number of shares issuable under the options				Exercise <sup>2</sup> period
		As at 1 Jan 2010	Issued upon <sup>1</sup> subscription during the nine months ended 30 Sept 2010	Cancelled/ lapsed during the nine months ended 30 Sept 2010	As at 30 Sept 2010	
Employees <sup>3</sup> 20 Jun 2000	6.88	114,000	114,000	-	-	6 Mar 2002 – 30 May 2010

## Post-Listing Scheme

Date of grant	Exercise price \$	Number of shares issuable under the options				Exercise <sup>5</sup> period
		As at 1 Jan 2010	Issued upon <sup>4</sup> subscription during the nine months ended 30 Sept 2010	Cancelled/ lapsed during the nine months ended 30 Sept 2010	As at 30 Sept 2010	
Employees <sup>3</sup>						
31 Mar 2004	16.96	1,020,000	536,500	–	483,500	31 Mar 2006 – 30 Mar 2014
17 May 2004	15.91	100,000	–	–	100,000	17 May 2006 – 16 May 2014
26 Jan 2005	19.25	2,122,500	1,233,500	–	889,000	26 Jan 2007 – 25 Jan 2015

Notes:

- 1 The weighted average closing price immediately before the dates on which the options were exercised was \$126.79.
- 2 All options granted had been exercised before the end of the exercise period.
- 3 Employees working under employment contracts that were regarded as “continuous contracts” for the purpose of the Employment Ordinance of Hong Kong.
- 4 The weighted average closing price immediately before the dates on which the options were exercised was \$132.66.
- 5 Options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary, and they become fully vested effective the fifth anniversary of the grant. All shares that might be issued under the Post-Listing Scheme were fully vested.

## Share Award Scheme

The Share Award Scheme was approved by the Board on 14 September 2005 (Adoption Date) and further amended by the Board on 23 April 2010. The amended and restated rules together with the trust deed of the Share Award Scheme are available on the HKEx website.

On 23 April 2010, the Board also resolved to provide an amount of \$92.6 million for the purchase of HKEx shares to be awarded to selected employees, including the Chief Executive and employees who were anticipated to join.

Since the Adoption Date, a total of 2,207,984 shares have been awarded up to the date of this quarterly report, representing about 0.21 per cent of the issued share capital of HKEx as at the Adoption Date. Details of the Awarded Shares are set out below.

Date of approval by Board	Date of <sup>1</sup> award	Awarded <sup>1</sup> sum \$'000	Number of shares purchased	Number of Awarded Shares	Average fair value per share \$	Number of Awarded Shares vested during the nine months ended 30 Sept 2010	Vesting period
19 Dec 2005	19 Dec 2005	N/A	960,000	960,000	31.20	7,175	19 Dec 2007 – 19 Dec 2010
13 Dec 2006	15 Jan 2007	19,673	272,500	272,465 <sup>2</sup>	72.28	8,288 <sup>3</sup>	13 Dec 2008 – 13 Dec 2011
14 Feb 2007	7 Jun 2007	600	7,000	7,000	81.33	1,750	16 Apr 2009 – 16 Apr 2012
15 May 2007	17 Jul 2007	600	5,500	5,500	102.29	1,375	18 Jun 2009 – 18 Jun 2012
12 Dec 2007	4 Feb 2008	26,300	151,000	150,965	163.72	902	12 Dec 2009 – 12 Dec 2012
18 Feb 2008	7 Apr 2008	612	4,200	4,200 <sup>4</sup>	144.18	4,200 <sup>3</sup>	18 Feb 2010 – 18 Feb 2013
10 Dec 2008	3 Feb 2009	4,900	59,900	59,900	81.96	–	1 Jan 2011 – 1 Jan 2014
23 Apr 2010	10 Jun 2010	88,516	720,100	720,054 <sup>5</sup>	123.29	–	13 May 2012 – 13 May 2013
23 Apr 2010	9 Jul 2010	840	6,900	6,900	121.88	–	10 Jun 2012 – 10 Jun 2013
23 Apr 2010	9 Jul 2010	2,520	21,000	21,000	120.32	–	2 Jul 2012 – 2 Jul 2013

## Notes:

- 1 Prior to 16 August 2006, the date of award refers to the date on which the Board determined such number of shares awarded to the selected employees. Following the amendments to the rules of the Share Award Scheme which took effect on 16 August 2006, the date of award refers to the date on which the trustee allocated such number of Awarded Shares to the selected employees from the total number of shares purchased with the sum determined by the Board.
- 2 11,528 shares were awarded to HKEx's former Chief Executive, Mr Paul Chow (Mr Chow).
- 3 According to the terms of the Share Award Scheme, a total of 10,915 shares, including 9,964 Awarded Shares and 951 further shares acquired through reinvesting dividends received, were vested and transferred to Mr Chow on 15 January 2010, the date immediately prior to his retirement.
- 4 The shares were awarded to Mr Chow.
- 5 73,217 shares were awarded to HKEx's Chief Executive, Mr Charles Li.

As at 30 September 2010, taking into account the further shares acquired by reinvesting the dividend income received in respect of the shares held under the trust, there were a total of 1,428,566 shares held in trust by the trustee under the Share Award Scheme.

## 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 of Association 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 review period.

As of 31 August 2010, the Global and Home Market Ratings assigned to HKEx by GovernanceMetrics International Inc, a corporate governance ratings and research firm, were 8.0 and 10.0 respectively, out of the maximum of 10.0. HKEx also received the highest ranking for its corporate governance performance amongst large-cap companies in Asia in the CG Watch 2010 published in September 2010 by CLSA Asia-Pacific Markets and the Asian Corporate Governance Association. On 1 November 2010, HKEx received the Best Report Award from the 2010 HKMA Best Annual Reports Awards organised by The Hong Kong Management Association.

As part of our commitment to best corporate governance practices, we appointed a consultant to conduct an independent evaluation of the performance of our Board and committees. The objectives of the evaluation are to assess whether the Board, the committees and their members have performed their roles effectively and fulfilled their responsibilities, and to identify areas for improvement. The evaluation is expected to be completed in about 4 months.

## CSR Development

HKEx continues to be a constituent company in the FTSE4Good Index Series and has been included in the Hang Seng Corporate Sustainability Index Series and the Dow Jones Sustainability Asia Pacific Index since 26 July 2010 and 20 September 2010 respectively.

As a responsible corporate citizen, HKEx continues to organise and support various CSR initiatives. The launch of our Employee Assistance Programme in August 2010 and our participation in the Work-Life Balance Day 2010 in October 2010 both demonstrated our dedication to improving employees' well-being. We also organised an environmental poster design competition and climate change seminars to heighten employees' awareness of environmental issues and provide pragmatic tips for protecting our environment.

To facilitate further improvement in our CSR performance, we adopted a manual in November 2010 that outlines our CSR management system with reference to ISO 14001:2004 Environmental Management Systems Standard and ISO/DIS 26000 Guidance on Social Responsibility. The new manual will provide guidance to our staff in managing the CSR impacts of our business operations and our CSR performance.

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# PROSPECTS

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Fuelled by the recent vibrant trading activity, a surge in new listing of companies from the Mainland and overseas, and continuous growth of the Mainland and Asian economies, we remain cautiously optimistic about the further growth of our securities and derivatives markets.

Financial cooperation with the Mainland has been a key factor for the financial services industry in Hong Kong and the progressive internationalisation of RMB provides unprecedented opportunities to us. With the expansion of RMB trade settlement in Hong Kong and the permission for certain banks in the city to use RMB to invest in the Mainland's interbank bond market, the channel for capital flows between Hong Kong and the Mainland has been further improved. This will facilitate the development of Hong Kong as an offshore RMB market. At HKEx, we will continue to introduce Mainland-related products to expand our China dimension. We are also modifying our infrastructure to support the trading of RMB products in our markets.

Nonetheless, the RMB focus has not distracted us from pursuing other initiatives in our Strategic Plan 2010-2012, such as further strengthening our IT infrastructure and exploring over-the-counter clearing. Whilst we continue with our marketing efforts to attract Mainland enterprises as well as quality international companies to list in Hong Kong, we are also streamlining the listing process and encouraging good corporate governance and CSR practices at listed companies so as to reinforce the Stock Exchange's position as a quality market and international listing platform.

Globally, the potential ramifications of any sovereign liquidity problems or currency wars, concerns about the effectiveness of the fiscal measures of different governments and the elevated risk of growing asset bubbles in persistent low interest rate environments deepen the uncertainty over the world's economic performance and the outlook for financial markets. In this environment, investors will be well advised to exercise caution before making any investment decision.

Taking the opportunity as the Chairman of the World Federation of Exchanges (WFE), I would on one hand, ensure that HKEx will continue contributing to the discussion of financial market regulations and reform with other WFE members, and on the other hand, further expand WFE's cooperation with the International Organization of Securities Commissions, for a healthy evolution of the global financial markets.

**Ronald Joseph ARCULLI**  
Chairman

Hong Kong, 10 November 2010

# DISCLOSURE OF INTERESTS

## Compliance with Model Code

HKEx has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. In response to the specific enquiry by the Company, all Directors confirmed that they complied with the Model Code throughout the nine months ended 30 September 2010.

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

As at 30 September 2010, the Directors' and the Chief Executive's interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code are set out below.

### Long Positions in Shares and Underlying Shares of HKEx

Name of Director	Number of shares/underlying shares held				Total	% of the issued <sup>1</sup> share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Charles X Li	73,217 <sup>2</sup>	–	–	–	73,217	0.01
John E Strickland	18,000 <sup>3</sup>	–	–	–	18,000	0.00

Notes:

- 1 It was based on 1,078,074,346 shares of HKEx in issue as at 30 September 2010.
- 2 The beneficial interest of the relevant Awarded Shares and income derived therefrom are subject to a vesting scale of 50 per cent each per annum starting from the second anniversary and fully vested in the third anniversary of the date of grant on 13 May 2010.
- 3 Mr Strickland was the beneficial owner of those shares.

Save for those disclosed above, as at 30 September 2010, none of the Directors or the Chief Executive had any interests or short positions in the shares, underlying shares or debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code.

Apart from the Share Option Schemes and the Share Award Scheme, at no time during the period under review, was HKEx or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, HKEx or any other body corporate. Save for the disclosed, none of the Directors or the Chief Executive (including their spouses and children under the age of 18), during the nine months ended 30 September 2010, held any interests in or was granted any right to subscribe for the securities of HKEx and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

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

As at 30 September 2010, other persons' interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange are set out below.

### Long Positions in Shares and Underlying Shares of HKEx

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

Notes:

- 1 It was based on 1,078,074,346 shares of HKEx in issue as at 30 September 2010.
- 2 This was based on a disclosure of interest filing made by the Hong Kong Government on 10 September 2007 which it stated was voluntary.

Save for those disclosed above, as at 30 September 2010, no other persons had any interests or short positions in the shares or underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange.

## Minority Controller

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

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

As at the date of this quarterly report, the SFC has only granted approval to 6 entities to be Minority Controllers, on the basis that the shares are held by them in custody for their clients. According to the Participant Shareholding Report as at 30 September 2010, the 6 approved Minority Controllers in aggregate held approximately 64 per cent (30 September 2009: 68 per cent) of HKEx's issued share capital.

## Purchase, Sale or Redemption of HKEx's Listed Securities

During the nine months ended 30 September 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 779,300 HKEx shares at a consideration of about \$96 million.

# CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	Nine months ended 30 Sept 2010 \$m	As restated Nine months ended 30 Sept 2009 \$m	Three months ended 30 Sept 2010 \$m	As restated Three months ended 30 Sept 2009 \$m
Trading fees and trading tariff	3	1,942	1,914	657	698
Stock Exchange listing fees	4	657	514	232	187
Clearing and settlement fees		1,085	1,044	358	393
Depository, custody and nominee services fees		461	449	141	130
Market data fees		495	513	160	186
Other revenue	5	319	277	115	103
<b>REVENUE</b>		<b>4,959</b>	<b>4,711</b>	<b>1,663</b>	<b>1,697</b>
Investment income		335	455	176	128
Interest rebates to Participants		(3)	(3)	(2)	(1)
Net investment income	6	332	452	174	127
<b>TURNOVER</b>	2	<b>5,291</b>	<b>5,163</b>	<b>1,837</b>	<b>1,824</b>
<b>OPERATING EXPENSES</b>					
Staff costs and related expenses	7	645	619	224	210
Information technology and computer maintenance expenses	8	195	182	67	62
Premises expenses		158	166	53	54
Product marketing and promotion expenses		11	9	3	3
Legal and professional fees		10	9	4	2
Depreciation		79	74	26	26
Other operating expenses		80	81	25	23
	2	<b>1,178</b>	<b>1,140</b>	<b>402</b>	<b>380</b>
<b>PROFIT BEFORE TAXATION</b>	2	<b>4,113</b>	<b>4,023</b>	<b>1,435</b>	<b>1,444</b>
<b>TAXATION</b>	9	<b>(635)</b>	<b>(610)</b>	<b>(215)</b>	<b>(218)</b>
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>3,478</b>	<b>3,413</b>	<b>1,220</b>	<b>1,226</b>
Basic earnings per share	11(a)	\$3.23	\$3.18	\$1.13	\$1.14
Diluted earnings per share	11(b)	\$3.22	\$3.16	\$1.13	\$1.14

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Nine months ended 30 Sept 2010 \$m	As restated Nine months ended 30 Sept 2009 \$m	Three months ended 30 Sept 2010 \$m	As restated Three months ended 30 Sept 2009 \$m
Profit attributable to shareholders	3,478	3,413	1,220	1,226
Other comprehensive income:				
Available-for-sale financial assets:				
Change in fair value during the period	-	(20)	-	25
Change in fair value up to maturity	-	(90)	-	(41)
Less: Reclassification adjustment:				
Gains included in profit or loss on disposal	-	(3)	-	-
Deferred tax	-	19	-	3
Other comprehensive income attributable to shareholders, net of tax	-	(94)	-	(13)
Total comprehensive income attributable to shareholders	3,478	3,319	1,220	1,213

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital, share premium and shares held for Share Award Scheme (note 21) \$m	Employee share-based compensation reserve (note 22) \$m	Designated reserves (note 23) \$m	Retained earnings (note 24) \$m	Total equity \$m
At 1 Jan 2010	1,400	43	563	6,021	8,027
Total comprehensive income attributable to shareholders	-	-	-	3,478	3,478
2009 final dividend at \$2.09 per share	-	-	-	(2,251)	(2,251)
2010 interim dividend at \$1.89 per share	-	-	-	(2,034)	(2,034)
Unclaimed dividends forfeited	-	-	-	16	16
Shares issued under employee share option schemes	34	-	-	-	34
Shares purchased for Share Award Scheme	(96)	-	-	-	(96)
Vesting of shares of Share Award Scheme	2	(2)	-	-	-
Employee share-based compensation benefits	-	22	-	-	22
Transfer of reserves	8	(8)	10	(10)	-
At 30 Sept 2010	1,348	55	573	5,220	7,196

	Share capital, share premium and shares held for Share Award Scheme \$m	Employee share-based compensation reserve \$m	Other comprehensive income Revaluation reserve \$m	Designated reserves \$m	Retained earnings \$m	Total equity \$m
At 1 Jan 2009, as previously reported	1,357	47	97	552	5,243	7,296
Effect of changes in accounting policies (note 1)	-	-	-	-	(2)	(2)
At 1 Jan 2009, as restated	1,357	47	97	552	5,241	7,294
Total comprehensive income attributable to shareholders	-	-	(94)	-	3,413	3,319
2008 final dividend at \$1.80 per share	-	-	-	-	(1,935)	(1,935)
2009 interim dividend at \$1.84 per share	-	-	-	-	(1,978)	(1,978)
Unclaimed dividends forfeited	-	-	-	-	4	4
Shares issued under employee share option schemes	21	-	-	-	-	21
Shares purchased for Share Award Scheme	(9)	-	-	-	-	(9)
Vesting of shares of Share Award Scheme	1	(1)	-	-	-	-
Employee share-based compensation benefits	-	16	-	-	-	16
Transfer of reserves	6	(6)	-	9	(9)	-
At 30 Sept 2009, as restated	1,376	56	3	561	4,736	6,732

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Note	At 30 Sept 2010			As restated At 31 Dec 2009		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
<b>ASSETS</b>							
Cash and cash equivalents	12	24,769	-	24,769	14,738	-	14,738
Financial assets measured at fair value through profit or loss	13	10,618	1,234	11,852	12,466	1,559	14,025
Financial assets measured at amortised cost	14	5,907	785	6,692	4,157	768	4,925
Accounts receivable, prepayments and deposits	15	13,601	6	13,607	11,334	7	11,341
Fixed assets		-	293	293	-	303	303
Lease premium for land	16	-	26	26	-	-	-
<b>Total assets</b>		<b>54,895</b>	<b>2,344</b>	<b>57,239</b>	<b>42,695</b>	<b>2,637</b>	<b>45,332</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Liabilities</b>							
Margin deposits from Clearing Participants on derivatives contracts	17	25,665	-	25,665	20,243	-	20,243
Cash collateral from HKSCC Clearing Participants	18	5,752	-	5,752	3,432	-	3,432
Accounts payable, accruals and other liabilities	19	15,093	-	15,093	11,827	-	11,827
Deferred revenue		215	-	215	424	-	424
Taxation payable		688	-	688	261	-	261
Other financial liabilities		75	-	75	42	-	42
Participants' contributions to Clearing House Funds	20	2,183	295	2,478	723	276	999
Provisions		28	29	57	33	26	59
Deferred tax liabilities		-	20	20	-	18	18
<b>Total liabilities</b>		<b>49,699</b>	<b>344</b>	<b>50,043</b>	<b>36,985</b>	<b>320</b>	<b>37,305</b>
<b>Equity</b>							
Share capital	21			1,078			1,076
Share premium	21			416			376
Shares held for Share Award Scheme	21			(146)			(52)
Employee share-based compensation reserve	22			55			43
Designated reserves	20, 23			573			563
Retained earnings	24			5,220			6,021
<b>Shareholders' funds</b>				<b>7,196</b>			<b>8,027</b>
<b>Total equity and liabilities</b>				<b>57,239</b>			<b>45,332</b>
<b>Net current assets</b>				<b>5,196</b>			<b>5,710</b>
<b>Total assets less current liabilities</b>				<b>7,540</b>			<b>8,347</b>

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Note	Nine months ended 30 Sept 2010 \$m	As restated Nine months ended 30 Sept 2009 \$m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net cash inflow from operating activities	25	6,763	3,391
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for purchases of fixed assets		(41)	(41)
Net proceeds from sales of fixed assets		1	1
Payments for acquisition of lease premium for land		(26)	–
Net (increase)/decrease in financial assets of Corporate Funds:			
Decrease/(increase) in time deposits with original maturities more than three months		79	(296)
Payments for purchases of available-for-sale financial assets		–	(465)
Net proceeds from maturity of available-for-sale financial assets		–	2,984
Payments for purchases of financial assets measured at amortised cost (excluding bank deposits)		(230)	(939)
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding bank deposits)		621	–
Payments for purchases of financial assets measured at fair value through profit or loss		(52)	(985)
Net proceeds from sales or maturity of financial assets measured at fair value through profit or loss		575	39
Interest received from available-for-sale financial assets		–	160
Interest received from financial assets measured at amortised cost (excluding bank deposits)		17	24
Interest received from financial assets measured at fair value through profit or loss and financial assets at fair value through profit or loss		141	43
Net cash inflow from investing activities		1,085	525
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares under employee share option schemes		34	21
Purchases of shares for Share Award Scheme		(96)	(9)
Dividends paid		(4,255)	(3,887)
Net cash outflow from financing activities		(4,317)	(3,875)
<b>Net increase in cash and cash equivalents</b>		<b>3,531</b>	<b>41</b>
Cash and cash equivalents at 1 Jan		4,751	4,756
<b>Cash and cash equivalents at 30 Sept</b>		<b>8,282</b>	<b>4,797</b>
<b>Analysis of cash and cash equivalents</b>			
Cash collateral received – cash at bank		5,752	3,248
Cash at bank and in hand		1,065	991
Time deposits with original maturities within three months		1,465	558
<b>Cash and cash equivalents at 30 Sept</b>		<b>8,282</b>	<b>4,797</b>

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED)

## 1. Basis of Preparation and Accounting Policies

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

These unaudited condensed consolidated accounts should be read in conjunction with the 2009 annual accounts. The accounting policies and methods of computation used in the preparation of these accounts and segment information are consistent with those used in the annual accounts and segment information for the year ended 31 December 2009.

### Adoption of new/revised accounting policies in the fourth quarter of 2009

As disclosed in the 2009 annual accounts, Hong Kong Exchanges and Clearing Limited (“HKEx”) and its subsidiaries (“Group”) adopted Hong Kong Financial Reporting Standard (“HKFRS”) 9: Financial Instruments and amended its accounting policy for measurement of leasehold building in the fourth quarter of 2009. The adoption of the new standard and the amended accounting policy had the following impact on the condensed consolidated financial statements for the nine months ended 30 September 2009:

- (a) certain available-for-sale financial assets with net revaluation deficits of \$62 million were reclassified to financial assets measured at fair value through profit or loss under HKFRS 9. The deficit was transferred to profit or loss under net investment income and hence retained earnings;
- (b) certain available-for-sale financial assets with net revaluation surpluses were reclassified to financial assets measured at amortised cost under HKFRS 9. This resulted in a \$23 million reduction in revaluation reserve but did not have any impact on profit or loss. The decrease in revaluation reserve reflected the restatement of those assets from fair value to the lower amortised cost;
- (c) prior to the fourth quarter of 2009, the leasehold building was measured at valuation less accumulated depreciation. In the fourth quarter of 2009, the accounting policy of leasehold building was changed to cost less accumulated depreciation and this change has been applied retrospectively. Retained earnings therefore decreased by \$2 million as the accumulated depreciation charges were computed based on the cost of the leasehold building, which was higher than the valuation before the change in accounting policy; and
- (d) the tax impact of the reclassification of financial assets in notes (a) and (b) above resulted in a \$1 million decrease in deferred tax liability and a corresponding increase in revaluation reserve.

The impact of the above changes is summarised below:

### Effects on equity as at 30 September 2009

	HKFRS 9 \$m	Leasehold building \$m	Total \$m
<b>Increase/(decrease) in equity</b>			
Revaluation reserve	40	–	40
Retained earnings	(62)	(2)	(64)

**1. Basis of Preparation and Accounting Policies (continued)**

Effects on condensed consolidated income statement for the nine months ended 30 September 2009 and three months ended 30 September 2009

	Nine months ended 30 Sept 2009 \$m	Three months ended 30 Sept 2009 \$m
Decrease in net investment income	(62)	(48)
Decrease in profit attributable to shareholders	(62)	(48)
Decrease in basic earnings per share	\$(0.06)	\$(0.04)
Decrease in diluted earnings per share	\$(0.06)	\$(0.04)

The effects on other components of the condensed consolidated income statement were less than \$1 million.

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 June 2010 onwards, the Group decided to present its 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 Group's business operations, particularly following the changes made on adopting HKFRS 9, and is thus reliable and more relevant.

The comparative figures have been restated to conform with the revised presentation.

**2. Operating Segments**

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

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

The **Cash Market** business mainly refers to the operations of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), which covers all products traded on the Cash Market platforms, such as equities, callable bull/bear contracts ("CBBCs") and derivative warrants ("DWs"). Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market ("GEM"). The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market. Stock Exchange listing fees and costs of the Listing Function are further explained in note 4.

The **Derivatives Market** business refers to the derivatives products traded on Hong Kong Futures Exchange Limited 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.

## 2. Operating Segments (continued)

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

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

	Nine months ended 30 Sept 2010					
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Inter-segment elimination (note (a)) \$m	Group \$m
Income from external customers	2,282	536	1,644	497	-	4,959
Net investment income	82	204	55	-	(9)	332
	2,364	740	1,699	497	(9)	5,291
Operating expenses						
Direct costs	464	119	248	45	(9)	867
Indirect costs	153	42	94	22	-	311
	617	161	342	67	(9)	1,178
Reportable segment profit before taxation	1,747	579	1,357	430	-	4,113

	As restated Nine months ended 30 Sept 2009					
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Inter-segment elimination (note (a)) \$m	Group \$m
Income from external customers	2,072	540	1,586	513	-	4,711
Net investment income	108	204	147	1	(8)	452
	2,180	744	1,733	514	(8)	5,163
Operating expenses						
Direct costs	459	121	258	38	(8)	868
Indirect costs	129	39	85	19	-	272
	588	160	343	57	(8)	1,140
Reportable segment profit before taxation	1,592	584	1,390	457	-	4,023

- (a) The elimination adjustment represents the inter-segment interest charge from the Corporate Centre to the Clearing Business segment for funding the closing-out of market contracts of the defaulting Participant, Lehman Brothers Securities Asia Limited.

### 3. Trading Fees and Trading Tariff

	Nine months ended 30 Sept 2010 \$m	Nine months ended 30 Sept 2009 \$m	Three months ended 30 Sept 2010 \$m	Three months ended 30 Sept 2009 \$m
Trading fees and trading tariff were derived from:				
Securities traded on the Cash Market	1,366	1,337	465	508
Derivatives contracts traded on the Derivatives Market	576	577	192	190
	<b>1,942</b>	<b>1,914</b>	<b>657</b>	<b>698</b>

### 4. Stock Exchange Listing Fees

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

	Nine months ended 30 Sept 2010				Nine months ended 30 Sept 2009			
	Equity		CBBCs, DWs & others \$m	Total \$m	Equity		CBBCs, DWs & others \$m	Total \$m
	Main Board \$m	GEM \$m			Main Board \$m	GEM \$m		
<b>Stock Exchange Listing Fees</b>								
Annual listing fees	275	18	2	295	249	17	2	268
Initial and subsequent issue listing fees	59	4	296	359	43	2	197	242
Other listing fees	3	-	-	3	3	1	-	4
<b>Total</b>	<b>337</b>	<b>22</b>	<b>298</b>	<b>657</b>	<b>295</b>	<b>20</b>	<b>199</b>	<b>514</b>
<b>Costs of Listing Function</b>								
Direct costs	173	37	14	224	176	38	12	226
Indirect costs	30	6	9	45	28	5	7	40
<b>Total costs</b>	<b>203</b>	<b>43</b>	<b>23</b>	<b>269</b>	<b>204</b>	<b>43</b>	<b>19</b>	<b>266</b>
<b>Contribution to Cash Market Segment Profit before Taxation</b>	<b>134</b>	<b>(21)</b>	<b>275</b>	<b>388</b>	<b>91</b>	<b>(23)</b>	<b>180</b>	<b>248</b>

4. Stock Exchange Listing Fees (continued)

	Three months ended 30 Sept 2010				Three months ended 30 Sept 2009			
	Equity		CBBCs, DWs & others	Total	Equity		CBBCs, DWs & others	Total
	Main Board	GEM			Main Board	GEM		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
<b>Stock Exchange Listing Fees</b>								
Annual listing fees	94	6	1	101	85	5	1	91
Initial and subsequent issue listing fees	26	2	102	130	12	1	81	94
Other listing fees	1	-	-	1	1	1	-	2
<b>Total</b>	<b>121</b>	<b>8</b>	<b>103</b>	<b>232</b>	<b>98</b>	<b>7</b>	<b>82</b>	<b>187</b>
<b>Costs of Listing Function</b>								
Direct costs	59	11	5	75	60	13	3	76
Indirect costs	10	3	3	16	9	2	3	14
<b>Total costs</b>	<b>69</b>	<b>14</b>	<b>8</b>	<b>91</b>	<b>69</b>	<b>15</b>	<b>6</b>	<b>90</b>
<b>Contribution to</b>								
<b>Cash Market Segment</b>								
<b>Profit before Taxation</b>	<b>52</b>	<b>(6)</b>	<b>95</b>	<b>141</b>	<b>29</b>	<b>(8)</b>	<b>76</b>	<b>97</b>

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

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

5. Other Revenue

	Nine months ended 30 Sept 2010 \$m	Nine months ended 30 Sept 2009 \$m	Three months ended 30 Sept 2010 \$m	Three months ended 30 Sept 2009 \$m
Network, terminal user, dataline and software sub-license fees	252	209	89	79
Participants' subscription and application fees	26	26	9	8
Trading booth user fees	12	11	4	4
Sales of Trading Rights	7	9	3	2
Miscellaneous revenue	22	22	10	10
	<b>319</b>	<b>277</b>	<b>115</b>	<b>103</b>

**6. Net Investment Income**

	Nine months ended 30 Sept 2010 \$m	As restated Nine months ended 30 Sept 2009 \$m	Three months ended 30 Sept 2010 \$m	As restated Three months ended 30 Sept 2009 \$m
Gross interest income	89	262	40	56
Interest rebates to Participants	(3)	(3)	(2)	(1)
Net interest income	<b>86</b>	<b>259</b>	<b>38</b>	<b>55</b>
Net realised and unrealised gains including interest income on financial assets measured at fair value through profit or loss, and financial assets and financial liabilities at fair value through profit or loss	245	191	135	71
Realised gains on disposal of available-for-sale financial assets	-	2	-	-
Realised losses on disposal of financial assets measured at amortised cost	(4)	-	-	-
Dividend income from financial assets measured at fair value through profit or loss and financial assets at fair value through profit or loss	4	2	1	1
Other exchange differences	1	(2)	-	-
Net investment income	<b>332</b>	<b>452</b>	<b>174</b>	<b>127</b>

**7. Staff Costs and Related Expenses**

Staff costs and related expenses comprised the following:

	Nine months ended 30 Sept 2010 \$m	Nine months ended 30 Sept 2009 \$m	Three months ended 30 Sept 2010 \$m	Three months ended 30 Sept 2009 \$m
Salaries and other short-term employee benefits	576	557	196	190
Employee share-based compensation benefits	22	16	12	4
Retirement benefit costs (note 28(b))	47	46	16	16
	<b>645</b>	<b>619</b>	<b>224</b>	<b>210</b>

## 8. Information Technology and Computer Maintenance Expenses

	Nine months ended 30 Sept 2010 \$m	Nine months ended 30 Sept 2009 \$m	Three months ended 30 Sept 2010 \$m	Three months ended 30 Sept 2009 \$m
Costs of services and goods:				
– consumed by the Group	106	105	36	35
– directly consumed by Participants	89	77	31	27
	<u>195</u>	<u>182</u>	<u>67</u>	<u>62</u>

## 9. Taxation

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

	Nine months ended 30 Sept 2010 \$m	As restated Nine months ended 30 Sept 2009 \$m	Three months ended 30 Sept 2010 \$m	As restated Three months ended 30 Sept 2009 \$m
Provision for Hong Kong Profits Tax at 16.5% (2009: 16.5%)	634	607	210	223
Overprovision in respect of prior years	(2)	(6)	(2)	(6)
	<u>632</u>	<u>601</u>	<u>208</u>	<u>217</u>
Deferred taxation	3	9	7	1
	<u>635</u>	<u>610</u>	<u>215</u>	<u>218</u>

## 10. Dividends

	Nine months ended 30 Sept 2010 \$m	Nine months ended 30 Sept 2009 \$m	Three months ended 30 Sept 2010 \$m	Three months ended 30 Sept 2009 \$m
Interim dividend declared of \$1.89 (2009: \$1.84) per share	2,037	1,980	–	–
Less: Dividend for shares held by Share Award Scheme	(3)	(2)	–	–
	<u>2,034</u>	<u>1,978</u>	<u>–</u>	<u>–</u>

## 11. Earnings Per Share

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

(a) Basic earnings per share

	Nine months ended 30 Sept 2010	As restated Nine months ended 30 Sept 2009	Three months ended 30 Sept 2010	As restated Three months ended 30 Sept 2009
Profit attributable to shareholders (\$m)	3,478	3,413	1,220	1,226
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,076,330	1,074,561	1,076,573	1,074,984
Basic earnings per share (\$)	3.23	3.18	1.13	1.14

(b) Diluted earnings per share

	Nine months ended 30 Sept 2010	As restated Nine months ended 30 Sept 2009	Three months ended 30 Sept 2010	As restated Three months ended 30 Sept 2009
Profit attributable to shareholders (\$m)	3,478	3,413	1,220	1,226
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,076,330	1,074,561	1,076,573	1,074,984
Effect of employee share options (in '000)	1,874	3,307	1,337	3,088
Effect of Awarded Shares (in '000)	837	912	1,233	916
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,079,041	1,078,780	1,079,143	1,078,988
Diluted earnings per share (\$)	3.22	3.16	1.13	1.14

## 12. Cash and Cash Equivalents

	At 30 Sept 2010 \$m	At 31 Dec 2009 \$m
Cash and cash equivalents:		
– Cash collateral received (note 18)	5,752	3,432
– Corporate Funds	2,530	1,319
	8,282	4,751
– Clearing House Funds (note 20)	2,713	1,280
– Margin Funds (note 17)	13,774	8,707
(note (a))	16,487	9,987
	<b>24,769</b>	<b>14,738</b>

- (a) The cash and cash equivalents of the Clearing House Funds and Margin Funds are held in segregated accounts for specific purposes and therefore are not included in cash and cash equivalents of the Group for cash flow purpose in the condensed consolidated statement of cash flows.

## 13. Financial Assets Measured at Fair Value through Profit or Loss

	At 30 Sept 2010			
	Clearing House Funds (note 20) \$m	Margin Funds (note 17) \$m	Corporate Funds \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
– listed in Hong Kong	–	–	55	55
– listed outside Hong Kong	–	–	191	191
	–	–	246	246
Debt securities:				
– listed in Hong Kong	–	–	68	68
– listed outside Hong Kong	127	285	1,961	2,373
– unlisted	228	5,626	2,212	8,066
	355	5,911	4,241	10,507
Mutual funds:				
– listed outside Hong Kong	–	–	106	106
Derivative financial instruments:				
– forward foreign exchange contracts	–	–	4	4
Bank deposits with embedded derivatives	–	989	–	989
	<b>355</b>	<b>6,900</b>	<b>4,597</b>	<b>11,852</b>
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	355	6,900	3,363	10,618
More than twelve months	–	–	1,234	1,234
	<b>355</b>	<b>6,900</b>	<b>4,597</b>	<b>11,852</b>

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

	At 31 Dec 2009			
	Clearing House Funds (note 20) \$m	Margin Funds (note 17) \$m	Corporate Funds \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
– listed in Hong Kong	–	–	23	23
– listed outside Hong Kong	–	–	157	157
	–	–	180	180
Debt securities:				
– listed in Hong Kong	–	–	68	68
– listed outside Hong Kong	130	290	1,866	2,286
– unlisted	280	6,557	2,455	9,292
	410	6,847	4,389	11,646
Mutual funds:				
– listed outside Hong Kong	–	–	75	75
Derivative financial instruments:				
– equity index futures contracts, listed outside Hong Kong	–	–	1	1
– forward foreign exchange contracts	–	–	17	17
	–	–	18	18
Bank deposits with embedded derivatives	–	1,826	280	2,106
	410	8,673	4,942	14,025
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	410	8,673	3,383	12,466
More than twelve months	–	–	1,559	1,559
	410	8,673	4,942	14,025

- (a) Included financial assets maturing after twelve months of \$355 million (31 December 2009: \$410 million) and \$4,878 million (31 December 2009: \$5,975 million) attributable to Clearing House Funds and Margin Funds respectively that could readily be liquidated to meet liquidity requirements of the respective Funds.

14. Financial Assets Measured at Amortised Cost

	At 30 Sept 2010			
	Clearing House Funds (note 20) \$m	Margin Funds (note 17) \$m	Corporate Funds \$m	Total \$m
Debt securities:				
– listed outside Hong Kong	–	–	204	204
– unlisted	–	–	855	855
	–	–	1,059	1,059
Time deposits with original maturities over three months	7	4,983	595	5,585
Other financial assets	–	–	48	48
	7	4,983	1,702	6,692
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	7	4,983	917	5,907
More than twelve months	–	–	785	785
	7	4,983	1,702	6,692

	At 31 Dec 2009			
	Clearing House Funds (note 20) \$m	Margin Funds (note 17) \$m	Corporate Funds \$m	Total \$m
Debt securities:				
– listed outside Hong Kong	–	–	200	200
– unlisted	–	–	1,096	1,096
	–	–	1,296	1,296
Time deposits with original maturities over three months	51	2,854	674	3,579
Other financial assets	–	–	50	50
	51	2,854	2,020	4,925
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	51	2,854	1,252	4,157
More than twelve months	–	–	768	768
	51	2,854	2,020	4,925

- (a) Included time deposits maturing after twelve months of \$2 million (31 December 2009: \$2 million) and \$Nil (31 December 2009: \$954 million) attributable to the Clearing House Funds and Margin Funds respectively that could readily be liquidated to meet liquidity requirements of the respective Funds.

## 15. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement money obligations receivable, which accounted for 94 per cent (31 December 2009: 92 per cent) of the total accounts receivable, prepayments and deposits. Continuous Net Settlement money obligations receivable mature within two days after the trade date. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

## 16. Lease premium for land

During the period ended 30 September 2010, the Group acquired a medium-term land lease at Tseung Kwan O in Hong Kong for the construction of a new data centre.

## 17. Margin Deposits from Clearing Participants on Derivatives Contracts

	At 30 Sept 2010 \$m	At 31 Dec 2009 \$m
Margin deposits from Clearing Participants comprised (note (a)):		
SEOCH Clearing Participants' margin deposits	3,214	2,567
HKCC Clearing Participants' margin deposits	22,451	17,676
	25,665	20,243
The margin deposits were invested in the following instruments for managing the obligations of the Margin Funds:		
Cash and cash equivalents (note 12)	13,774	8,707
Financial assets measured at fair value through profit or loss (note 13)	6,900	8,673
Financial assets measured at amortised cost (note 14)	4,983	2,854
Margin receivable from Clearing Participants	8	9
	25,665	20,243

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

## 18. Cash Collateral from HKSCC Clearing Participants

HKSCC Clearing Participants are required to deposit cash collateral with HKSCC to cover the risk of potential losses arising from their unsettled securities transactions. The cash collateral received is held in savings accounts and forms part of the cash and cash equivalents of the Group (note 12).

## 19. 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, which accounted for 85 per cent (31 December 2009: 89 per cent) of the total accounts payable, accruals and other liabilities. Continuous Net Settlement money obligations mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

## 20. Clearing House Funds

	At 30 Sept 2010 \$m	At 31 Dec 2009 \$m
The Clearing House Funds were attributable to:		
Clearing Participants' contributions (note (a)) :		
Due within twelve months	2,183	723
Due after twelve months	295	276
	2,478	999
Designated reserves (note 23)	573	563
	<b>3,051</b>	1,562
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds (note (b)):		
Cash and cash equivalents (note 12)	2,713	1,280
Financial assets measured at fair value through profit or loss (note 13)	355	410
Financial assets measured at amortised cost (note 14)	7	51
	3,075	1,741
Less: Other financial liabilities of Clearing House Funds	(24)	(20)
	3,051	1,721
Provision for loss arising from closing-out losses of defaulting Participants (note (c))	-	(159)
	<b>3,051</b>	1,562
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	223	219
SEOCH Reserve Fund	679	583
HKCC Reserve Fund	2,149	760
	<b>3,051</b>	1,562

- (a) Amounts excluded bank guarantees received and utilised as alternatives to cash contributions.
- (b) The Clearing House Funds were established to support the respective clearing houses (ie, HKSCC, HKCC and SEOCH) to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Clearing Participants arising from depositing defective securities into the Central Clearing and Settlement System.
- (c) In December 2008, the HKEx Board resolved to recover the closing-out losses caused by defaulting Participants from the Clearing House Funds. Therefore, a provision for loss arising from closing-out losses of defaulting Participants was set up in the Clearing House Funds. In September 2010, the claims on the Clearing House Funds were settled by payment by the Clearing House Funds to the clearing houses. The payment did not result in any financial impact on the profit before taxation during the period.

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

		At 30 Sept 2010 \$m	At 31 Dec 2009 \$m		
Authorised:					
2,000,000,000 shares of \$1 each		<u>2,000</u>	<u>2,000</u>		
Issued and fully paid:					
	Number of shares of \$1 each '000	Share capital \$m	Share premium \$m	Shares held for Share Award Scheme \$m	Total \$m
At 1 Jan 2009	1,073,940	1,075	347	(65)	1,357
Shares issued under employee share option schemes (note (a))	1,304	1	22	-	23
Transfer from employee share-based compensation reserve upon exercise of employee share options	-	-	7	-	7
Shares purchased for Share Award Scheme (note (b))	(90)	-	-	(9)	(9)
Vesting of shares of Share Award Scheme	361	-	-	22	22
At 31 Dec 2009	<u>1,075,515</u>	<u>1,076</u>	<u>376</u>	<u>(52)</u>	<u>1,400</u>
At 1 Jan 2010	1,075,515	1,076	376	(52)	1,400
Shares issued under employee share option schemes (note (a))	1,884	2	32	-	34
Transfer from employee share-based compensation reserve upon exercise of employee share options	-	-	8	-	8
Shares purchased for Share Award Scheme (note (b))	(779)	-	-	(96)	(96)
Vesting of shares of Share Award Scheme	26	-	-	2	2
At 30 Sept 2010	<u>1,076,646</u>	<u>1,078</u>	<u>416</u>	<u>(146)</u>	<u>1,348</u>

- (a) During the nine months ended 30 September 2010, employee share options granted under the first share option scheme (“Pre-Listing Scheme”) and the second share option scheme (“Post-Listing Scheme”) were exercised to subscribe for 1,884,000 shares (year ended 31 December 2009: 1,304,000 shares) in HKEx at an average consideration of \$17.85 per share (year ended 31 December 2009: \$17.82 per share), of which \$1.00 per share was credited to share capital and the balance was credited to the share premium account.
- (b) During the nine months ended 30 September 2010, the Share Award Scheme acquired 779,300 HKEx shares (year ended 31 December 2009: 89,700 shares) through purchases on the open market. The total amount paid to acquire the shares during the period was \$96 million (year ended 31 December 2009: \$9 million), of which \$92 million (year ended 31 December 2009: \$5 million) were related to the purchase of shares awarded under the Share Award Scheme (“Awarded Shares”) and \$4 million (year ended 31 December 2009: \$4 million) were related to the purchase of shares arising from re-investing dividends received on Awarded Shares.

## 22. Employee Share-based Compensation Reserve

The Group operates two employee share option schemes and a Share Award Scheme. The employee share-based compensation expenses in relation to the options and share awards were charged to profit or loss under staff costs over the relevant vesting periods with a corresponding increase in employee share-based compensation reserve.

In April 2010, the Board resolved to amend the Share Award Scheme and change the vesting period of the Awarded Shares granted on or after 13 May 2010 from 5 years to 3 years. Accordingly, the shares would be vested in two equal tranches from the second to the third year after the shares are granted, as opposed to four equal tranches from the second to the fifth year prior to the change.

Details of Awarded Shares awarded during the nine months ended 30 September 2010 are set out below:

Date of approval by Board	Date of award	Awarded Sum \$m	Number of shares purchased	Number of shares awarded	Average fair value per share \$	Vesting period
23 Apr 2010	10 Jun 2010	89	720,100	720,054	123.29	13 May 2012 – 13 May 2013
23 Apr 2010	9 Jul 2010	1	6,900	6,900	121.88	10 Jun 2012 – 10 Jun 2013
23 Apr 2010	9 Jul 2010	2	21,000	21,000	120.32	2 Jul 2012 – 2 Jul 2013

The dividends received on the Awarded Shares held in the Share Award Scheme were applied to acquire further shares from the market and the payment was debited to Shares held for Share Award Scheme. During the nine months ended 30 September 2010, \$4 million of dividends received were re-invested to purchase 31,300 HKEx shares (year ended 31 December 2009: \$4 million was re-invested to purchase 29,800 shares).

## 23. Designated Reserves

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

	At 30 Sept 2010 \$m	At 31 Dec 2009 \$m
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	125	122
– SEOCH Reserve Fund reserve	110	109
– HKCC Reserve Fund reserve	338	332
	573	563

## 24. Retained Earnings

	2010 \$m	2009 \$m
At 1 Jan	6,021	5,241
Profit for the period/year	3,478	4,704
Transfer to Clearing House Funds reserves	(10)	(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	-	(4)
	<hr/>	<hr/>
At 30 Sept 2010/31 Dec 2009	5,220	6,021
Representing:		
Retained earnings	5,220	3,773
Proposed final dividend	-	2,248
	<hr/>	<hr/>
At 30 Sept 2010/31 Dec 2009	5,220	6,021

## 25. Notes to the Condensed Consolidated Statement of Cash Flows

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

	Nine months ended 30 Sept 2010 \$m	As restated Nine months ended 30 Sept 2009 \$m
Profit before taxation	4,113	4,023
Adjustments for:		
Net interest income	(86)	(259)
Dividend income	(4)	(2)
Net realised and unrealised gains including interest income on financial assets measured at fair value through profit or loss, and financial assets and financial liabilities at fair value through profit or loss	(245)	(191)
Realised losses on disposal of financial assets measured at amortised cost of Corporate Funds	4	–
Depreciation	79	74
Employee share-based compensation benefits	22	16
Gain on disposal of fixed assets	(1)	–
Reversal of provision for impairment losses of trade receivables	–	(1)
Provision for impairment losses of fixed assets	–	1
Changes in provisions	(5)	(1)
Net (increase)/decrease in Margin Fund financial assets	(5,411)	20,001
Net increase/(decrease) in Margin Fund financial liabilities	5,422	(20,172)
Net increase in Clearing House Fund financial assets	(1,336)	(424)
Net increase in Clearing House Fund financial liabilities	1,483	416
Net increase/(decrease) in cash collateral received from HKSCC Clearing Participants	2,320	(352)
Net increase in financial assets measured at fair value through profit or loss, and financial assets and financial liabilities at fair value through profit or loss	(154)	(14)
(Increase)/decrease in accounts receivable, prepayments and deposits	(2,265)	2,527
Increase/(decrease) in other current liabilities	2,878	(2,192)
Net cash inflow from operations	6,814	3,450
Dividends received	4	2
Interest received from bank deposits	71	90
Interest received from financial assets measured at fair value through profit or loss and financial assets at fair value through profit or loss	82	86
Interest paid	(3)	(3)
Hong Kong Profits Tax paid	(205)	(234)
Net cash inflow from operating activities	6,763	3,391

## 26. Commitments

Commitments in respect of capital expenditures:

	At 30 Sept 2010 \$m	At 31 Dec 2009 \$m
Contracted but not provided for	45	1
Authorised but not contracted for	1,159	65
	<u>1,204</u>	<u>66</u>

The commitments in respect of capital expenditures were mainly for the upgrade and enhancement of trading and clearing systems, development and purchases of various other computer systems and, for 2010, the construction of a new data centre at Tseung Kwan O.

## 27. Contingent Liabilities

As at 30 September 2010, the Group's material contingent liabilities were as follows:

- (a) The Group had a contingent liability in respect of potential calls to be made by the Securities and Futures Commission ("SFC") to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$71 million (31 December 2009: \$72 million). Up to 30 September 2010, no calls had been made by the SFC in this connection.
- (b) The Stock Exchange 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 477 trading Participants covered by the indemnity as at 30 September 2010 (31 December 2009: 462) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to \$95 million (31 December 2009: \$92 million).
- (c) HKEx had given an undertaking in favour of HKSCC to contribute up to \$50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs of winding up.

**28. Material Related Party Transactions**

- (a) Key management personnel compensation

	Nine months ended 30 Sept 2010 \$m	Nine months ended 30 Sept 2009 \$m	Three months ended 30 Sept 2010 \$m	Three months ended 30 Sept 2009 \$m
Salaries and other short-term employee benefits	54	57	16	18
Employee share-based compensation benefits	6	5	3	1
Retirement benefit costs	5	5	2	2
	<b>65</b>	<b>67</b>	<b>21</b>	<b>21</b>

- (b) Post-retirement benefit plans

The Group has sponsored a defined contribution provident fund scheme (“ORSO Plan”) and a Mandatory Provident Fund scheme (“MPF Scheme”). The retirement benefit costs charged to the condensed consolidated income statement represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees (note 7).

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

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# GLOSSARY

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AMS/3	The Automatic Order Matching and Execution System/Third Generation
Awarded Shares	Shares awarded under the Share Award Scheme
BBS	Bronze Bauhinia Star
Board	Board of HKEx
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
CSR	Corporate Social Responsibility
DCASS	The Derivatives Clearing and Settlement System
Director(s)	Director(s) of HKEx
DW(s)	Derivative Warrant(s)
eIPO	Electronic IPO
EP(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 Hong Kong Government
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBM	Grand Bauhinia Medal
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
Government Appointed Directors	Directors appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKATS	The Hong Kong Futures Automated Trading System
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKSCC	Hong Kong Securities Clearing Company Limited
Hong Kong Government	Government of the Hong Kong Special Administrative Region
H-shares Index or HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index
IP(s)	Investor Participant(s)
IPO(s)	Initial Public Offering(s)
IT	Information Technology
IV(s)	Information Vendor(s)
JP	Justice of the Peace
Listing Rules	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
MDS	The Market Data System
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MOU	Memorandum of Understanding
Post-Listing Scheme	Post-Listing Share Option Scheme approved by the Shareholders on 31 May 2000 which was subsequently amended by the Shareholders on 17 April 2002
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by the Shareholders on 31 May 2000
REIT(s)	Real Estate Investment Trust(s)
RMB	Renminbi
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	Shareholders of HKEx
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006 and 13 May 2010
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
SIs	Settlement Instructions
USD	United States Dollar
\$/HKD	Hong Kong Dollar

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