



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

Quarterly Report 2011

For the three months ended 31 March

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

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FINANCIAL HIGHLIGHTS

	Three months ended 31 Mar 2011	Three months ended 31 Mar 2010	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange (\$bn)	75.9	64.8	17%
Average daily number of derivatives contracts traded on the Futures Exchange	246,687	211,724	17%
Average daily number of stock options contracts traded on the Stock Exchange	299,477	205,581	46%

	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m	Change
RESULTS			
Revenue and other income	1,907	1,714	11%
Operating expenses	442	385	15%
Profit before taxation	1,465	1,329	10%
Taxation	(227)	(202)	12%
Profit attributable to shareholders	1,238	1,127	10%
Basic earnings per share	\$1.15	\$1.05	10%
Diluted earnings per share	\$1.15	\$1.04	11%

	At 31 Mar 2011	At 31 Dec 2010	Change
KEY ITEMS IN CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds (\$m)	9,934	8,677	14%
Total assets ¹ (\$m)	59,826	47,884	25%
Net assets per share ² (\$)	9.23	8.06	15%

Notes:

- The Group's total assets include the Margin Funds received from Participants on futures and options contracts.
- Based on 1,076,507,354 shares as at 31 March 2011, being 1,078,164,346 shares issued and fully paid less 1,656,992 shares held for the Share Award Scheme (31 December 2010: 1,076,436,353 shares, being 1,078,092,346 shares issued and fully paid less 1,655,993 shares held for the Share Award Scheme)

CHAIRMAN'S STATEMENT

Activity in the Hong Kong securities and derivatives markets remained healthy in the first quarter of 2011. As a result, the Group recorded a profit attributable to shareholders of \$1.2 billion which is an increase of about 10 per cent against the same period last year.

The ripple effect is exemplified in today's interconnected world economy. The unprecedented catastrophe in Japan, political unrest in the Middle East and North Africa, the continued fiscal strains in the Eurozone, and the policy moves by the Central Government to curb inflation and asset-price bubbles have not only cast uncertainties on the economy of those regions but also the global economy, including Hong Kong. As a market operator, HKEx will remain vigilant in responding to developments, internationally and locally, and work closely with other members of the World Federation of Exchanges to preserve the stability of the global financial markets. Investors are reminded to keep a watchful eye on market developments and be prudent in making their investment decisions.

In the exchange business, the emergence of alternative trading venues and the proposed cross-border mergers of established exchanges have placed HKEx in a rapidly changing and increasingly competitive landscape. Nevertheless, HKEx is privileged to benefit from the sustained growth of the largest economy in Asia. To seize the opportunity presented by the Mainland's 12th Five-Year Plan, building on our strengths as China's international financial centre and our unique position as a gateway between China and the rest of the world, HKEx will continue to foster the sustained development of our financial services and to establish Hong Kong as an offshore RMB centre.

I am confident that with resolute focus on implementing our Strategic Plan 2010-2012, HKEx will be able to take on challenges and capitalise on any new opportunities that may arise.

With Shareholders' overwhelming support, I am pleased that HKEx's 2011 AGM was successfully held on 20 April 2011 and all our proposed resolutions were passed. On behalf of the Board, I would like to congratulate Dr Bill Kwok and Mr Vincent Lee on their re-election, and Messrs Stephen Hui and Michael Lee on their re-appointment to the Board. Moreover, we welcome Mr John Harrison's appointment as a Director and look forward to working with him.

Dr Marvin Cheung retired from the Board after the 2011 AGM. During his service on the Board, Dr Cheung was the chairman of the Audit Committee and a member of the Remuneration Committee and the Risk Management Committee. HKEx takes this opportunity to thank Dr Cheung for his wise counsel, invaluable contributions and support to HKEx over the past six years.

Ronald Joseph ARCULLI

Chairman

Hong Kong, 11 May 2011

CHIEF EXECUTIVE'S REVIEW

The verse, “inherit the past and usher in the future” best describes what the executive management at HKEx is working on. We are proud of our achievements in 2010 but are cautiously implementing our Strategic Plan to tackle the impending challenges with a view to leading the Group into a new frontier.

Market Performance

In the first quarter of 2011, 17 companies were newly listed on the Stock Exchange, raising a total of \$17.8 billion. In the secondary market, an average daily turnover value of \$75.9 billion was recorded, an increase of 17 per cent against the corresponding period last year. An average daily of 246,687 derivatives contracts and 299,477 stock options contracts were traded on the Futures Exchange and the Stock Exchange respectively.

International Listing

As overseas enterprises have shown growing interest to seek listing in Hong Kong, we will continue with our efforts to promote the Exchange as the ideal listing venue to potential issuers from different parts of the world, and continue to explore ways to further facilitate secondary listing of overseas companies in Hong Kong. A survey revealed that institutional investors in Asia and Europe remain bullish on Asian equities with more than half indicating that they will increase their investments in the region in the next three years.¹

Market Infrastructure

To build a closer collaboration with the Mainland has always been one of our priorities in the Strategic Plan. The successful implementation of the first phase of our extension of trading hours has brought us closer in line with the Mainland markets and international practices, it has fortified our competitiveness, and will contribute to our longer term development.

With our investment in an RMB infrastructure, we are ready to support the listing of, and dealing in, RMB-denominated securities. To capitalise on our Mainland advantage, we have put additional efforts into expanding our Mainland market data programme and facilitating Mainland connectivity. We are working on the development of SDNet 2.0 (the second generation of securities and derivatives network), construction of the Next Generation Data Centre (NGDC) for consolidating our data centres and offering hosting services, upgrading of our securities trading system to AMS/3.8, and a number of initiatives to improve our market infrastructure.

RMB Business Development

Trading in RMB-denominated shares is important to the further development of the offshore RMB market in Hong Kong, or the CNH market. Currently, 3 RMB-denominated debt securities are listed and available for trading on the Exchange. On 29 April 2011, the successful listing of Hui Xian REIT on the Exchange marked an important milestone as the first IPO and listing of RMB-denominated REIT. HKEx will continue to work closely with issuers, brokers and regulators on the introduction of other RMB-denominated products.

¹ Between mid-December 2010 and mid-January 2011, Fidelity International and Greenwich Associates conducted interviews with 45 institutional investors (including sovereign wealth funds, government-affiliated investors, pension funds and insurance companies) in Asia and Europe with over approximately USD1.6 trillion in assets under management in total. (Source: Fidelity White Paper “Institutional Asset Flows And Benchmark Challenges”, March 2011)

However, the long-term growth and stability of an RMB stock market segment is subject to the challenge of sufficient and reliable RMB liquidity in Hong Kong. In this regard, HKEx plans to introduce an RMB equity Trading Support Facility (TSF) in the second half of this year, pending regulatory approval, to facilitate trading in RMB-denominated shares in the secondary market.

The TSF will source RMB from one or more banks in Hong Kong by way of foreign exchange spot transactions and provide the RMB through its participating brokers to investors who wish to buy RMB-denominated shares in the secondary market. The TSF's RMB-HKD exchange rate will be set on a commercial basis by the participating bank(s). Upon sale of the RMB-denominated shares by investors, the RMB proceeds will be returned to the TSF, and investors will collect the HKD equivalent converted at the TSF's prevailing exchange rate. This mechanism (so called "HK Dollar-in, HK Dollar-out") will ensure that the RMB supplied by the TSF stays in the secondary market.

There are a number of initiatives to be launched during 2011 aiming at further improving market quality, steering HKEx into new business arenas and delivering the best performance for Shareholders. We are entering into a capital investment phase and will experience some growth in headcount and costs with the implementation of these initiatives.

LI Xiaojia, Charles
Director and Chief Executive

Hong Kong, 11 May 2011

BOARD AND COMMITTEES

Board

Independent Non-executive Chairman
Ronald Joseph ARCULLI * GBM, GBS, JP

Executive Director, Chief Executive
LI Xiaojia, Charles

Independent Non-executive Directors

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

Committees

Audit Committee

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

Environmental, Social and Governance Committee ⁷ (formerly known as Corporate Social Responsibility Committee)

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

Executive Committee

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

Committees (continued)

Investment Advisory Committee

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

Nomination Committee

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

Panel Member Nomination Committee

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

Remuneration Committee

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

Risk Management Committee ^Δ

Ronald Joseph ARCULLI (Chairman)
CHAN Ka-lok **
CHEUNG Kin Tung, Marvin ¹
FONG Hup **
KWOK Chi Piu, Bill ⁶
LAU Ying Pan, Edmond **
LEE Tze Hau, Michael ⁵
LUI Kei Kwong, Keith **
Mark Seumas McCOMBE **

Company Secretary

MAU Kam Shing, Joseph

Notes:

- | | | |
|---|--|---|
| * Government Appointed Directors | 3 Re-appointment effective 20 April 2011 | 8 Ceased chairmanship and appointed as member effective 21 April 2011 |
| ** Appointed by the Financial Secretary | 4 Re-elected on 20 April 2011 | |
| Δ Established under Section 65 of the SFO | 5 Appointment effective 21 April 2011 | 9 Appointment ceased effective 21 April 2011 |
| 1 Retired on 20 April 2011 | 6 Re-appointment effective 21 April 2011 | |
| 2 Appointment effective 20 April 2011 | 7 Change of name effective 21 April 2011 | |

Board of Directors

Dr Marvin Cheung retired from the Board after the conclusion of the 2011 AGM. On the same day, the Financial Secretary appointed Mr John Harrison as his successor, and re-appointed Messrs Stephen Hui and Michael Lee each for a term of approximately 2 years from the close of the 2011 AGM until the conclusion of the annual general meeting to be held in 2013. Dr Bill Kwok and Mr Vincent Lee were re-elected as Directors by Shareholders at the 2011 AGM each for a term of approximately 3 years from 20 April 2011 until the conclusion of the annual general meeting to be held in 2014.

Committees

Following the changes in the Board composition that took effect on 20 April 2011, the Board considered and announced new appointments to various Committees on 21 April 2011. The term of service of each Director with each Committee shall be coterminous with the individual's term of directorship with HKEx.

The updated member lists of the various Committees are available on the HKEx website.

Other Changes in Directors' Information

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

	Appointment (effective)	Cessation of Office (effective)
Stephen C C Hui		
• OSK Holdings Hong Kong Limited		
– chief executive officer	–	1 Apr 2011
– vice-chairman	1 Apr 2011	–
• SFC – member of Committee on Real Estate Investment Trusts	–	1 Apr 2011
• China South City Holdings Limited * – non-executive director	11 Apr 2011	–
Bill C P Kwok		
• SFC – member of Committee on Real Estate Investment Trusts	1 Apr 2011	–

* Currently listed on the Stock Exchange

Directors' updated biographies are available on the HKEx website.

Non-executive Directors' Remuneration

At the 2011 AGM, Shareholders approved the remuneration of \$550,000 and \$385,000 per annum be payable to the Chairman and each of the other non-executive Directors respectively, and in addition to an attendance fee of \$2,500 per meeting, the remuneration of \$100,000 and \$70,000 per annum respectively be payable to the chairman and each of the other members (excluding executive Director) of the Audit Committee, Executive Committee, Investment Advisory Committee and Remuneration Committee. The above remuneration will remain in effect until otherwise determined in general meeting.

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

Changes to Minimum Number of Shareholders for Market Capitalisation/Revenue Test and Requirements for Qualified Property Acquisitions and Formation of Joint Ventures

Under the consultation conclusions published on 21 January 2011, the Exchange has amended the Listing Rules to reduce the minimum shareholder requirement for the Market Capitalisation/Revenue Test from 1,000 to 300 shareholders, and to implement the proposed changes to requirements for qualified property acquisitions and formation of joint ventures. The Rule amendments became effective on 1 February 2011.

Review of Comments on Various Proposals

The Exchange is reviewing the responses to various consultations conducted in December 2010, namely: (i) review of the Code on Corporate Governance practices and associated Listing Rules; (ii) proposed changes to property valuation requirements; (iii) proposed changes to requirements for the listing of debt issues to professional investors only; and (iv) ex-entitlement trading and shareholder approval. Consultation conclusions will be released later this year.

Provision of Free Training Programme to Strengthen ESG Reporting

In light of the increasing focus on Environmental, Social and Governance (ESG) reporting, HKEx will organise a series of training seminars and workshops between May and July this year to help equip listed companies with practical tools necessary for ESG reporting. HKEx will consult the public on a draft ESG Reporting Guide after the training seminar and workshop, which will be structured based on the draft Guide. Subject to market comments, HKEx proposes to finalise the Guide that embraces recommended best practices.

Enhancement of Continuing Disclosure Regime

HKEx welcomes the Hong Kong Government's publication of the consultation conclusions on the proposed statutory codification of certain requirements for the disclosure of price sensitive information by listed corporations and its decision to take the proposal forward. At an appropriate stage, HKEx will consult the market on the consequential amendments to the relevant sections under the Listing Rules.

Cash Market

Market Performance

In the first quarter of 2011, 14 companies were newly listed on the Main Board (including 4 transfers from GEM), and 3 on GEM. Total capital raised including post-listing funds reached \$66.7 billion. As at 31 March 2011, 1,258 and 168 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about \$21,400 billion. In addition, there were 5,689 DWs, 974 CBBCs, 8 REITs, 72 ETFs and 170 debt securities listed as at 31 March 2011. The average daily turnover in the first quarter of 2011 was \$75.6 billion on the Main Board and \$364.8 million on GEM.

Implementation of Extension of Trading Hours

Following a series of market simulations in the middle of February 2011 to assist EPs and IVs in verifying their readiness, the first phase of the two-phased trading hour extension in the securities and derivatives markets was implemented smoothly on 7 March 2011. The second phase will be implemented on 5 March 2012.

The extension was aimed at enhancing the price discovery function for Mainland-related securities listed in Hong Kong by opening the market earlier and increasing the overlap between Hong Kong and Mainland trading hours, and strengthening HKEx's competitiveness by narrowing the gap between its trading hours and those of other Asian exchanges.

Trading and Clearing of RMB Products

During the first quarter of 2011, HKEx and the SFC jointly organised 3 briefing sessions for the EPs and CPs to assist them in preparing for RMB-related business. Subsequently, HKEx conducted 2 RMB readiness tests to help them determine their operation readiness. The list of the EPs and CPs which have successfully completed the tests and confirmed their readiness for trading and/or clearing RMB securities is available on the HKEx website.

Development of ETF Market

The securities market had 72 ETFs and 14 ETF managers as at 31 March 2011 following the listing of the W.I.S.E. – CSI HK Listed Mainland Consumption Tracker, W.I.S.E. – CSI HK Listed Mainland Real Estate Tracker, and Mirae Asset TIGER KOSPI 200 ETF during the first quarter of 2011. In addition, HKEx received the 2011 award for the Best Asian Exchange for Listing ETFs from etfexpress, a website that covers the ETF industry.

Derivatives Market

Market Performance

In the first quarter of 2011, the products shown below had record high open interest and most had record high one-day volume.

Products	Record High One-day Volume		Record High Open Interest	
	Date	Number of Contracts	Date	Number of Contracts
Mini HSI Futures	15 Mar	79,706	15 Feb	12,619
Mini H-shares Index Futures	15 Mar	13,593	11 Feb	3,657
Mini HSI Options	15 Mar	9,192	29 Mar	19,793
HSI Dividend Point Index Futures	2 Feb	1,600	17 Feb	5,439
HSCEI Dividend Point Index Futures	–	–	29 Mar	3,122
Flexible HSI Options	–	–	30 Mar	5,310

Introduction of Synthetic Futures Trading

On 9 May 2011, HKEx introduced a standard combination trading function in its stock options market by which investors can use synthetic futures strategies in the trading of 5 active stock option classes, namely China Construction Bank, China Life Insurance, China Mobile, HKEx and HSBC, to reduce execution risk.

Synthetic futures series in other option classes may be introduced, subject to market demand.

Introduction of VHSI and Plans for Futures on VHSI

As the result of more than two years of concerted efforts between HKEx and Hang Seng Indexes Company Limited (HSIL) to develop a stock market volatility benchmark for Hong Kong, the real-time HSI Volatility Index (VHSI) was launched on 21 February 2011, which is an HSI related indicator based on the Chicago Board Options Exchange's Volatility Index, or VIX, methodology with adaptations to suit the Hong Kong market. The VHSI measures the expected volatility of the HSI over the next 30 days implied in the prices of HSI options trading in the derivatives market. Since 14 March 2011, real-time VHSI has been disseminated on the HKEx website and via HKEx's Market Datafeed to authorised IVs. HKEx and HSIL are working together on a series of educational and promotional programmes to help the investment community familiarise itself with the VHSI and to raise public awareness of the index and its applications.

HKEx is consulting market participants regarding the possible introduction of a futures contract on the VHSI. Futures on the VHSI could be used by investors to hedge volatility risk or obtain pure volatility exposure in a single contract.

Shortening of Price Update Interval

Effective 14 March 2011, the price update interval was shortened from 1 second to 0.5 second, enabling investors to have more frequent updates of the bid and ask prices in the derivatives market. Rehearsals were conducted in January and February 2011 to assist EPs in verifying their system readiness.

Clearing

T+2 Finality

HKEx has arranged a series of briefing sessions to help EPs and Designated Banks prepare for the launch of T+2 Finality on 25 July this year. A new interbank bulk settlement run will be introduced in the evening of T+2 to provide finality of securities and money settlement on the same day.

Scripless Securities Market

The Scripless Securities Market Working Group has completed the study of the operational details of the proposed model, which will form the basis for the SFC's preparation of the consultation on the new subsidiary legislation under the SFO. Relevant legislative amendments are targeted to be submitted to the Legislative Council for its deliberation this year.

Participant Services

Participant Training and Market Education

In the first quarter of 2011, HKEx and the Hong Kong Securities Institute jointly organised 4 Continuous Professional Training courses on HKATS operations and trading procedures. There were also 3 training courses related to AMS/3, and 8 related to CCASS or DCASS. In addition, a total of more than 600 nominees from EPs attended the 5 briefing sessions and 2 seminars on derivatives market products during the quarter. HKEx planned to organise another 26 interactive training courses on Stock Options for frontline sales staff of EPs later this year.

Participant Recruitment

In the first quarter of 2011, 8 SEHK Participants and 2 HKFE Participants were newly admitted, including new EPs from the Mainland and overseas. As at the end of March 2011, there were 522 SEHK Participants and 180 HKFE Participants. For HKSCC, there were 23,340 CCASS Participants, including 167 IPs newly admitted in the first quarter of 2011.

Market Data

Launch of Basic Market Prices Service

To enhance market transparency and raise the profile of the Hong Kong securities and derivatives markets, HKEx repackaged the Free Prices Website Service as the Basic Market Prices (BMP) service and launched the service on 1 April 2011. Under the BMP service, HKEx provides basic securities and derivatives market data to service providers at a flat monthly fee. The service providers include IVs, EPs or their affiliates, and the six designated websites which were part of the Free Prices Website Service pilot programme. The BMP service was available through a total of 23 websites and 10 mobile applications when it was launched. HKEx has been processing new BMP service applications and expects there will be more BMP services provided under different platforms in the near future.

Introduction of PRS Plus

HKEx introduced an additional derivatives market datafeed, PRS Plus, on 11 April 2011. PRS Plus and the current PRS are identical in terms of data content and market depth, but the update interval of the PRS Plus is 5 times shorter. Eighteen IVs offered PRS Plus on their services on its launch date and HKEx anticipates more than one-third of the derivatives market data services in the market will eventually be offered with PRS Plus data.

HKEx also introduced an End-user Licence for both PRS and PRS Plus. So far, 18 companies (mainly EPs and market makers) have obtained the licence for the internal usage of PRS Plus.

Risk Management

Market Surveillance

Under the Memorandum of Understanding between the SFC and HKEx on matters relating to market surveillance, HKEx referred a total of 32 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 three months ended 31 March 2011.

Information Technology

Production Systems' Stability and Reliability

During the first quarter of 2011, all major trading, clearing and settlement, and market data dissemination systems for the securities and derivatives markets operated by HKEx continued to perform robustly and reliably. HKEx remains committed to upholding system reliability, availability and stability.

System Capacity Planning and Technology Upgrades

HKEx continues its technology investment in system upgrades to capture new business opportunities and strengthen its competitiveness. This includes: (i) the introduction of the PRS Plus in April this year to deliver an additional datafeed for the derivatives market to support higher price update frequency of about 6,600 messages per second initially and 7,300 messages per second by 2012; (ii) the increase in the DCASS capacity by about 60 per cent to handle 475,000 account positions in the third quarter of 2011; (iii) the capacity upgrade of the AMS/3 technology scheduled for completion by the end of this year, which involves capacity increase by 10 times to 30,000 orders per second and order processing latency reduction by 16 times to 9 milliseconds (referred to as AMS/3.8); and (iv) the further upgrade of MDS to MDS/3.8 for capacity alignment with AMS/3.8.

Apart from the above, planning for the next generation market datafeed system is underway. The aim of the project is to replace the existing MDS and PRS with a single, common, flexible, and ultra low latency market data dissemination platform for all asset classes trading at HKEx.

System Enhancements for RMB Products

The CCASS enhancements were implemented in March 2011 to: (i) facilitate eIPO refunds in RMB currency in clear good funds on the same day; and (ii) apply haircuts for converting marks and collateral requirements in RMB and other foreign currencies into HKD equivalent. In addition, the Cash Clearing Risk Management System will be enhanced late this year to enable the calculation and collection of marks and concentration of collateral in currencies other than HKD to cover corresponding trade currencies of the securities. Meanwhile, the RMB TSF enhancements will be implemented in the second half of this year to facilitate trading in RMB equity products.

The DCASS enhancements to support RMB margined and settled futures and options are also in progress. Implementation will be carried out in 2 phases. The first phase will be rolled out in the middle of this year to facilitate the introduction of new stock options with trading/settlement currencies other than HKD. Phase two will be implemented thereafter to facilitate margin offset between products with different settlement currencies.

HKEx is also pursuing a number of initiatives to enhance its infrastructure readiness for a range of RMB products in the securities market.

Independent Review of Market Systems

The independent pre-implementation review of AMS/3.8 and MDS/3.8 will commence in the second quarter of this year. The review will cover the technology and security risks, system development and project management controls, and the production and market readiness of AMS/3.8 and MDS/3.8 prior to production launch late this year.

Operational Efficiency

HKEx is working on the automated Structured Products Integrated Transaction System (SPRINTS) to facilitate automation of the approval process for DW and CBBC listing applications, and on the Enterprise Content Management system to streamline document management process and enhance operational efficiency in the Listing Division. The systems are targeted for launch in the second and third quarter of this year respectively.

NGDC and IT Office Consolidation

HKEx started site preparation work in late 2010 for construction of the NGDC at Tseung Kwan O Industrial Estate. Tender for the building superstructure will be arranged in the second quarter of this year with the construction work to commence in the third quarter of this year. The electrical and mechanical facilities required for the hosting services will be built in phases in the middle of this year to meet the target of launching the services by the end of 2012. Relocation of the primary data centre for the securities market to the NGDC will take place in the fourth quarter of 2012, and the relocation of other systems will be completed by phases by the fourth quarter of 2013.

Market Development

Development of OTC Clearing

HKEx is in the process of devising the detailed business model, risk management framework, and shareholder structure for the OTC derivatives clearing service business which is planned for launch by the end of 2012. HKEx aims to discuss its proposals with relevant stakeholders, including OTC market dealers, in the coming months. HKEx is also reviewing and evaluating potential IT platforms for the OTC clearing service. Meanwhile, HKEx is also working with the Hong Kong Monetary Authority (HKMA) to develop the interface between the OTC clearing house and the trade repository. The Hong Kong Government, the HKMA, and the SFC are currently formulating the regulatory regime for Hong Kong's OTC derivatives market and plan to conduct a market consultation on the detailed rules and regulations in the third quarter of this year. Interest rate derivatives and non-deliverable forwards will be the initial products cleared by the OTC clearing house.

Issuer Marketing

Listing promotion initiatives are focused on 2 main areas: (i) to introduce our securities market to selected overseas markets as one of the most vibrant capital raising platforms globally, and particularly for resource and luxury brand companies; and (ii) to promote the Exchange's pre-eminence as a listing venue for Mainland companies that were already listed on other overseas exchanges and are seeking capital, profile, and a liquid primary and/or secondary market.

At the beginning of the year, promotional activities were conducted in Italy and Switzerland as well as Taiwan. The Chairman and HKEx executives met with potential issuers in Europe and, spoke at the "China Capital Summit" in Milan to attract luxury brands and other companies at the conference to list in Hong Kong. The listing of French cosmetics brand L'Occitane in Hong Kong in May 2010 highlights investors' strong interest in this sector. Other well-known European brands have expressed interest in Hong Kong listings, not only to raise funds, but also to achieve greater brand recognition in this part of the world.

Following the successful listings of Mongolian Mining Corporation and SouthGobi Resources Ltd in Hong Kong in 2010, HKEx executives travelled to Mongolia in February 2011 to meet with government authorities and potential listing applicants in Ulaanbaatar. There was also a trip to Toronto and Vancouver in March 2011 to meet a number of mineral companies. During the visit, the Head of Issuer Marketing spoke at a number of events in conjunction with the Prospectors and Developers Association of Canada Convention 2011, one of the most popular annual events for the global mining industry. In Hong Kong, HKEx participated in Mines and Money Conference in late March 2011 and joined the discussion of the growing importance of the Exchange for fund raising by natural resource companies.

HKEx continued to identify listing prospects in the Mainland and spoke at events in Beijing, Guangdong, Shanghai, and Hainan. In January 2011, HKEx, the Shandong Provincial Government and the Shandong Financial Services Office co-organised a conference in Jinan on listing in Hong Kong. HKEx also co-organised 2 large seminars in Hong Kong in March 2011, targeting enterprises from Sichuan and Hebei to ascertain their interest in listing. The Vice Governors of Sichuan and Hebei attended the events and delivered keynote addresses.

Publication of Cash Market Transaction Survey

HKEx published the Cash Market Transaction Survey 2009/10 in February 2011. The survey revealed that the contribution of overseas investors to the total market turnover rose to 46 per cent in 2009/10 and for the first time surpassed the contribution from local investors. The survey report is available on the HKEx website. HKEx will conduct further surveys later this year to keep track of the degree of participation of different investor types in HKEx's derivatives market and the trend and characteristics of retail investor participation in HKEx's markets.

Treasury

The Group's funds available for investment comprise Corporate Funds, cash collateral, Margin Funds and Clearing House Funds, totalling \$44.0 billion on average for the three months ended 31 March 2011 (31 March 2010: \$37.1 billion).

As compared with 31 December 2010, the overall size of funds available for investment as at 31 March 2011 increased by 10 per cent or \$3.9 billion to \$42.2 billion (31 December 2010: \$38.3 billion). Details of the asset allocation of the investments as at 31 March 2011 against those as at 31 December 2010 are set out below.

	Investment Fund Size \$bn		Bonds *		Cash or Bank Deposits *		Global Equities	
	Mar 2011	Dec 2010	Mar 2011	Dec 2010	Mar 2011	Dec 2010	Mar 2011	Dec 2010
Corporate Funds	10.9	9.4	53%	58%	43%	38%	4%	4%
Cash collateral	6.3	3.6	0%	0%	100%	100%	0%	0%
Margin Funds	22.3	22.7	26%	26%	74%	74%	0%	0%
Clearing House Funds	2.7	2.6	13%	14%	87%	86%	0%	0%
Total	42.2	38.3	29%	31%	70%	68%	1%	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, Margin Funds and Clearing House Funds. Excluding equities and mutual funds held under the Corporate Funds (\$0.4 billion as at 31 March 2011 and 31 December 2010), which have no maturity date, the maturity profiles of the remaining investments as at 31 March 2011 (\$41.8 billion) and 31 December 2010 (\$37.9 billion) were as follows:

	Investment Fund Size \$bn		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		>3 years	
	Mar 2011	Dec 2010	Mar 2011	Dec 2010	Mar 2011	Dec 2010	Mar 2011	Dec 2010	Mar 2011	Dec 2010	Mar 2011	Dec 2010
Corporate Funds	10.5	9.0	16%	19%	24%	4%	16%	27%	29%	34%	15%	16%
Cash collateral	6.3	3.6	75%	72%	6%	7%	19%	21%	0%	0%	0%	0%
Margin Funds	22.3	22.7	16%	27%	26%	24%	39%	26%	19%	23%	0%	0%
Clearing House Funds	2.7	2.6	71%	74%	11%	7%	5%	5%	13%	14%	0%	0%
Total	41.8	37.9	28%	33%	22%	16%	28%	24%	18%	23%	4%	4%

Credit exposure is well diversified. The Group's bond portfolio (which includes certain principal-guaranteed structured notes) held is of investment grade and, as at 31 March 2011, had a weighted average credit rating of Aa2 (31 December 2010: Aa2) and a weighted average maturity of 1.9 years (31 December 2010: 2.1 years). Deposits (which include certain principal-guaranteed structured deposits) are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk (VaR) and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (1 year is used by the Group). The overall risk, as measured by the VaR methodology, during the first quarter of 2011 and the fourth quarter of 2010 was as follows:

	Average VaR \$m		Highest VaR \$m		Lowest VaR \$m	
	Jan-Mar 2011	Oct-Dec 2010	Jan-Mar 2011	Oct-Dec 2010	Jan-Mar 2011	Oct-Dec 2010
Corporate Funds	25.9	20.6	27.5	23.9	23.9	18.5
Cash collateral	0.3	0.1	0.3	0.4	0.2	0.0
Margin Funds	6.3	8.7	7.5	10.0	5.9	7.2
Clearing House Funds	0.8	1.7	1.2	2.4	0.4	0.6

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

FINANCIAL REVIEW

Overall Performance

	Note	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m	Change
RESULTS				
Revenue and other income:				
Income affected by market turnover	(A)	1,255	1,091	15%
Stock Exchange listing fees	(B)	246	221	11%
Market data fees	(C)	168	169	(1%)
Other revenue	(D)	127	108	18%
Net investment income	(E)	111	125	(11%)
		1,907	1,714	11%
Operating expenses		442	385	15%
Profit before taxation		1,465	1,329	10%
Taxation		(227)	(202)	12%
Profit attributable to shareholders		1,238	1,127	10%

The Group recorded a profit attributable to shareholders of \$1,238 million in the first quarter of 2011 compared with \$1,127 million for the same period in 2010.

The higher profit in the first quarter of 2011 against that of 2010 was mainly due to higher turnover-related income driven by the more active Cash and Derivatives Markets and an increase in Stock Exchange listing fees.

Total operating expenses increased over the same quarter last year mainly due to higher staff costs as the Group embarks upon various initiatives under the Strategic Plan 2010-2012, and an increase in IT and computer maintenance expenses and legal and professional fees.

Revenue and Other Income

(A) Income Affected by Market Turnover

	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m	Change
Trading fees and trading tariff	765	653	17%
Clearing and settlement fees	418	365	15%
Depository, custody and nominee services fees	72	73	(1%)
Total	1,255	1,091	15%

The increase in trading fees and trading tariff was primarily attributable to higher turnover of the Cash Market in the first quarter of 2011 against the same period in 2010.

Clearing and settlement fees are derived predominantly from Cash Market transactions. The increase in clearing and settlement fees in the first quarter of 2011 was mainly due to the higher turnover of the Cash Market. Clearing and settlement fees are also affected by the volume of settlement instructions (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 quarter of 2011, the percentage increase in clearing and settlement fees was lower than that of the turnover of the Cash Market compared with the corresponding period in 2010 as a lower proportion of the value of exchange-traded transactions settled and SIs was subject to the minimum fee.

Depository, custody and nominee services fees mainly comprise scrip fees, corporate action fees, stock custody fees, dividend collection fees, stock withdrawal fees, and eIPO handling fees. Depository, custody and nominee services fees decreased slightly due mainly to a drop in corporate action fees.

Key Market Indicators

	Three months ended 31 Mar 2011	Three months ended 31 Mar 2010	Change
Average daily turnover value on the Stock Exchange (\$bn)	75.9	64.8	17%
Average daily number of derivatives contracts traded on the Futures Exchange	246,687	211,724	17%
Average daily number of stock options contracts traded on the Stock Exchange	299,477	205,581	46%

(B) Stock Exchange Listing Fees

	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m	Change
Annual listing fees	107	96	11%
Initial and subsequent issue listing fees	138	124	11%
Others	1	1	0%
Total	246	221	11%

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 DWs, but the increase was partly offset by the drop in the number of newly listed CBBCs.

Key Drivers for Annual Listing Fees

	At 31 Mar 2011	At 31 Mar 2010	Change
Number of companies listed on Main Board	1,258	1,158	9%
Number of companies listed on GEM	168	174	(3%)
Total	1,426	1,332	7%

Key Drivers for Initial and Subsequent Issue Listing Fees

	Three months ended 31 Mar 2011	Three months ended 31 Mar 2010	Change
Number of newly listed DWs	2,056	1,649	25%
Number of newly listed CBBCs	1,449	1,886	(23%)
Number of newly listed companies on Main Board	14	13	8%
Number of newly listed companies on GEM	3	0	N/A
Total equity funds raised on Main Board			
– through IPOs (\$bn)	17.3	34.0	(49%)
– Post-IPO (\$bn)	46.9	50.8	(8%)
Total equity funds raised on GEM			
– through IPOs (\$bn)	0.5	0.0	N/A
– Post-IPO (\$bn)	2.0	2.3	(13%)

(C) Market Data Fees

	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m	Change
Market data fees	168	169	(1%)

Despite an increase in the average daily turnover of the Cash Market in the first quarter of 2011, market data fees fell marginally as certain Cash Market data fees charged on a per quote basis were down from the same period in 2010.

(D) Other Revenue

	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m	Change
Network, terminal user, dataline and software sub-license fees	101	85	19%
Participants' subscription and application fees	9	9	0%
Trading booth user fees	4	4	0%
Sales of Trading Rights	7	4	75%
Miscellaneous revenue	6	6	0%
Total	127	108	18%

In tandem with the increase in market activities and a bandwidth upgrade, network, terminal user, dataline and software sub-license fees rose mainly due to an increase in Cash Market trading system line rental income and sales of hardware and software, and higher Derivatives Market trading system sub-license fees.

(E) Net Investment Income

	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m	Change
Gross investment income	112	126	(11%)
Interest rebates to Participants	(1)	(1)	0%
Net investment income	111	125	(11%)

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

	Three months ended 31 Mar 2011 \$bn	Three months ended 31 Mar 2010 \$bn	Change
Corporate Funds	10.4	9.2	13%
Cash collateral	4.4	3.6	22%
Margin Funds	26.3	22.3	18%
Clearing House Funds	2.9	2.0	45%
Total	44.0	37.1	19%

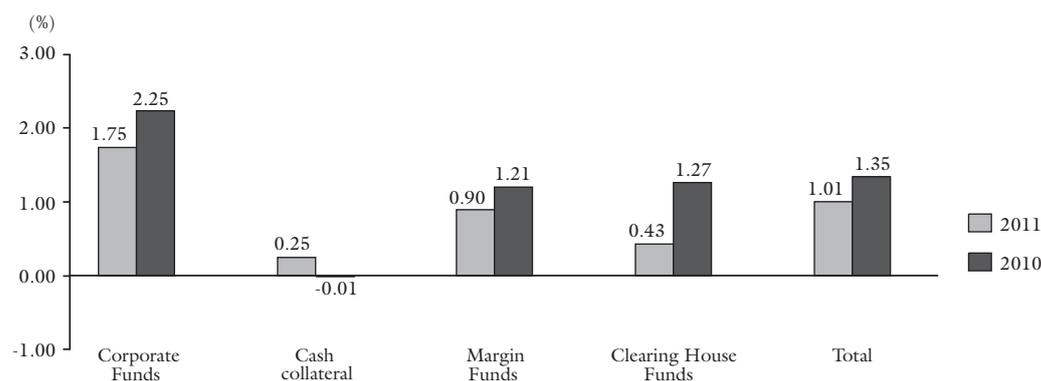
The average amount of Corporate Funds increased due to a rise in retained earnings as 10 per cent of the profit is retained under the current dividend payout policy, and the profit generated in the second half of 2010 was higher than that in the corresponding period of the previous year, the related dividend of which was not distributed until the second quarter of the following year.

The increase in the average amount of Margin Funds during the period was mainly caused by the higher margin rate required per contract and increases in open position.

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 drop in fair value gains of investments measured at fair value, reflecting market movements, but the decrease was partly offset by higher interest income across all Funds due to increases in bank deposit rates.

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

Annualised Net Return on Funds Available for Investment

The lower net returns of the Corporate Funds, Margin Funds and Clearing House Funds were mainly attributable to the drop in net fair value gains of investments measured at fair value (including certain principal-guaranteed structured notes and principal-guaranteed structured deposits) during the first quarter of 2011. However, declines in net fair value gains of investments of the Funds were partly offset by increases in interest income.

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

The gross returns of all the funds in the first quarter of 2011 and 2010 were similar to their net returns as very small interest rebates (mainly at savings rates) were paid to Participants under the low interest rate environment.

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

Operating Expenses

	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m	Change
Staff costs and related expenses	244	209	17%
IT and computer maintenance expenses	72	64	13%
Premises expenses	52	53	(2%)
Product marketing and promotion expenses	4	3	33%
Legal and professional fees	10	2	400%
Depreciation	26	27	(4%)
Other operating expenses	34	27	26%
Total	442	385	15%

Staff costs and related expenses increased by \$35 million, primarily due to higher salary costs as a result of a 5 per cent increase in headcount (from 841 at 31 March 2010 to 882 at 31 March 2011) for undertaking various new initiatives under the Strategic Plan 2010-2012 and salary adjustments to keep up with the market trend, an increase in employee share-based compensation expenses from the Awarded Shares granted in 2010, and an increase in performance bonus accrual on account of improved performance of the Group in the first quarter of 2011.

IT and computer maintenance expenses consumed by the Group (ie, excluding costs of services and goods directly consumed by the Participants of \$37 million (2010: \$29 million)) were \$35 million (2010: \$35 million). The rise in costs of services and goods directly consumed by the Participants was caused by the increase in Cash Market trading system line rentals due to bandwidth upgrade and purchases of hardware and software for replacement of obsolete items incurred by the Participants. Costs of services and goods directly 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.

Legal and professional fees increased mainly due to the development of the OTC clearing business and other initiatives.

The increase in other operating expenses was mainly on account of the fees for additional bank credit facilities for strengthening the Group's liquidity and risk management measures and sundry increases in other expenses.

Taxation

	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m	Change
Taxation	227	202	12%

Taxation increased mainly due to an increase in profit before taxation.

Working Capital

Working capital increased by \$1,144 million or 18 per cent to \$7,518 million at 31 March 2011 (31 December 2010: \$6,374 million). The increase was primarily due to the profit generated during the quarter ended 31 March 2011 of \$1,238 million, the drop in non-current financial assets of \$22 million and the increase in other working capital of \$26 million, but was partly offset by the increase in fixed assets of \$142 million.

Capital Expenditures and Capital Commitments

During the first quarter of 2011, the Group incurred capital expenditures of \$168 million (2010: \$5 million) which were mainly on the NGDC at Tseung Kwan O with hosting service capability and the upgrade of the Cash Market trading system and Market Datafeed system.

The Group's capital expenditure commitments at 31 March 2011, including those authorised by the Board but not yet contracted for, amounted to \$1,921 million (31 December 2010: \$2,075 million) and were mainly related to the construction of the NGDC at Tseung Kwan O, the upgrade and enhancement of trading and clearing systems and other new business initiatives. The Group has adequate internal resources to fund its capital expenditure commitments.

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.

At 31 March 2011, the aggregate net open foreign currency positions amounted to HK\$2,035 million, of which HK\$374 million were non-USD exposures (31 December 2010: HK\$2,401 million, of which HK\$375 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK\$3,853 million (31 December 2010: HK\$3,749 million). All forward foreign exchange contracts would mature within 2 months (31 December 2010: 2 months).

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

Contingent Liabilities

Details of contingent liabilities are included in note 26 to the condensed consolidated accounts of this quarterly report.

Changes since 31 December 2010

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 2010.

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 first quarter of 2011 (first quarter of 2010: \$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 three months ended 31 March 2011 in conjunction with HKEx's external auditor.

The external auditor has carried 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 three months ended 31 March 2011.

OPERATIONAL REVIEW

Organisational Change

The resignation of Mr Eric Yip, Deputy Chief Operating Officer, took effect at the end of March 2011. The Company thanked Mr Yip for his valuable contributions during his seven years of service. 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. All options granted under the Pre-Listing Scheme were exercised, and unexercised options under the Post-Listing Scheme will continue to be valid and exercisable subject to the provisions of the scheme until the end of the respective exercise periods.

Movements in the share options granted under the Post-Listing Scheme during the three months ended 31 March 2011 are set out below.

Date of grant	Exercise price \$	Number of shares issuable under the options				Exercise ² period
		As at 1 Jan 2011	Issued upon ¹ subscription during the three months ended 31 Mar 2011	Cancelled/ lapsed during the three months ended 31 Mar 2011	As at 31 Mar 2011	
Employees³						
31 Mar 2004	16.96	469,500	8,500	–	461,000	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	885,000	63,500	–	821,500	26 Jan 2007 – 25 Jan 2015

Notes:

- 1 The weighted average closing price immediately before the dates on which the options were exercised was \$176.86.
- 2 Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and became fully vested on the fifth anniversary of the grant.
- 3 Employees working under employment contracts that were regarded as “continuous contracts” for the purpose of the Employment Ordinance of Hong Kong.

Share Award Scheme

The Share Award Scheme was adopted by the Board on 14 September 2005 (Adoption Date), and was subsequently amended on 16 August 2006 and 13 May 2010. The amended and restated rules together with the trust deed of the Share Award Scheme are available on the HKEx website.

Since the Adoption Date, a total of 2,744,323 shares have been awarded up to the date of this quarterly report, representing about 0.26 per cent of HKEx's issued share capital as at the Adoption Date. Details of the Awarded Shares which remain outstanding are set out below.

Date of approval by Board	Date of ¹ award	Awarded ¹ sum \$'000	Number of shares purchased	Number of Awarded Shares	Average ² fair value per share \$	Number of Awarded Shares vested during the three months ended	Vesting period
						31 March 2011	
13 Dec 2006	15 Jan 2007	19,673	272,500	272,465	72.28	-	13 Dec 2008 – 13 Dec 2011
15 May 2007	17 Jul 2007	600	5,500	5,500	102.29	-	18 Jun 2009 – 18 Jun 2012
12 Dec 2007	4 Feb 2008	26,300	151,000	150,965	163.72	-	12 Dec 2009 – 12 Dec 2012
10 Dec 2008	3 Feb 2009	4,900	59,900	59,900	81.96	14,975	1 Jan 2011 – 1 Jan 2014
23 Apr 2010	10 Jun 2010	88,516	720,100	720,054 ³	123.29	-	13 May 2012 – 13 May 2013
23 Apr 2010	9 Jul 2010	840	6,900	6,900	121.88	-	10 Jun 2012 – 10 Jun 2013
23 Apr 2010	9 Jul 2010	2,520	21,000	21,000	120.32	-	2 Jul 2012 – 2 Jul 2013
14 Dec 2010	31 Dec 2010	91,303	518,100	518,039 ³	176.75	-	14 Dec 2012 – 14 Dec 2013
14 Dec 2010	30 Mar 2011	570	3,300	3,300	169.92	-	13 Jan 2013 – 13 Jan 2014
14 Dec 2010	30 Mar 2011	2,310	13,600	13,600	169.92	-	1 Feb 2013 – 1 Feb 2014
14 Dec 2010	8 Apr 2011	263	1,400	1,400	179.55	-	1 Apr 2013 – 1 Apr 2014

Notes:

- 1 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 The fair value of the Awarded Shares was based on the average purchase cost per share.
- 3 73,217 shares and 40,856 shares were awarded to HKEx's Chief Executive on 10 June and 31 December 2010 respectively.

As at 31 March 2011, there were a total of 1,656,992 shares held in trust by the trustee under the Share Award Scheme including the further shares acquired by reinvesting the dividend income received in respect of the shares held under the trust.

Corporate Governance

The Government Appointed Directors and the Chief Executive in his capacity as a Director are not subject to election or re-election by Shareholders as their appointments are governed by Section 77 of the SFO and HKEx's Articles respectively. Save as disclosed in this paragraph, HKEx 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 15 February 2011, the Global and Home Market Ratings assigned to HKEx by GovernanceMetrics International Inc, a corporate governance ratings and research firm, were 8 and 10 respectively, out of the maximum of 10. On 31 March 2011, HKEx and its Chief Executive, Mr Charles Li, received the Best Investor Relations (Hong Kong Company) and Asia's Best CEO (Investor Relations) awards respectively in the 1st Asian Excellence Recognition Awards 2011 from *Corporate Governance Asia*.

As part of the Company's commitment to best corporate governance (CG) practices, HKEx appointed a consultant to conduct an independent evaluation of the performance of the Board and its committees in October 2010. The consultant concluded that the Board, its committees, and its members function well and there are no major areas of concern. HKEx will conduct a Board performance evaluation annually and an independent evaluation once every three years.

Taking into account the consultant's recommendation from the Board performance evaluation and the Exchange's proposed changes to the CG Code, the Board has resolved to: (i) restructure its CSR Committee to become the ESG Committee and revise its terms of reference (TOR) to include the proposed CG functions of the Company; and (ii) establish a Shareholders Communication Policy to ensure that Shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company in order to enable them to exercise their rights in an informed manner, and to allow them to engage actively with the Company. The updated TOR of the ESG Committee together with the newly established Shareholders Communication Policy are available on the HKEx website.

At the 2011 AGM, Shareholders approved the Board's proposal to amend HKEx's Articles, which are related to (i) HKEx's corporate communications; (ii) the notice period for Shareholders' nomination of Directors; and (iii) minor housekeeping changes. The revised Articles are subject to the SFC's written approval pursuant to Section 67 of the SFO.

The Company's CG information is set out in the Corporate Governance section of the HKEx website.

CSR Development

HKEx continues to be a Caring Company awarded by The Hong Kong Council of Social Service, and included in the Dow Jones Sustainability Asia Pacific Index, the FTSE4Good Index Series, and the Hang Seng Corporate Sustainability Index Series.

HKEx's 2010 CSR Report, which gives an account of the Company's CSR performance during 2010 and achieved the Global Reporting Initiative application level A+, has been published on the HKEx website since 14 March this year to facilitate easy access by a wider group of stakeholders and to help reduce paper consumption.

In the first quarter of 2011, HKEx continued its commitment to promoting CSR within and outside the Company by taking a number of initiatives, namely (i) a CSR briefing for HKEx's key suppliers to facilitate the implementation of the Company's supply chain management system; (ii) talks for HKEx's employees by the Equal Opportunities Commission and the Office of the Privacy Commissioner for Personal Data of Hong Kong to increase their knowledge of anti-discrimination and personal data protection respectively; (iii) participation in the Earth Hour 2011 organised by the WWF, and the Tree Planting Challenge 2011 organised by the Friends of the Earth (HK); and (iv) the HKEx Volunteer Team's participation in community services for underprivileged children and the elderly in Hong Kong, and fundraising activities for illiterate women in rural China. Moreover, in recognition of the Company's contribution of over 1,000 volunteer service hours to the Big Brothers and Sisters Mentoring Programme in 2010, HKEx received the Corporate Volunteer Team Excellence Award 2010 from The Boys' and Girls' Clubs Association of Hong Kong in March 2011.

The Company's CSR information is set out in the Corporate Social Responsibility section of the HKEx website.

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 a specific enquiry by the Company, all Directors confirmed that they complied with the Model Code throughout the three months ended 31 March 2011.

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

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

Long positions in shares and underlying shares of HKEx

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

Notes:

1 Based on 1,078,164,346 shares of HKEx in issue as at 31 March 2011

2 Being Mr Li's interests in 114,073 Awarded Shares and 1,050 shares further acquired by reinvesting the dividends received therefrom according to the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in the Operational Review in this quarterly report.

3 Mr Strickland was the beneficial owner of those shares.

Save for those disclosed above, as at 31 March 2011, 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 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 three months ended 31 March 2011, held any interests in or was granted any right to subscribe for the securities of HKEx and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

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

Minority 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 granted approval to 8 entities to be Minority Controllers, on the basis that the shares are held by them in custody for their clients. According to the Participant Shareholding Report as at 31 March 2011, the 8 approved Minority Controllers in aggregate held approximately 60 per cent of HKEx's issued share capital.

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

Long positions in shares and underlying shares of HKEx

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

Notes:

1 Based on 1,078,164,346 shares of HKEx in issue as at 31 March 2011

2 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 31 March 2011, no other persons had any interests or short positions in the shares or underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange.

Purchase, Sale or Redemption of HKEx's Listed Securities

During the three months ended 31 March 2011, neither HKEx nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Exchange a total of 16,900 HKEx shares at a consideration of about \$2.9 million.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

		Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m
Trading fees and trading tariff	3	765	653
Stock Exchange listing fees	4	246	221
Clearing and settlement fees		418	365
Depository, custody and nominee services fees		72	73
Market data fees		168	169
Other revenue	5	127	108
REVENUE AND TURNOVER		1,796	1,589
Investment income		112	126
Interest rebates to Participants		(1)	(1)
Net investment income	6	111	125
	2	1,907	1,714
OPERATING EXPENSES			
Staff costs and related expenses	7	244	209
Information technology and computer maintenance expenses	8	72	64
Premises expenses		52	53
Product marketing and promotion expenses		4	3
Legal and professional fees		10	2
Depreciation		26	27
Other operating expenses		34	27
	2	442	385
PROFIT BEFORE TAXATION	2	1,465	1,329
TAXATION	9	(227)	(202)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		1,238	1,127
Basic earnings per share	10(a)	\$1.15	\$1.05
Diluted earnings per share	10(b)	\$1.15	\$1.04

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Note	At 31 March 2011			At 31 Dec 2010		
		Current \$m	Non- current \$m	Total \$m	Current \$m	Non- current \$m	Total \$m
ASSETS							
Cash and cash equivalents	11	22,352	–	22,352	19,361	–	19,361
Financial assets measured at fair value through profit or loss	12	9,916	1,239	11,155	9,949	1,241	11,190
Financial assets measured at amortised cost	13	7,981	763	8,744	7,021	783	7,804
Accounts receivable, prepayments and deposits	14	17,104	5	17,109	9,203	3	9,206
Fixed assets		–	437	437	–	295	295
Lease premium for land		–	25	25	–	25	25
Deferred tax assets		–	4	4	–	3	3
Total assets		57,353	2,473	59,826	45,534	2,350	47,884
LIABILITIES AND EQUITY							
Liabilities							
Margin deposits from Clearing Participants on derivatives contracts	16	22,289	–	22,289	22,702	–	22,702
Cash collateral from HKSCC Clearing Participants	17	6,304	–	6,304	3,594	–	3,594
Accounts payable, accruals and other liabilities	18	18,276	–	18,276	9,946	–	9,946
Deferred revenue		444	–	444	473	–	473
Taxation payable		329	–	329	320	–	320
Other financial liabilities		83	–	83	58	–	58
Participants' contributions to Clearing House Funds	19	2,080	–	2,080	2,039	–	2,039
Provisions		30	28	58	28	29	57
Deferred tax liabilities		–	29	29	–	18	18
Total liabilities		49,835	57	49,892	39,160	47	39,207
Equity							
Share capital	20			1,078			1,078
Share premium	20			418			416
Shares held for Share Award Scheme	20			(220)			(219)
Employee share-based compensation reserve	21			74			56
Designated reserves	19, 22			581			580
Retained earnings	23			8,003			6,766
Shareholders' funds				9,934			8,677
Total liabilities and equity				59,826			47,884
Net current assets				7,518			6,374
Total assets less current liabilities				9,991			8,724

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital, share premium and shares held for Share Award Scheme (note 20) \$m	Employee share-based compensation reserve (note 21) \$m	Designated reserves (note 22) \$m	Retained earnings (note 23) \$m	Total equity \$m
At 1 Jan 2011	1,275	56	580	6,766	8,677
Profit attributable to shareholders	-	-	-	1,238	1,238
Shares issued upon exercise of employee share options	2	-	-	-	2
Shares purchased for Share Award Scheme	(3)	-	-	-	(3)
Vesting of shares of Share Award Scheme	2	(2)	-	-	-
Employee share-based compensation benefits	-	20	-	-	20
Transfer of reserves	-	-	1	(1)	-
At 31 Mar 2011	1,276	74	581	8,003	9,934

	Share capital, share premium and shares held for Share Award Scheme \$m	Employee share-based compensation reserve \$m	Designated reserves \$m	Retained earnings \$m	Total equity \$m
At 1 Jan 2010	1,400	43	563	6,021	8,027
Profit attributable to shareholders	-	-	-	1,127	1,127
Shares issued upon exercise of employee share options	10	-	-	-	10
Vesting of shares of Share Award Scheme	1	(1)	-	-	-
Employee share-based compensation benefits	-	3	-	-	3
Transfer of reserves	3	(3)	8	(8)	-
At 31 Mar 2010	1,414	42	571	7,140	9,167

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

		Three months ended 31 Mar 2011 \$m	As restated Three months ended 31 Mar 2010 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	24	1,545	1,378
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		(59)	(9)
Net (increase)/decrease in financial assets of the Corporate Funds:			
Increase in time deposits with original maturities more than three months		(408)	(25)
Payments for purchases of financial assets measured at amortised cost (excluding time deposits)		(930)	(230)
Net proceeds from sale or maturity of financial assets measured at amortised cost (excluding time deposits)		504	190
Net proceeds from sale or maturity of financial assets measured at fair value through profit or loss		–	372
Interest received from financial assets measured at amortised cost (excluding time deposits)		6	2
Interest received from financial assets measured at fair value through profit or loss		43	56
		(844)	356
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of employee share options		2	10
Purchase of shares for Share Award Scheme		(3)	–
		(1)	10
Net increase in cash and cash equivalents		700	1,744
Cash and cash equivalents at 1 Jan 2011/1 Jan 2010, as previously reported		1,945	4,751
Effect of change in accounting policy of cash collateral		–	(3,432)
		2,645	3,063
Cash and cash equivalents at 31 Mar			
Analysis of cash and cash equivalents			
Cash at bank and in hand		1,052	1,943
Time deposits with original maturities within three months		1,593	1,120
		2,645	3,063
Cash and cash equivalents at 31 Mar			

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 2010 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 2010.

Adoption of revised Hong Kong Financial Reporting Standards (HKFRSs) and accounting policy in the fourth quarter of 2010

As disclosed in the 2010 annual accounts, Hong Kong Exchanges and Clearing Limited (HKEx) and its subsidiaries (Group) early adopted Improvements to HKFRSs (2010), which comprise a number of minor and non-urgent amendments to a range of HKFRSs. Of these, the amendments to HKAS 34: Interim Financial Reporting are pertinent to the preparation of these condensed consolidated financial statements. The adoption of the amendment did not have any financial impact on the Group as it only affects certain disclosures.

The Group also revised its accounting policy for cash and cash equivalents of cash collateral, and they are no longer treated as cash and cash equivalents of the Group for the purpose of condensed consolidated statement of cash flows. 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 (SECH) 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 providing clearing, settlement, depository, custody and nominee services and net investment income earned on the Clearing House Funds.

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

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

	Three months ended 31 Mar 2011				
	Cash Market	Derivatives Market	Clearing Business	Market Data	Group
	\$m	\$m	\$m	\$m	\$m
Income from external customers	888	207	532	169	1,796
Net investment income	22	67	22	-	111
	910	274	554	169	1,907
Operating expenses					
Direct costs	163	43	85	17	308
Indirect costs	68	19	38	9	134
	231	62	123	26	442
Reportable segment profit before taxation	679	212	431	143	1,465

	Three months ended 31 Mar 2010				
	Cash Market	Derivatives Market	Clearing Business	Market Data	Group
	\$m	\$m	\$m	\$m	\$m
Income from external customers	773	177	469	170	1,589
Net investment income	28	76	21	-	125
	801	253	490	170	1,714
Operating expenses					
Direct costs	154	40	77	14	285
Indirect costs	50	14	29	7	100
	204	54	106	21	385
Reportable segment profit before taxation	597	199	384	149	1,329

3. Trading Fees and Trading Tariff

	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	541	464
Derivatives contracts traded on the Derivatives Market	224	189
	765	653

4. Stock Exchange Listing Fees

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

	Three months ended 31 Mar 2011				Three months ended 31 Mar 2010			
	Equity		CBBCs, DWs & others \$m	Total \$m	Equity		CBBCs, DWs & others \$m	Total \$m
Main Board \$m	GEM \$m	Main Board \$m			GEM \$m			
Stock Exchange Listing Fees								
Annual listing fees	101	6	-	107	90	6	-	96
Initial and subsequent issue listing fees	15	2	121	138	16	1	107	124
Other listing fees	1	-	-	1	1	-	-	1
Total	117	8	121	246	107	7	107	221
Costs of Listing Function								
Direct costs	62	13	4	79	58	13	4	75
Indirect costs	12	2	5	19	10	2	3	15
Total costs	74	15	9	98	68	15	7	90
Contribution to Cash Market								
Segment Profit before Taxation	43	(7)	112	148	39	(8)	100	131

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

	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m
Network, terminal user, dataline and software sub-license fees	101	85
Participants' subscription and application fees	9	9
Trading booth user fees	4	4
Sales of Trading Rights	7	4
Miscellaneous revenue	6	6
	127	108

6. Net Investment Income

	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m
Gross interest income	41	22
Interest rebates to Participants	(1)	(1)
Net interest income	40	21
Net fair value gains and interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	69	102
Others	2	2
Net investment income	111	125

7. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m
Salaries and other short-term employee benefits	207	190
Employee share-based compensation benefits	20	3
Retirement benefit costs (note 27(b))	17	16
	244	209

8. Information Technology and Computer Maintenance Expenses

	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m
Costs of services and goods:		
– consumed by the Group	35	35
– directly consumed by Participants	37	29
	<u>72</u>	<u>64</u>

9. Taxation

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

	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m
Provision for Hong Kong Profits Tax at 16.5% (2010: 16.5%)	217	205
Deferred taxation	10	(3)
	<u>227</u>	<u>202</u>

10. Earnings Per Share

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

(a) Basic earnings per share

	Three months ended 31 Mar 2011	Three months ended 31 Mar 2010
Profit attributable to shareholders (\$m)	<u>1,238</u>	<u>1,127</u>
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	<u>1,076,497</u>	<u>1,075,800</u>
Basic earnings per share (\$)	<u>1.15</u>	<u>1.05</u>

10. Earnings Per Share (continued)

(b) Diluted earnings per share

	Three months ended 31 Mar 2011	Three months ended 31 Mar 2010
Profit attributable to shareholders (\$m)	1,238	1,127
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,076,497	1,075,800
Effect of employee share options (in '000)	1,256	2,668
Effect of Awarded Shares (in '000)	1,401	564
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,079,154	1,079,032
Diluted earnings per share (\$)	1.15	1.04

11. Cash and Cash Equivalents

	At 31 Mar 2011 \$m	At 31 Dec 2010 \$m
Cash and cash equivalents:		
– Clearing House Funds (note 19)	2,201	2,155
– Margin Funds (note 16)	11,704	12,418
– Cash collateral (note 17)	5,802	2,843
(note a)	19,707	17,416
– Corporate Funds (note 15)	2,645	1,945
	22,352	19,361

(a) The cash and cash equivalents of Clearing House Funds, Margin Funds and cash collateral are held for specific purposes and cannot be used by the Group to finance other activities. Therefore, they are not included in cash and cash equivalents of the Group for cash flow purpose in the condensed consolidated statement of cash flows.

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

	At 31 March 2011			
	Clearing House Funds (note 19) \$m	Margin Funds (note 16) \$m	Corporate Funds (note 15) \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
– listed in Hong Kong	–	–	100	100
– listed outside Hong Kong	–	–	203	203
	–	–	303	303
Debt securities:				
– listed in Hong Kong	–	–	125	125
– listed outside Hong Kong	130	289	2,107	2,526
– unlisted	229	5,608	2,236	8,073
	359	5,897	4,468	10,724
Mutual funds:				
– listed outside Hong Kong	–	–	127	127
Derivative financial instruments:				
– forward foreign exchange contracts	–	–	1	1
	359	5,897	4,899	11,155
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	359	5,897	3,660	9,916
More than twelve months	–	–	1,239	1,239
	359	5,897	4,899	11,155
	At 31 Dec 2010			
	Clearing House Funds (note 19) \$m	Margin Funds (note 16) \$m	Corporate Funds (note 15) \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
– listed in Hong Kong	–	–	85	85
– listed outside Hong Kong	–	–	180	180
	–	–	265	265
Debt securities:				
– listed in Hong Kong	–	–	107	107
– listed outside Hong Kong	130	287	2,100	2,517
– unlisted	229	5,667	2,277	8,173
	359	5,954	4,484	10,797
Mutual funds:				
– listed outside Hong Kong	–	–	115	115
Derivative financial instruments:				
– forward foreign exchange contracts	–	–	13	13
	359	5,954	4,877	11,190
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	359	5,954	3,636	9,949
More than twelve months	–	–	1,241	1,241
	359	5,954	4,877	11,190

- (a) Included financial assets maturing after twelve months of \$359 million (31 December 2010: \$359 million) and \$4,208 million (31 December 2010: \$5,137 million) attributable to the Clearing House Funds and Margin Funds respectively that could readily be liquidated to meet liquidity requirements of the respective Funds.

13. Financial Assets Measured at Amortised Cost

	At 31 March 2011				
	Clearing	Margin	Cash	Corporate	Total
	House	Funds	collateral	Funds	
	(note 19)	(note 16)	(note 17)	(note 15)	
\$m	\$m	\$m	\$m	\$m	
Debt securities:					
– listed outside Hong Kong	–	–	–	202	202
– unlisted	–	–	–	1,173	1,173
	–	–	–	1,375	1,375
Time deposits with original maturities over three months	130	4,677	502	2,010	7,319
Other financial assets	–	–	–	50	50
	130	4,677	502	3,435	8,744
The expected recovery dates of the financial assets are analysed as follows:					
Within twelve months (note (a))	130	4,677	502	2,672	7,981
More than twelve months	–	–	–	763	763
	130	4,677	502	3,435	8,744
	At 31 Dec 2010				
	Clearing	Margin	Cash	Corporate	Total
	House	Funds	collateral	Funds	
	(note 19)	(note 16)	(note 17)	(note 15)	
	\$m	\$m	\$m	\$m	\$m
Debt securities:					
– listed outside Hong Kong	–	–	–	201	201
– unlisted	–	–	–	749	749
	–	–	–	950	950
Time deposits with original maturities over three months	130	4,323	751	1,602	6,806
Other financial assets	–	–	–	48	48
	130	4,323	751	2,600	7,804
The expected recovery dates of the financial assets are analysed as follows:					
Within twelve months (note (a))	130	4,323	751	1,817	7,021
More than twelve months	–	–	–	783	783
	130	4,323	751	2,600	7,804

- (a) Included time deposits maturing after twelve months of \$2 million (31 December 2010: \$2 million) attributable to the Clearing House Funds that could readily be liquidated to meet liquidity requirements of the Funds.

14. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement money obligations receivable under the T+2 settlement cycle, which accounted for 95 per cent (31 December 2010: 90 per cent) of the total accounts receivable, prepayments and deposits. Continuous Net Settlement money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 60 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

15. Corporate Funds

	At 31 Mar 2011 \$m	At 31 Dec 2010 \$m
The Group's Corporate Funds were invested in the following instruments:		
Cash and cash equivalents (note 11)	2,645	1,945
Financial assets measured at fair value through profit or loss (note 12)	4,899	4,877
Financial assets measured at amortised cost (note 13)	3,435	2,600
	<u>10,979</u>	<u>9,422</u>

16. Margin Deposits from Clearing Participants on Derivatives Contracts

	At 31 Mar 2011 \$m	At 31 Dec 2010 \$m
Margin deposits from Clearing Participants comprised (note (a)):		
SEOCH Clearing Participants' margin deposits	4,292	3,528
HKCC Clearing Participants' margin deposits	17,997	19,174
	<u>22,289</u>	<u>22,702</u>
The margin deposits were invested in the following instruments for managing the obligations of the Margin Funds:		
Cash and cash equivalents (note 11)	11,704	12,418
Financial assets measured at fair value through profit or loss (note 12)	5,897	5,954
Financial assets measured at amortised cost (note 13)	4,677	4,323
Margin receivable from Clearing Participants	11	7
	<u>22,289</u>	<u>22,702</u>

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

17. Cash Collateral from HKSCC Clearing Participants

	At 31 Mar 2011 \$m	At 31 Dec 2010 \$m
Cash collateral from HKSCC Clearing Participants (note (a))	<u>6,304</u>	<u>3,594</u>
The cash collateral was invested in the following instruments:		
Cash and cash equivalents (note 11)	5,802	2,843
Financial assets measured at amortised cost (note 13)	<u>502</u>	<u>751</u>
	<u>6,304</u>	<u>3,594</u>

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

18. 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 89 per cent (31 December 2010: 83 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.

19. Clearing House Funds

	At 31 Mar 2011 \$m	At 31 Dec 2010 \$m
The Clearing House Funds were attributable to:		
Clearing Participants' cash contributions due within twelve months (note (a))	2,080	2,039
Designated reserves (note 22)	<u>581</u>	<u>580</u>
	<u>2,661</u>	<u>2,619</u>
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Cash and cash equivalents (note 11)	2,201	2,155
Financial assets measured at fair value through profit or loss (note 12)	359	359
Financial assets measured at amortised cost (note 13)	<u>130</u>	<u>130</u>
	2,690	2,644
Less: Other financial liabilities of Clearing House Funds	<u>(29)</u>	<u>(25)</u>
	<u>2,661</u>	<u>2,619</u>
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	223	224
SEOCH Reserve Fund	1,025	967
HKCC Reserve Fund	<u>1,413</u>	<u>1,428</u>
	<u>2,661</u>	<u>2,619</u>

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

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

	At 31 Mar 2011 \$m	At 31 Dec 2010 \$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 2010	1,075,515	1,076	376	(52)	1,400
Shares issued upon exercise of employee share options (note (a))	1,902	2	32	-	34
Transfer from employee share-based compensation reserve upon exercise of employee share options	-	-	8	-	8
Shares purchased for Share Award Scheme (note (b))	(1,298)	-	-	(188)	(188)
Vesting of shares of Share Award Scheme (note (c))	317	-	-	21	21
At 31 Dec 2010	<u>1,076,436</u>	<u>1,078</u>	<u>416</u>	<u>(219)</u>	<u>1,275</u>
At 1 Jan 2011	1,076,436	1,078	416	(219)	1,275
Shares issued upon exercise of employee share options (note (a))	72	-	2	-	2
Shares purchased for Share Award Scheme (note (b))	(17)	-	-	(3)	(3)
Vesting of shares of Share Award Scheme (note (c))	16	-	-	2	2
At 31 Mar 2011	<u>1,076,507</u>	<u>1,078</u>	<u>418</u>	<u>(220)</u>	<u>1,276</u>

- (a) During the three months ended 31 March 2011, employee share options granted under the share option schemes were exercised to subscribe for 72,000 shares (year ended 31 December 2010: 1,902,000 shares) in HKEx at an average consideration of \$18.98 per share (year ended 31 December 2010: \$17.85 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 three months ended 31 March 2011, the Share Award Scheme acquired 16,900 HKEx shares (year ended 31 December 2010: 1,297,400 shares) through purchases on the open market. The total amount paid to acquire the shares during the period was \$3 million (year ended 31 December 2010: \$188 million).
- (c) During the three months ended 31 March 2011, the Share Award Scheme transferred 15,901 HKEx shares (year ended 31 December 2010: 317,172 shares) to the awardees upon vesting of certain Awarded Shares and the shares arising from related dividends reinvested. The total cost of the vested shares was \$2 million (year ended 31 December 2010: \$21 million.)

21. 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.

No share options were granted during the three months ended 31 March 2011. Details of Awarded Shares awarded during the three months ended 31 March 2011 are set out below:

Date of approval by Board	Date of award	Awarded Sum \$'000	Number of shares purchased	Number of shares awarded	Average fair value per share \$	Vesting period
14 Dec 2010	30 Mar 2011	570	3,300	3,300	169.92	13 Jan 2013 – 13 Jan 2014
14 Dec 2010	30 Mar 2011	2,310	13,600	13,600	169.92	1 Feb 2013 – 1 Feb 2014

22. Designated Reserves

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

	At 31 Mar 2011 \$m	At 31 Dec 2010 \$m
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	125	125
– SEOCH Reserve Fund reserve	111	111
– HKCC Reserve Fund reserve	345	344
	581	580

23. Retained Earnings (Including Proposed Dividend)

	2011 \$m	2010 \$m
At 1 Jan	6,766	6,021
Profit for the period/year	1,238	5,037
Transfer to Clearing House Funds reserves	(1)	(17)
Dividends:		
2009 final dividend	–	(2,251)
2010 interim dividend	–	(2,034)
Unclaimed dividends forfeited	–	16
Vesting of shares of Share Award Scheme	–	(6)
At 31 Mar 2011/31 Dec 2010	8,003	6,766
Representing:		
Retained earnings	5,516	4,280
Proposed dividend	2,487	2,486
At 31 Mar 2011/31 Dec 2010	8,003	6,766

24. Notes to the Condensed Consolidated Statement of Cash Flows

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

	Three months ended 31 Mar 2011 \$m	As restated Three months ended 31 Mar 2010 \$m
Profit before taxation	1,465	1,329
Adjustments for:		
Net interest income	(40)	(21)
Dividend income	(2)	(1)
Net fair value gains and interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	(69)	(102)
Depreciation	26	27
Employee share-based compensation benefits	20	3
Provision for/(reversal of provision for) impairment losses of trade receivables	1	(1)
Changes in provisions	1	(3)
Net decrease in Margin Fund financial assets	413	1,330
Net decrease in Margin Fund financial liabilities	(413)	(1,320)
Net increase in Clearing House Fund financial assets	(46)	(150)
Net increase in Clearing House Fund financial liabilities	45	146
Net increase in financial assets of cash collateral	(2,710)	(959)
Net increase in cash collateral received from HKSCC Clearing Participants	2,710	959
Net increase in financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	(2)	(1)
(Increase)/decrease in accounts receivable, prepayments and deposits	(7,892)	72
Increase in other current liabilities	8,179	229
Net cash inflow from operations	1,686	1,537
Dividends received	1	-
Interest received from bank deposits	36	16
Interest received from financial assets measured at fair value through profit or loss	31	28
Interest paid	(1)	(1)
Hong Kong Profits Tax paid	(208)	(202)
Net cash inflow from operating activities	1,545	1,378

25. Capital Expenditures and Commitments

During the three months ended 31 March 2011, the Group incurred capital expenditures of \$168 million (2010: \$5 million) which were mainly on the Next Generation Data Centre at Tseung Kwan O with hosting service capability and the upgrade of the Cash Market trading system and Market Datafeed system.

At 31 March 2011, the Group's commitments in respect of capital expenditures were as follows:

	At 31 Mar 2011	At 31 Dec 2010
	\$m	\$m
Contracted but not provided for	94	149
Authorised but not contracted for	1,827	1,926
	1,921	2,075

The commitments in respect of capital expenditures were mainly related to the construction of the Next Generation Data Centre at Tseung Kwan O, the upgrade and enhancement of trading and clearing systems and other new business initiatives.

26. Contingent Liabilities

At 31 March 2011, 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 2010: \$71 million). Up to 31 March 2011, no calls had been made by the SFC in this connection.
- (b) The Group had undertaken to indemnify the Collector of Stamp Revenue against any underpayment of stamp duty by its Participants of up to \$200,000 for each Participant. In the unlikely event that all of its 488 trading Participants covered by the indemnity at 31 March 2011 (31 December 2010: 484) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$98 million (31 December 2010: \$97 million).
- (c) The Group is currently being served a number of legal claims by certain independent parties. The Group received legal advice and does not anticipate any material liabilities arising from the legal claims.
- (d) 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.

27. Material Related Party Transactions

- (a) Key management personnel compensation

	Three months ended 31 Mar 2011 \$m	Three months ended 31 Mar 2010 \$m
Salaries and other short-term employee benefits	17	19
Employee share-based compensation benefits	6	1
Retirement benefit costs	2	2
	25	22

- (b) Post-employment 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 statement of comprehensive income 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.

GLOSSARY

2011 AGM	Annual general meeting held on 20 April 2011
AMS/3	The Automatic Order Matching and Execution System/Third Generation
Awarded Shares	Shares awarded under the Share Award Scheme
BBS	Bronze Bauhinia Star
Board	HKEx's Board of Directors
CBBC(s)	Callable Bull/Bear Contract(s)
CCASS	The Central Clearing and Settlement System
CG Code	Code on Corporate Governance Practices
CPs	Clearing Participants
CSR	Corporate Social Responsibility
DCASS	The Derivatives Clearing and Settlement System
Director(s)	HKEx's Director(s)
DW(s)	Derivative Warrant(s)
eIPO	Electronic IPO
EP(s) or Participant(s)	Exchange Participant(s)
ETF(s)	Exchange Traded Fund(s)
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of the Hong Kong Special Administrative Region of the People's Republic of China
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
HKEx's Articles	HKEx's Articles of Association
HKSCC	Hong Kong Securities Clearing Company Limited
Hong Kong Government	Government of the Hong Kong Special Administrative Region of the People's Republic of China
H-shares Index or HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index
IPs	Investor Participants
IPO(s)	Initial Public Offering(s)
IT	Information Technology
IVs	Information Vendors
JP	Justice of the Peace
Listing Rules or Rule	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDS	The Market Data System
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
OTC	Over-the-counter
Post-Listing Scheme	Post-Listing Share Option Scheme approved by Shareholders on 31 May 2000 which was subsequently amended by Shareholders on 17 April 2002
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by Shareholders on 31 May 2000
PRS	The Price Reporting System
REIT(s)	Real Estate Investment Trust(s)
RMB	Renminbi
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	HKEx's shareholders
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006 and 13 May 2010
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
USD	United States dollar
\$/HKD	Hong Kong dollar
\$bn	Hong Kong dollar in billion
\$m	Hong Kong dollar in million

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