



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

Quarterly Report 2011

For the nine months ended 30 September

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(Financial figures in this Quarterly Report are expressed in HKD unless otherwise stated)

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FINANCIAL HIGHLIGHTS

	Nine months ended 30 Sept 2011	Nine months ended 30 Sept 2010	Change	Three months ended 30 Sept 2011	Three months ended 30 Sept 2010	Change
KEY MARKET STATISTICS						
Average daily turnover value on the Stock Exchange (\$bn)	73.2	63.1	16%	72.6	61.8	17%
Average daily number of derivatives contracts traded on the Futures Exchange	268,850	212,953	26%	304,229	204,094	49%
Average daily number of stock options contracts traded on the Stock Exchange	309,104	219,892	41%	348,598	216,830	61%

	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Change	Three months ended 30 Sept 2011 \$m	Three months ended 30 Sept 2010 \$m	Change
RESULTS						
Revenue and other income	5,917	5,291	12%	1,945	1,837	6%
Operating expenses	1,383	1,178	17%	467	402	16%
Profit before taxation	4,534	4,113	10%	1,478	1,435	3%
Taxation	(713)	(635)	12%	(241)	(215)	12%
Profit attributable to shareholders	3,821	3,478	10%	1,237	1,220	1%
Basic earnings per share	\$3.55	\$3.23	10%	\$1.15	\$1.13	2%
Diluted earnings per share	\$3.54	\$3.22	10%	\$1.15	\$1.13	2%

	At 30 Sept 2011	At 31 Dec 2010	Change
KEY ITEMS IN CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds (\$m)	7,855	8,677	(9%)
Total assets ¹ (\$m)	71,954	47,884	50%
Net assets per share ² (\$)	7.29	8.06	(10%)

Notes:

- The Group's total assets include the Margin Funds received from Participants on futures and options contracts.
- Based on 1,077,433,983 shares as at 30 September 2011, being 1,079,139,163 shares issued and fully paid less 1,705,180 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

The volatility of the global stock markets increased during the third quarter of 2011 especially in September. This was mainly because of fears of a global slowdown due to several factors: the Eurozone sovereign debt crisis, concern over the US economy, and closer to home, whether China can maintain her GDP growth at a persistently high rate. Currencies and commodity prices have also experienced ups and downs seemingly unconnected to fundamentals. The markets remain sceptical about the fiscal policies adopted by world leaders for the recovery of the global economy. Notwithstanding these challenges, Asia's economies are more likely to weather any further deterioration better than their western counterparts.

Amid high volatility in our markets, our profit attributable to shareholders for the first nine months was \$3.8 billion, compared with \$3.5 billion a year ago. IPO funds raised during the period reached \$194.4 billion, an increase of 21 per cent against that of the same period last year. For this nine-month period, the average daily turnover value in the Cash Market grew by 16 per cent year-on-year to \$73.2 billion. The average daily number of futures and options contracts traded in the Derivatives Market also increased by 34 per cent year-on-year.

HKEx remains firmly committed to operating and maintaining fair, transparent, and orderly markets with prudent risk management. One of the measures taken after the organised attacks on the HKExnews website was the establishment of a Review Committee by the Board to examine our IT security and contingency plans with the aim of preventing other attacks as well as avoiding disruption to the service provided by the HKExnews website. Along with our decision to establish a new clearing house by the end of 2012 to provide a stable, transparent, and efficient platform for the clearing of OTC traded derivatives, we have proposed clearing house risk management reform measures to reinforce the stability of our Cash and Derivatives Markets for market consultation.

The announcement by the Central Government that Hong Kong is nominated to be the offshore RMB centre presents us with the opportunity to introduce RMB products on the Exchange. We believe this will not only be welcomed by investors, near and far, but will also be necessary in the internationalisation of the RMB. We have been working closely with the market in this respect as well as with our Dual Tranche Dual Counter HKD/RMB model and our RMB Equity Trading Support Facility.

As announced in August, we are in discussion with the Shanghai Stock Exchange and the Shenzhen Stock Exchange on the establishment of a joint venture company in Hong Kong to explore and develop possible areas of business cooperation, including the development of index and other equity derivatives products and compilation of new indices. We have not yet signed an agreement, but this initiative will further cement the close relationship we have with our Mainland counterparts.

Further in October, we, as the initial China exchange representative, entered into an alliance with the stock exchanges of the other BRICS (Brazil, Russia, India, and South Africa) markets for the cross listing of their respective benchmark equity index derivatives and the furtherance of new cross-market product development opportunities. I believe that the initiative will enable investors worldwide to gain exposure to the BRICS' economies. From a global perspective this alliance points to the growing relevance of the BRICS' economies and financial markets in the coming decade and further underlines the *raison d'être* for the BRICS relationship. In addition, we signed an MOU with Kazakhstan's Eurasian Trading System Commodity Exchange Joint Stock Company, an important commodities exchange in Kazakhstan with both physical and derivatives products in agriculture, energy and metal, on cooperation and the exchange of information. The move marks an important step forward for HKEx in collaborating with one of the world's fastest growing economies and forms a good base for future cooperation between the two markets.

Looking ahead, Hong Kong's financial markets are still exposed to a number of risks and uncertainties due to global financial issues. At HKEx, we will continue to focus on and uphold our robust regulatory regime for the sustainable growth of our financial markets. I take this opportunity to reaffirm our commitment to developing and maintaining engagement with our stakeholders with the aim of achieving shared sustainable value in the longer run. Reform and market development may produce some short term challenges, but I believe our stakeholders will embrace them for the long term benefit of Hong Kong.

Ronald Joseph ARCULLI
Chairman

Hong Kong, 11 November 2011

CHIEF EXECUTIVE'S REVIEW

In spite of the volatile market conditions in the third quarter of 2011, we are on track in executing various strategic initiatives. I would like to provide here a review of our business during this period.

Market Performance

Clouded by worries about the European debt crisis, the global capital market experienced an extremely volatile period during July-September. As an integral part of the global market, Hong Kong was not exempt from the sell-off: our equities market's total value was down 23 per cent between 30 June and 30 September; the HSI was down 21 per cent during the same period. Our volatility index increased from 18.54 points on 30 June to 42.77 points on 30 September.

Amid the market turmoil, the momentum for listing slowed down: a total of 22 companies (including 1 transfer from GEM) were newly listed on the Stock Exchange in the third quarter, compared to 28 companies (including 5 transfers from GEM) in the same period of 2010. However, turnover remained strong in both the Cash and Derivatives Markets. For the third quarter, the average daily trading value in the Cash Market reached \$72.6 billion, up 17 per cent on a year-on-year basis. In the Derivatives Market, the average daily turnover reached 304,229 futures and index options contracts on the Futures Exchange and 348,598 stock options contracts on the Stock Exchange, up 49 per cent and 61 per cent respectively from the same period in 2010. Eight of the Futures Exchange's index derivatives had record-high volume days in the third quarter.

International Listings

Attracting international companies to list in Hong Kong continues to be one of our key strategic goals. In spite of the volatility in the markets, the momentum for international listings remained strong in the third quarter. A total of 4 international companies either issued new shares through an IPO or were listed in Hong Kong without an IPO during the period, bringing the total number of international listings in the first nine months of the year to 12. We continued our issuer marketing efforts around the world, including visits to Brazil, Italy, Mongolia, Russia, and 14 other countries.

Market Structure and Platform Infrastructure Improvements

We started consultation on the proposed clearing house risk management reform measures in early July this year. It is in our belief that the proposed reform measures are critical to strengthening the clearing houses' risk management capability and increasing the resilience of Hong Kong's financial markets as a whole.

We have also completed market consultation on after-hours futures trading, and we are in the process of preparing the consultation conclusions. The after-hours futures trading session, if launched, would bring additional business opportunities for our HKFE Participants.

On the IT infrastructure front, AMS/3.8 is on schedule to be launched in December this year. It is our goal to enhance our markets' overall competitiveness so that all our stakeholders can continue to prosper. More information about these initiatives is set out in the Business Review.

While we devote a lot of focus and resources to upgrading our systems and keeping them at a competitive level, we never lose sight of system reliability and stability. We strive to maintain a high level of stability for all our systems and our core systems including trading, clearing and settlement, and market data systems did achieve 100 per cent uptime in the first nine months of this year. However, we experienced a hacking incident on the HKExnews website on 10-12 August. HKExnews is the website where we publish regulatory disclosures submitted by listed issuers. After the hacking happened, we followed our regulatory disclosure regime and suspension policy. The trading in the equity securities of 7 issuers, including HKEx, which submitted regulatory disclosures around noon on 10 August was suspended during that afternoon. Trading in the related structured products was also suspended. The website returned to normal on the same evening. We also announced interim and long term follow-up measures shortly after the incident. The incident exemplified how critical system safety is to us and we will continue to put tremendous amount of management focus and investment into maintaining stable, reliable systems.

RMB Business Development

We have completed the last mile of developing the RMB Equity Trading Support Facility, which is intended to enable investors to invest in RMB-traded shares using their readily available currency, HKD.

As to developing feasible IPO models for RMB-traded shares, we continue to market the Dual Tranche Dual Counter (DTDC) model to key stakeholders. The DTDC model is one of the ways for companies to issue RMB shares in Hong Kong. The main feature of the DTDC model is to allow companies to issue RMB-traded shares and HKD-traded shares and to allow both types of shares to list in Hong Kong. On 2 September, we co-hosted a seminar with The Chamber of Hong Kong Listed Companies, targeting existing listed issuers in Hong Kong. We have since seen a lot of interest from the market for this model. Ultimately, successful listings via the DTDC model depend on a number of factors, including issuers' interest and market demand. We will continue to play the role of facilitator for RMB equity products.

More information about the RMB-related business is set out in the Business Review.

We are now more than halfway through our Strategic Plan 2010-2012 in terms of time. In spite of the progress made, the challenge of fully implementing the plan is still great. We will continue to dedicate ourselves to this task with diligence and determination.

LI Xiaojia, Charles

Director and Chief Executive

Hong Kong, 11 November 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 ** ¹⁰
CHAN Ngai Hang ** ¹¹
CHEUNG Kin Tung, Marvin ¹
FONG Hup ** ¹⁰
KWOK Chi Piu, Bill ⁶
LAU Ying Pan, Edmond ** ¹²
LEE Tze Hau, Michael ⁵
LIU Swee Long, Michael ** ¹¹
LUI Kei Kwong, Keith **
Mark Seumas McCOMBE **

Company Secretary

MAU Kam Shing, Joseph

Notes:

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|---|---|--|
| * Government Appointed Director | 4 Re-elected on 20 April 2011 | 9 Appointment ceased effective 21 April 2011 |
| ** Appointed by the Financial Secretary | 5 Appointment effective 21 April 2011 | 10 Appointment ceased effective 1 July 2011 |
| Δ Established under Section 65 of the SFO | 6 Re-appointment effective 21 April 2011 | 11 Appointment effective 1 July 2011 |
| 1 Retired on 20 April 2011 | 7 Change of name effective 21 April 2011 | 12 Re-appointment effective 1 July 2011 |
| 2 Appointment effective 20 April 2011 | 8 Ceased chairmanship and appointed as member effective 21 April 2011 | |
| 3 Re-appointment effective 20 April 2011 | | |

Other Changes in Directors' Information

Other changes in Directors' information since the date of the 2011 Interim Report are set out below.

	Appointment (effective)	Cessation of office (effective)
Ronald J Arculli		
• Executive Council of the Hong Kong Government – convenor of the non-official members	3 Oct 2011	–
Laura M L Cha		
• University Grants Committee – chairman	–	20 Sept 2011
Moses M C Cheng		
• Aviation Development Advisory Committee – member	1 Sept 2011	–
Stephen C C Hui		
• OSK Holdings Hong Kong Limited – vice-chairman	–	15 Sept 2011
• Luk Fook Holdings (International) Limited *		
– independent non-executive director	–	1 Oct 2011
– non-executive director	1 Oct 2011	–
• Luk Fook Financial Services Limited – chairman and chief executive officer	20 Oct 2011	–

* Currently listed on the Stock Exchange

Directors' updated biographies are available on the HKEx website.

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

BUSINESS REVIEW

Listing

Rule Amendments

The Exchange continued its effort to streamline the Listing Rule requirements and further enhance the quality of the market. In October 2011, the following consultation conclusions and the relevant Rule amendments were published:

Proposals	Effective date of Listing Rule amendments
• Changes to requirements for the listing of debt issues to professional investors only	11 November 2011
• Changes to property valuation requirements	1 January 2012
• Changes to the Corporate Governance Code (Code) and associated Listing Rules	
– most Rule amendments;	1 January 2012
– the Code and certain Rule amendments; and	1 April 2012
– new Rule requiring the issuer to appoint independent non-executive directors representing at least one-third of the board	31 December 2012

Details of the consultation conclusions were published on the HKEx website.

Development of ESG Reporting Guide

HKEx organised 5 seminars and 10 workshops on Environmental, Social and Governance (ESG) reporting for listed companies between May and July this year, with a view to raising ESG awareness and encouraging listed companies to start ESG reporting. HKEx received positive feedback from the participants who attended the seminars or workshops.

The draft ESG Reporting Guide, the seminar and workshop materials, and the frequently asked questions are available on the HKEx website. HKEx plans to conduct a public consultation on the draft ESG Reporting Guide later this year, and may, subject to demand, consider providing more training on this area in the future.

Enhancement of Continuing Disclosure among Listed Companies

The Exchange provides input and support on an on-going basis to the Hong Kong Government regarding the proposed statutory codification of certain requirements to disclose price sensitive information by listed corporations as formulated in the Securities and Futures (Amendment) Bill 2011. HKEx will consult the market, at an appropriate stage, on the consequential amendments to the relevant sections of the Listing Rules.

RMB-related Business

RMB Products

Currently, there are 11 RMB-denominated debt securities and 1 RMB-denominated REIT listed for trading on the Exchange. Up to 30 September 2011, a total of 365 EPs, which contributed around 90 per cent of the total market turnover for September 2011, had confirmed their readiness for dealing in and/or clearing of RMB securities.

HKEx is ready to support the Dual Tranche Dual Counter (DTDC) model which enables simultaneous offering and listing of both HKD-traded shares and RMB-traded shares on the Exchange by an issuer through an IPO or by an existing issuer with HKD-traded shares that wishes to raise RMB. Regardless of the counter in which the shares will be traded, the shares will rank pari passu in respect of shareholders' rights and entitlements.

Under the DTDC model, trades in the HKD and RMB counters will be cleared and settled separately under CCASS. Inter-counter transfer through the share registrar of the issuer or CCASS is permissible. CCASS will be enhanced to receive multi-counter transfer instructions electronically through CCASS terminals.

HKEx organised altogether 7 briefing sessions in September 2011 for EPs' better understanding of the trading arrangements under the DTDC model and the related clearing and settlement arrangements. The briefing sessions were well received with over 1,000 attendees.

RMB Equity TSF

The system enhancements to support the introduction of the RMB Equity Trading Support Facility (RMB Equity TSF) were completed in October 2011. The RMB Equity TSF aims to facilitate buying RMB-traded shares in the secondary market with HKD by sourcing RMB from one or more banks in Hong Kong and providing the RMB through its participating brokers to investors who wish to buy RMB shares in the secondary market but have difficulty obtaining RMB. As of 31 October 2011, a total of 34 brokers and custodians have registered to provide the RMB Equity TSF service to their clients.

RMB-denominated Futures and Options Contracts

HKEx obtained regulatory approval of the rule amendments for the introduction of RMB-denominated stock options based on RMB-denominated underlying stocks listed on the Stock Exchange. In addition, Options Trading Exchange Participants and HKFE Participants are invited to review their systems in preparation for the trading of RMB-denominated futures and options contracts. Related system testing is tentatively scheduled for January 2012.

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

Cash Market

Market Performance

In the nine months ended 30 September 2011, 61 companies were newly listed on the Main Board (including 11 transfers from GEM), and 8 on GEM. Total capital raised, including post-listing funds, reached \$362.8 billion. As at 30 September 2011, 1,301 and 166 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about \$16,225 billion. In addition, there were 4,778 DWs, 642 CBBCs, 9 REITs, 76 ETFs and 183 debt securities listed on 30 September 2011. The average daily turnover value in the first nine months of 2011 was \$72.9 billion on the Main Board and \$288 million on GEM.

Development of ETF Market

During the first nine months of 2011, 7 ETFs were newly listed on the Exchange. At the end of September 2011, there were 76 listed ETFs, 14 ETF managers and 23 ETF market makers. In August 2011, the SFC began requiring synthetic ETFs to achieve at least 100 per cent collateralisation to ensure that there would not be any uncollateralised counterparty risk exposure. The new requirements also include a prudent haircut policy, where the market value of equity collateral should be equivalent to at least 120 per cent of the related gross counterparty risk exposure.

Derivatives Market

Market Performance

In the nine months ended 30 September of 2011, there were a total of 106,054,508 contracts traded in the Derivatives Market, comprising 37,459,375 futures contracts and 68,595,133 options contracts. The average daily volumes were 204,138 futures contracts and 373,816 options contracts. On 30 September 2011, the total open interest was 9,197,003 contracts, comprising 352,341 futures contracts and 8,844,662 options contracts.

Record High Single Day Volume and Open Interest Achieved in the Third Quarter of 2011

Products	Volume		Open Interest	
	Date	Number of contracts	Date	Number of contracts
HSI Futures	9 Aug	235,385	–	–
Mini-HSI Futures	9 Aug	86,812	–	–
H-shares Index Futures	27 Sept	220,600	28 Sept	177,892
Mini H-shares Index Futures	9 Aug	19,556	–	–
HSCEI Dividend Point Index Futures	14 Sept	15,000	22 Sept	24,538
HSI Options	5 Aug	116,835	28 Sept	483,835
Mini-HSI Options	5 Aug	10,618	29 Aug	22,086
Flexible H-shares Index Options	26 Sept	5,770	26 Sept	6,370
Stock Futures	–	–	25 Aug	26,482
Stock Options	–	–	28 Sept	9,144,043

Introduction of Additional Contract Months in Dividend Futures

Two additional December contract months (ie, December 2014 and December 2015) of HSI and HSCEI Dividend Point Index Futures (collectively, Dividend Futures) were introduced for trading on 12 September 2011. With the additions, Dividend Futures cover maturities up to a maximum of 5 years enabling Participants and their clients to manage longer term dividend exposure.

Consultation on After-hours Futures Trading

The consultation period for the proposed introduction of after-hours futures trading ended on 8 July 2011. HKEx has completed the analysis of the respondents' comments and will publish the consultation conclusions in due course.

Clearing

Scripless Securities Market

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

Participant Services

Participant Training and Market Education

In the first nine months of 2011, HKEx and the Hong Kong Securities Institute jointly organised 10 Continuous Professional Training courses on the HKATS terminal or derivatives. There were also 6 training courses related to AMS/3 and 24 related to CCASS or DCASS. Under HKEx's joint promotion programme with EPs, a total of about 4,600 people participated in 35 briefings and 11 seminars on derivatives led by HKEx between January and September of this year.

Participant Recruitment

At the end of September 2011, there were 528 SEHK Participants and 185 HKFE Participants, including 18 SEHK Participants and 11 HKFE Participants admitted in the first nine months of 2011.

For HKSCC, there were 23,883 CCASS Participants, including 629 Investor Participants admitted in the first nine months of this year.

Market Data

BMP Service

Under the Basic Market Prices (BMP) service launched on 1 April 2011, HKEx provides basic Cash and Derivatives market data to service providers at a flat monthly fee. The service providers include IVs, EPs or their affiliates, and the 6 websites which were originally participants of the Free Prices Website Service pilot programme. The BMP service is currently available through a total of 33 websites and 15 mobile applications, and in light of the overwhelming response, the BMP service will be provided under a wider variety of platforms going forward.

Single Licence Regime

HKEx completed the implementation of the Single Licence Regime in October 2011 under which all IVs are now licensed under the new consolidated regime. The new regime streamlines the management of market data licence agreements for both HKEx and IVs by consolidating multiple market data licence agreements into a single agreement with standard contractual terms. The structure of the new agreement also supports the rollout of new and multiple datafeed products by HKEx under the MDS/3.8 and the Next Generation Market Data System (NGMDS) which are scheduled for launch by the end of 2011 and early 2013 respectively.

Enhancement of Securities Market Data Service

After the upgrade of the Derivatives Market data service earlier this year, HKEx will diversify its Cash Market data offerings by introducing an enhanced version of MDF, known as the MDF 3.8, following the upgrade of its MDS from version 3.5 to 3.8. The MDF 3.8 will double the market depth from 5 price levels to 10, and reduce its data latency by 80 per cent from 0.5 second to 0.1 second. Its stock update rate will also be doubled from 1,000 updates per second to 2,000 per second. To promote the use of better quality market data, HKEx will not increase its Cash Market data fees. In parallel with the rollout of the MDF 3.8, the current version of MDF after necessary modifications to align with AMS/3.8, will be maintained for a period of time to allow IVs to have a smoother and more flexible product migration to the MDF 3.8. The MDF 3.8 is expected to be introduced to the market in December 2011. Up to date, the vast majority of the existing direct connection Cash Market data IVs have already signed up for the MDF 3.8.

Next Generation Market Data System

HKEx is developing a new market data system, NGMDS, as the first part of the overall roadmap towards the next generation core platforms. The NGMDS will be multi-asset class, providing a common message protocol for its trading systems and enabling HKEx to distribute its market data to the Mainland. It will enable the launch of new market data products, including conflated, streaming, market-by-price, and market-by-order feeds, as well as provide customers with options of industry standard FIX/FAST or proprietary binary formats.

The NGMDS is in the design phase and is expected to be rolled out in the Cash Market in the first quarter of 2013.

Risk Management

Clearing House Risk Management Reform Measures

On 8 July 2011, HKEx published a consultation paper on HKEx Clearing House Risk Management Reform Measures to seek views on its proposals to reform the risk management framework of its 3 clearing houses.

The main proposals are to: (i) introduce a standard margin system and a Dynamic Guarantee Fund at HKSCC; (ii) revise certain price movement assumptions in the clearing houses' stress testing; (iii) revise the counterparty default assumption in the stress testing; and (iv) revise the collateral assumptions at HKCC and SEOCH.

The proposals also include the following support from HKEx to reduce the impact of any new requirements on its CPs: (i) a margin credit of \$5 million per HKSCC participant; (ii) a Dynamic Guarantee Fund credit of \$1 million per HKSCC participant; and (iii) Contingent Advance Capital to share half of the HKCC Dynamic Reserve Fund requirement of each HKCC participant.

To help market participants and other key stakeholders gain a thorough understanding of the proposed measures, HKEx has held a presentation for the media, meetings with brokers, seminars for CPs and industry associations, and a series of meetings with CPs.

The consultation ended on 28 October 2011, and we will carefully review and consider the market responses to the proposals before deciding on the way forward.

Market Surveillance

Under the MOU between the SFC and HKEx on matters relating to market surveillance, HKEx referred a total of 34 cases involving possible violations of Hong Kong laws, SFC codes and/or rules and regulations relating to its markets to the SFC for its investigation during the nine months ended 30 September 2011.

Information Technology

Production Systems' Stability and Reliability

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

On 10 August 2011, the HKExnews website became unstable around midday under malicious attacks in the form of Distributed Denial of Service (DDoS) attacks. The website resumed normal at around 8:00 pm. During the incident, HKEx's other systems, including all trading systems, were not affected. HKEx has implemented infrastructure enhancements to strengthen its protection against any further attacks and will pursue additional improvements to sustain the reliability and stability of its mission critical systems.

Technology Upgrades

DCASS was enhanced in June 2011 to support stock options with trading/settlement currencies other than HKD, and its capacity will be upgraded by about 60 per cent in the fourth quarter of 2011 to handle 475,000 account positions. Meanwhile, HKEx is conducting a feasibility study for an HKATS/DCASS upgrade to a new technology platform.

Following EPs' successful completion of the end-to-end testing and connectivity test for the AMS/3.8 system upgrade, HKEx conducted 2 mandatory market rehearsals for all EPs in September and October 2011 as the final verification of the market readiness before implementation of the upgrade, which is tentatively set for December 2011. The upgrade will increase system capacity 10-fold to 30,000 orders per second, which is scalable to 150,000 orders per second, and reduce order processing latency 16-fold to 9 milliseconds. When the upgrade is completed, the one-time charge for each standard increase in the order throughput rate for the securities trading system will be reduced from \$100,000 to \$50,000. HKEx will also upgrade MDS to MDS/3.8 for capacity and performance alignment with AMS/3.8.

Independent Reviews

The independent review of AMS/3.8 and MDS/3.8 commenced in June 2011. It includes a quality assurance review of the project and an assessment of the readiness of AMS/3.8 and MDS/3.8 prior to their production launch scheduled for late 2011.

In addition, HKEx has also engaged an external security consultant to benchmark its security policy against the best practices in the financial industry, particularly the e-Banking security requirements, and to introduce the necessary improvements for its security standards. The review is expected to be completed in the fourth quarter of 2011.

New Data Centre and IT Office Consolidation

The construction work for the new Data Centre in Tseung Kwan O is in progress. HKEx aims to deliver a dust-free environment by the middle of 2012. Network infrastructure and structured cabling systems will be added after construction is completed, and IT equipment for testing will be installed thereafter. The first phase relocation of the IT office and primary data centre for the Cash Market to the new Data Centre will take place in the fourth quarter of 2012, while the consolidation of other data centres will be completed in phases until the end of 2013.

HKEx has obtained LEED (Gold) pre-certification from the US Green Building Council following a review of the design documentation for the new Data Centre. The Gold certification is considered a high environmental standard for data centre buildings and HKEx will continue to demonstrate its commitment towards environmental protection and sustainable development.

Other Projects to Increase Efficiency

Apart from the implementation of SPRINTS, the Structured Products Integrated Transaction System, in the second quarter of 2011 to facilitate automation of the approval process for DW and CBBC listing applications, HKEx is developing a system to streamline document management and further enhance efficiency in the Listing Division. HKEx aims to roll out the new Enterprise Content Management system before the end of this year.

For office automation, HKEx is upgrading its corporate personal computers and productivity tools for alignment with the software vendor's product lifecycle. The project will be completed by the end of this year.

Market Development

OTC Clearing

In the past few months, HKEx has been working closely with the SFC, the Hong Kong Government, the Hong Kong Monetary Authority, and other stakeholders on building a regulatory regime for the OTC derivatives market in Hong Kong, particularly those which are relevant to the clearing of standardised OTC derivatives transactions through an authorised clearing house. In this regard, HKEx is now seeking advice from an international law firm on regulatory and legal issues in relation to its OTC clearing initiative.

Since late September 2011, HKEx has been an active contributor to the Treasury Markets Association Subgroup on Central Counterparty, with the aim of addressing the development of a local repository, a new clearing house, and a regulatory framework for the OTC derivatives market in Hong Kong. HKEx is working on a brand new OTC clearing system required for the operation of the new OTC clearing house, and has completed its evaluation of the clearing and risk management platform proposed by the 2 shortlisted system providers. HKEx will start meeting with potential participants in the coming months for the purpose of devising a detailed on-boarding programme. HKEx remains committed to a stable, transparent, and efficient solution for the clearing of Hong Kong's OTC derivatives by the end of 2012.

Issuer Marketing

During the period under review, HKEx continued to focus on selected overseas markets to introduce the Exchange as one of the most vibrant capital raising platforms globally, particularly for natural resource and luxury brand companies. HKEx's Chief Marketing Officer accepted the invitation of the Government of the Republic of Kazakhstan to speak at the Astana Mining & Metallurgy Congress held in Astana on 4 July 2011 to market the Exchange as a fund-raising platform for Kazakh mining and resource companies. HKEx also targeted the natural resource sector as well as consumer-related companies during its recent visits to Australia and Brazil, while European luxury brands and other sectors were the focus of recent marketing work in France, Italy, and the United Kingdom. Marketing trips were also made to Japan, Korea, and Malaysia in the past few months. Along with activities to attract overseas-listed Mainland and Hong Kong companies to list in Hong Kong, HKEx has increased its effort to promote RMB IPOs and secondary offerings through well-attended seminars at the Exchange Auditorium.

In October 2011, HKEx participated in the Hong Kong-Guangxi Financial Cooperation Symposium in Hong Kong as a co-organiser with a view to promoting the listing and fund-raising platform in Hong Kong to Guangxi enterprises. HKEx took this opportunity to sign an MOU with the Guangxi Zhuang Autonomous Region's Financial Affairs Office on cooperation and the exchange of information. In addition, HKEx and the Administrative Committee of Zhongguancun Science Park in Beijing signed an MOU on cooperation and the exchange of information to encourage enterprises based in Zhongguancun to accelerate their development through listing and raising funds in the international capital market.

In the Mainland, HKEx continued to identify listing prospects and spoke at marketing events in Anhui, Beijing, Fujian, Guangdong, Hebei, Hubei, Jiangsu, Shandong, Shanghai, Sichuan, and Zhejiang. In the third quarter of 2011, the Exchange co-organised 6 seminars about listing in Hong Kong in various major cities of the Mainland.

Issuer Services

To boost the visibility of listed companies and improve communication between listed companies and the investment community, HKEx launched in October 2011 a series of issuer services including (i) "Know the Listed Companies" monthly conferences with representatives from listed companies of the same industry, sector, or theme to brief the audience from institutional investors, analysts, EPs and other market professionals, on the most updated company information; and (ii) market open ceremonies providing representatives and guests of listed companies the unique opportunity to open HKEx's securities market at the Trading Hall to mark the start of the trading day.

At a later date, HKEx also plans to offer referral based market intelligence and communications services to facilitate listed companies' understanding of their shareholders.

Mainland Development

In August and September 2011, HKEx organised and hosted one-week and four-week programmes on Hong Kong's securities market for 21-person and 4-person delegations respectively, from the CSRC offices in more than 17 Mainland cities. The programmes were the first of a series of HKEx's programmes for CSRC officials. They included meetings with HKEx's Listing Division and visits to other key authorities in Hong Kong. There was also a presentation on the work of CSRC from an insider's perspective made by CSRC officials who spoke to a group of HKEx's employees in the Exchange Auditorium.

Market Surveys

HKEx conducted its Derivatives Market Transaction Survey 2010/11 in the third quarter of 2011 and will publish the survey report in due course. The Cash Market Transaction Survey 2010/11 has been started and is expected to be completed by the end of this year. The findings of these surveys help keep track of the degree of participation of different investor types in HKEx's derivatives and securities markets. HKEx will conduct a further survey before the end of this year to get the latest trend and characteristics of retail investor participation in its markets.

Other Promotional Activities

In the third quarter of 2011, HKEx's Chairman continued to help promote Hong Kong's financial markets by speaking at various conferences such as the 2nd Russia – Capital Raising and Investment Summit, the Hong Kong Institute of Bankers 3rd Annual Banking Conference, and the Kazakh Equity Capital Raising & Investment Forum. In September 2011, HKEx's Chief Executive and Chief Marketing Officer participated in the 18th CLSA Investors' Forum in Hong Kong and the 7th Asia-Pacific New Markets Forum & 2011 Capital Market Forum in Taipei respectively. These events provided opportunities to introduce HKEx and its markets.

Before attending the 51st World Federation of Exchanges General Assembly and Annual Meeting in Johannesburg on 11 to 13 October 2011, HKEx's Chairman joined the senior executives in their marketing activities in South Africa. Apart from meeting the President of the Republic of South Africa to introduce HKEx and Hong Kong's financial markets, the Chairman also participated in events held by the Durban Chamber of Commerce and Industry and other organisations, and met with potential issuers and intermediaries to promote the Exchange. On 25 October 2011, HKEx's Chairman spoke at the Bloomberg China Conference and he was a panelist at the China Daily Asia Leadership Roundtable on 4 November 2011.

Treasury

The Group's funds available for investment comprise Corporate Funds, cash collateral, Margin Funds and Clearing House Funds, totalling \$46.7 billion on average for the nine months ended 30 September 2011 (30 September 2010: \$38.0 billion).

As compared with 30 June 2011, the overall size of funds available for investment as at 30 September 2011 increased by 43 per cent or \$19.1 billion to \$64.0 billion (30 June 2011: \$44.9 billion). Details of the asset allocation of the investments as at 30 September 2011 against those as at 30 June 2011 are set out below.

	Investment Fund Size \$bn		Bonds *		Cash or Bank Deposits *		Global Equities	
	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun
Corporate Funds	11.8	10.3	43%	50%	54%	47%	3%	3%
Cash collateral	5.8	4.5	0%	0%	100%	100%	0%	0%
Margin Funds	44.5	26.3	14%	21%	86%	79%	0%	0%
Clearing House Funds	1.9	3.8	19%	9%	81%	91%	0%	0%
Total	64.0	44.9	18%	25%	81%	74%	1%	1%

* Included certain principal-guaranteed structured notes and deposits

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the cash collateral, Margin Funds and Clearing House Funds. Excluding equities held under the Corporate Funds (\$0.4 billion as at 30 September 2011 and \$0.3 billion as at 30 June 2011), which have no maturity date, the maturity profiles of the remaining investments as at 30 September 2011 (\$63.6 billion) and 30 June 2011 (\$44.6 billion) were as follows:

	Investment Fund Size \$bn		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		>3 years	
	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun
Corporate Funds	11.4	10.0	21%	20%	20%	2%	25%	40%	22%	25%	12%	13%
Cash collateral	5.8	4.5	79%	67%	2%	7%	19%	26%	0%	0%	0%	0%
Margin Funds	44.5	26.3	33%	18%	19%	15%	42%	57%	5%	10%	1%	0%
Clearing House Funds	1.9	3.8	61%	75%	12%	11%	27%	9%	0%	5%	0%	0%
Total	63.6	44.6	36%	28%	17%	11%	37%	46%	7%	12%	3%	3%

Credit exposure is well diversified. The Group's bond portfolio (which includes certain principal-guaranteed structured notes) held is of investment grade and, as at 30 September 2011, had a weighted average credit rating of Aa3 (30 June 2011: Aa2) and a weighted average maturity of 1.9 years (30 June 2011: 1.6 years). Deposits (which include certain principal-guaranteed structured deposits) are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

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

	Average VaR \$m		Highest VaR \$m		Lowest VaR \$m	
	Jul-Sept	Apr-Jun	Jul-Sept	Apr-Jun	Jul-Sept	Apr-Jun
Corporate Funds	21.2	24.7	23.4	27.2	19.7	17.5
Cash collateral	0.3	0.2	0.3	0.3	0.2	0.1
Margin Funds	4.9	5.8	7.2	7.4	3.7	4.8
Clearing House Funds	0.7	1.4	1.8	1.8	0.1	0.6

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

FINANCIAL REVIEW

Overall Performance

	Note	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Change
RESULTS				
Revenue and other income:				
Income affected by market turnover	(A)	4,120	3,488	18%
Stock Exchange listing fees	(B)	714	657	9%
Market data fees	(C)	491	495	(1%)
Other revenue	(D)	357	319	12%
Net investment income	(E)	235	332	(29%)
		5,917	5,291	12%
Operating expenses		1,383	1,178	17%
Profit before taxation		4,534	4,113	10%
Taxation		(713)	(635)	12%
Profit attributable to shareholders		3,821	3,478	10%

The Group recorded a profit attributable to shareholders of \$3,821 million for the first nine months of 2011 (first quarter: \$1,238 million; second quarter: \$1,346 million; third quarter: \$1,237 million) compared with \$3,478 million for the same period in 2010 (2010 first quarter: \$1,127 million; second quarter: \$1,131 million; third quarter: \$1,220 million).

The rise in profit for the nine months ended 30 September 2011 against that for 2010 was primarily attributable to higher turnover-related income resulting from an increase in activity on the Cash and Derivatives Markets and Stock Exchange listing fees but was partly offset by a decrease in net investment income due to the downturn of the markets caused by worries over the Eurozone sovereign debt crisis and economic uncertainty in the third quarter.

Total operating expenses increased over the same period in 2010 mainly due to higher staff costs and an increase in IT and computer maintenance expenses for services and goods consumed by the Participants.

Revenue and Other Income

(A) Income Affected by Market Turnover

	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Change
Trading fees and trading tariff	2,266	1,942	17%
Clearing and settlement fees	1,268	1,085	17%
Depository, custody and nominee services fees	586	461	27%
Total	4,120	3,488	18%

The increase in trading fees and trading tariff was mainly attributable to higher turnover of the Cash and Derivatives Markets for the first nine months 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 for the first nine months of 2011 was in line with the higher turnover of the Cash Market.

Depository, custody and nominee services fees mainly comprise scrip fees, corporate action fees, stock custody fees, dividend collection fees, and stock withdrawal fees. The fees are generally influenced by the level of Cash Market activity but do not move proportionately with changes in the turnover of the Cash Market as they vary mostly with the number of board lots rather than the value or turnover of the securities concerned and many are subject to a maximum fee. Depository, custody and nominee services fees rose during the first nine months of 2011 primarily due to an increase in scrip fees, stock withdrawal fees, and dividend collection fees.

Key Market Indicators

	Nine months ended 30 Sept 2011	Nine months ended 30 Sept 2010	Change
Average daily turnover value on the Stock Exchange (\$bn)	73.2	63.1	16%
Average daily number of derivatives contracts traded on the Futures Exchange	268,850	212,953	26%
Average daily number of stock options contracts traded on the Stock Exchange	309,104	219,892	41%

(B) Stock Exchange Listing Fees

	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Change
Annual listing fees	329	295	12%
Initial and subsequent issue listing fees	381	359	6%
Others	4	3	33%
Total	714	657	9%

The increase in annual listing fees was attributable to a higher number of listed companies. The rise in initial and subsequent issue listing fees was due to an increase in the number of DWs and a rise in initial listing fees forfeited due to a higher number of lapsed and withdrawn IPO applications not listed within 6 months of application, but was partly offset by a drop in the number of newly listed CBBCs.

Key Drivers for Annual Listing Fees

	At 30 Sept 2011	At 30 Sept 2010	Change
Number of companies listed on Main Board	1,301	1,194	9%
Number of companies listed on GEM	166	171	(3%)
Total	1,467	1,365	7%

Key Drivers for Initial and Subsequent Issue Listing Fees

	Nine months ended 30 Sept 2011	Nine months ended 30 Sept 2010	Change
Number of newly listed DWs	5,641	5,123	10%
Number of newly listed CBBCs	3,781	4,728	(20%)
Number of newly listed companies on Main Board	61	54	13%
Number of newly listed companies on GEM	8	4	100%
Total equity funds raised on Main Board			
– IPOs (\$bn)	193.6	160.2	21%
– Post-IPO (\$bn)	163.1	167.8	(3%)
Total equity funds raised on GEM			
– IPOs (\$bn)	0.8	0.2	300%
– Post-IPO (\$bn)	5.3	7.6	(30%)

(C) Market Data Fees

	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Change
Market data fees	491	495	(1%)

Market data fees fell marginally as certain Cash Market data fees charged on a per quote basis dropped compared with the same period in 2010.

(D) Other Revenue

	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Change
Network, terminal user, dataline and software sub-license fees	281	252	12%
Participants' subscription and application fees	26	26	0%
Trading booth user fees	12	12	0%
Sales of Trading Rights	16	7	129%
Miscellaneous revenue	22	22	0%
Total	357	319	12%

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

(E) Net Investment Income

	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Change
Gross investment income	237	335	(29%)
Interest rebates to Participants	(2)	(3)	(33%)
Net investment income	235	332	(29%)

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

	Nine months ended 30 Sept 2011 \$bn	Nine months ended 30 Sept 2010 \$bn	Change
Corporate Funds	10.8	9.1	19%
Cash collateral	4.3	3.6	19%
Margin Funds	28.4	23.0	23%
Clearing House Funds	3.2	2.3	39%
Total	46.7	38.0	23%

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

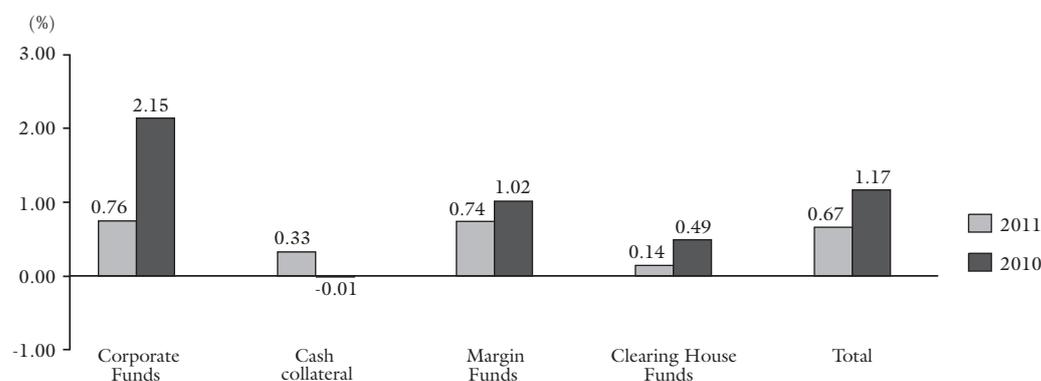
The significant rise in the average amount of Margin Funds available for investment during the period was primarily caused by the higher margin rate required per contract and increases in open positions.

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

The lower net investment income was primarily attributable to higher fair value losses of equity investments of Corporate Funds and a drop in fair value gains on Margin Fund investments, reflecting market movements. The fall in net investment income was partly offset by an increase in net interest income of all funds due to an increase in fund size and higher HKD money market interest rates.

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

Annualised Net Return on Funds Available for Investment



The lower net return of Corporate Funds was mainly due to higher fair value losses on equity investments and a decrease in fair value gains of investments, including certain principal-guaranteed structured notes and deposits, during the period when compared with the corresponding period in 2010, reflecting market movements.

The higher net return of cash collateral during the period in 2011 was mainly attributable to the allocation of a portion of the funds to longer-term time deposits for yield enhancement.

The lower net return of Margin Funds during the period in 2011 was mainly due to a drop in fair value gains on investments, which included certain principal-guaranteed structured notes and deposits.

The lower net return of the Clearing House Funds during the period in 2011 was mainly attributable to fair value losses of investments, which included certain principal-guaranteed structured notes, during the period, as opposed to fair value gains of investments for the corresponding period in 2010.

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

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

Operating Expenses

	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Change
Staff costs and related expenses	793	645	23%
IT and computer maintenance expenses	222	195	14%
Premises expenses	161	158	2%
Product marketing and promotion expenses	11	11	0%
Legal and professional fees	25	10	150%
Depreciation	70	79	(11%)
Other operating expenses	101	80	26%
Total	1,383	1,178	17%

Staff costs and related expenses increased by \$148 million, primarily due to higher salary costs as a result of a 6 per cent increase in permanent headcount (from 857 at 30 September 2010 to 910 at 30 September 2011) mainly for various new initiatives under the Strategic Plan 2010-2012, 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.

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by the Participants of \$110 million (2010: \$89 million), were \$112 million (2010: \$106 million). The rise in costs of services and goods directly consumed by the Participants was caused by an increase in Cash Market trading system line rentals due to a bandwidth upgrade and purchases of hardware and software for replacement of obsolete items by the Participants. Costs of services and goods directly consumed by the Participants are mostly recovered from the Participants and the income is included as part of the network, terminal user, dataline and software sub-license fees under Other Revenue.

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

Depreciation decreased as certain fixed assets became fully depreciated.

Other operating expenses rose mainly due to fees for additional bank credit facilities for strengthening the Group's liquidity and risk management measures, an increase in index licence fees due to growth in the number of derivatives contracts traded, higher advertising costs, increased overseas travel expenses for various initiatives, and sundry increases in other expenses.

Taxation

	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Change
Taxation	713	635	12%

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

Comparison of 2011 Third Quarter Performance with 2011 Second Quarter Performance

	Three months ended 30 Sept 2011 \$m	Three months ended 30 Jun 2011 \$m	Change
Revenue and other income:			
Income affected by market turnover:			
Trading fees and trading tariff	801	700	14%
Clearing and settlement fees	441	409	8%
Depository, custody and nominee services fees	192	322	(40%)
	1,434	1,431	0%
Stock Exchange listing fees	247	221	12%
Market data fees	159	164	(3%)
Other revenue	111	119	(7%)
Net investment (loss)/income	(6)	130	(105%)
	1,945	2,065	(6%)
Operating expenses	467	474	(1%)
Profit before taxation	1,478	1,591	(7%)
Taxation	(241)	(245)	(2%)
Profit attributable to shareholders	1,237	1,346	(8%)

Profit attributable to shareholders decreased from \$1,346 million in the second quarter of 2011 to \$1,237 million in the third quarter. The decrease was mainly attributable to lower depository, custody and nominee services fees and a net investment loss, but was partly offset by an increase in trading fees and trading tariff.

Trading fees and trading tariff rose in the third quarter due to increased activity on the Cash and Derivatives Markets. On the other hand, depository, custody and nominee services fees fell significantly as a result of a decrease in scrip fee income due to seasonal fluctuations.

The net investment loss during the third quarter was mainly attributable to fair value losses on investments measured at fair value (including equities and certain principal-guaranteed structured notes and deposits), reflecting market movements caused by the market downturn.

Key Market Indicators

	Three months ended 30 Sept 2011	Three months ended 30 Jun 2011	Change
Average daily turnover value on the Stock Exchange (\$bn)	72.6	71.1	2%
Average daily number of derivatives contracts traded on the Futures Exchange	304,229	254,175	20%
Average daily number of stock options contracts traded on the Stock Exchange	348,598	276,966	26%

Working Capital

Working capital fell by \$478 million or 7 per cent to \$5,896 million at 30 September 2011 (31 December 2010: \$6,374 million). The decrease was primarily due to the payment of the 2010 final dividend of \$2,384 million in May 2011, the 2011 interim dividend payable of \$2,327 million, and an increase in fixed assets of \$308 million, which were partly offset by the profit generated during the nine months ended 30 September 2011 of \$3,821 million, a decrease in non-current financial assets of \$664 million, and an increase in other working capital of \$56 million.

Capital Expenditures and Capital Commitments

During the first nine months of 2011, the Group incurred capital expenditures of \$378 million (2010: \$69 million) which were mainly on the new Data Centre at Tseung Kwan O with hosting service capability and the upgrade of the Cash Market trading system and MDS.

The Group's capital expenditure commitments at 30 September 2011, including those authorised by the Board but not yet contracted for, amounted to \$1,862 million (31 December 2010: \$2,075 million) and were mainly related to the construction of the new Data Centre at Tseung Kwan O, the upgrade and enhancement of trading and clearing systems, and other 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 and foreign currency bank deposits have been used to hedge the currency exposure of the Group's non-HKD investments and liabilities to mitigate risks arising from fluctuations in exchange rates.

At 30 September 2011, the aggregate net open foreign currency positions amounted to HK\$2,065 million, of which HK\$350 million were non-USD exposures (31 December 2010: HK\$2,401 million, of which HK\$375 million were non-USD exposures), with the maximum gross nominal value of outstanding forward foreign exchange contracts amounting to HK\$5,280 million (31 December 2010: HK\$3,749 million). All forward foreign exchange contracts will 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 27 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 or 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 quarter ended 30 September 2011 (third 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 nine months ended 30 September 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 nine months ended 30 September 2011.

OPERATIONAL REVIEW

Organisational Change

To further strengthen HKEx's operations and support the continuing implementation of the HKEx Strategic Plan 2010-2012, a number of new appointments and senior personnel changes took place in the third quarter of 2011.

HKEx appointed Mr Joseph Meyer as its first Chief Administrative Officer effective 8 July 2011 to oversee the office administration and human resources functions, and appointed Ms Sylvia Hoosen as Head of Human Resources from 16 September 2011 upon the retirement of Ms Brenda Yen on 3 August 2011.

On 3 October 2011, Mr Richard Leung joined HKEx as the new Co-Head of the Information Technology Division (ITD) to work with the Platform Development to spearhead a number of strategic system developments including the Next Generation Market Data System and securities trading system as well as the central gateway development. Effective 1 January 2012, Mr Roger Lee, currently Co-Head of ITD, will return to the Listing Division as Head of Listing Operations. Mr Lee will be responsible for managing the operations supporting issuer public disclosure filings, and the operations, regulation, and policies concerning issuance of structured products and debts. Meanwhile, Mr Lee will continue leading the cross-divisional project team to develop the new Data Centre until its completion.

The updated organisational chart and functions of the management team are available on the HKEx website.

Long Term Incentive Schemes

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

Share Option Schemes

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

Movements in the share options granted under the Post-Listing Scheme during the nine months ended 30 September 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 nine months ended 30 Sept 2011	Cancelled/ lapsed during the nine months ended 30 Sept 2011	As at 30 Sept 2011	
Employees³						
31 Mar 2004	16.96	469,500	87,500	–	382,000	31 Mar 2006 – 30 Mar 2014
17 May 2004	15.91	100,000	75,000	–	25,000	17 May 2006 – 16 May 2014
26 Jan 2005	19.25	885,000	297,400 ⁴	–	587,600	26 Jan 2007 – 25 Jan 2015

OPERATIONAL REVIEW

Notes:

- 1 The weighted average closing price immediately before the dates on which the options were exercised was \$163.44.
- 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.
- 4 This excluded 10,000 shares which were issued on 3 October 2011 upon an exercise of option on 30 September 2011.

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 2,785,923 shares have been awarded up to the date of this Quarterly Report, representing 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 nine months ended 30 Sept 2011	Vesting period
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	1,375	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
14 Dec 2010	9 Jun 2011	570	3,300	3,300	171.59	-	26 Apr 2013 – 26 Apr 2014
14 Dec 2010	8 Jul 2011	1,560	9,200	9,200	168.87	-	8 Jul 2013 – 8 Jul 2014
14 Dec 2010	7 Sept 2011	405	2,900	2,900	137.12	-	20 Jul 2013 – 20 Jul 2014
14 Dec 2010	11 Oct 2011	1,620	11,800	11,800	137.22	-	19 Sept 2013 – 19 Sept 2014
14 Dec 2010	11 Oct 2011	1,560	14,400	14,400	108.03	-	3 Oct 2013 – 3 Oct 2014

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 30 September 2011, there were a total of 1,705,180 shares held in trust by the trustee under the Share Award Scheme including the shares further acquired out of the dividends derived from the shares held under the trust.

Corporate Governance

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

As of 31 August 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 1 November 2011, HKEx received the Best Report Award in the 2011 HKMA Best Annual Reports Awards organised by The Hong Kong Management Association for the second consecutive year.

HKEx continued to engage an external consultant to conduct an independent evaluation of the performance of the Board and its committees in 2011 with a view to assessing whether the Board, committees and their members have fulfilled their responsibilities effectively, and identifying areas for improvement. The evaluation results will be announced early next year.

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

Corporate Social Responsibility

HKEx continues to be included in the FTSE4Good Index Series, the Hang Seng Corporate Sustainability Index Series and the Dow Jones Sustainability Asia Pacific Index.

With the aim of achieving further improvements, the Environmental, Social and Governance Committee in September 2011, approved the corporate social responsibility (CSR) strategy going forward to harness HKEx's core competencies in a way that benefits the Company and the community at large.

To recognise and encourage employees who serve the community as volunteers, the annual HKEx Volunteer Recognition Ceremony, hosted by HKEx's Chief Executive, was held in August 2011. During the ceremony, 28 employees who contributed between 20 to 200 volunteer service hours in 2010 were presented respectively with individual Volunteer Awards issued by HKEx, Certificates for Volunteer Service issued by the Hong Kong Government's Social Welfare Department and Certificates for Caring Ambassador issued by The Hong Kong Council of Social Service. In recognition of HKEx's contribution of almost 3,000 volunteer service hours in 2010, the Company received the Gold Certificate for Volunteer Service issued by the Social Welfare Department.

To further improve HKEx's environmental performance, a waste audit of all office premises was completed in October 2011 to record and review the recycling practices of the employees and to identify areas for improvement. To promote environmental education, HKEx was one of the sponsors of WWF Hong Kong's annual fundraising event "Walk for Nature 2011". Fifty employees and their family members participated in the walkathon at Mai Po to learn about environmental conservation and raised funds to support the works of WWF Hong Kong.

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 nine months ended 30 September 2011.

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

As at 30 September 2011, the interests and short positions of Directors and HKEx's Chief Executive in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code are set out below.

Long positions in shares and underlying shares of HKEx

Name of Director	Number of shares/underlying shares held				Total	% of the issued ¹ share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Charles X Li	118,363 ²	–	–	–	118,363	0.01
John E Strickland	18,000 ³	–	–	–	18,000	0.00

Notes:

- 1 Based on 1,079,139,163 HKEx shares in issue as at 30 September 2011
- 2 Being Mr Li's interests in 114,073 Awarded Shares and 4,290 shares further acquired out of the dividends derived from such Awarded Shares according to the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in the Operational Review of this Quarterly Report.
- 3 Mr Strickland was the beneficial owner of those shares.

Save for those disclosed above, as at 30 September 2011, none of the Directors or HKEx's Chief Executive had any interests or short positions in the shares, underlying shares or debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code.

Apart from the 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 HKEx's Chief Executive (including their spouses and children under the age of 18), during the nine months ended 30 September 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 SFC's approval, 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 30 September 2011, the 8 approved Minority Controllers in aggregate held approximately 58 per cent of HKEx's issued share capital.

As at 30 September 2011, other persons' interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange are set out below.

Long positions in shares and underlying shares of HKEx

Name	Capacity	Number of shares/ underlying shares held	Total	% of the issued ¹ share capital
Deutsche Bank Aktiengesellschaft	Beneficial owner	51,788,276	80,904,281 ²	7.49
	Investment manager	1,769,770		
	Person having a security interest in shares	26,102,588		
	Custodian corporation/ approved lending agent	1,243,647		
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	62,919,500 ³	62,919,500	5.83

Short positions in shares and underlying shares of HKEx

Name	Capacity	Number of shares/ underlying shares held	Total	% of the issued ¹ share capital
Deutsche Bank Aktiengesellschaft	Beneficial owner	50,229,789	75,597,344 ⁴	7.00
	Person having a security interest in shares	25,367,555		

Notes:

- 1 Based on 1,079,139,163 HKEx shares in issue as at 30 September 2011
- 2 It included interests in 49,575,851 underlying shares through its holding of certain cash settled unlisted equity derivatives, and 1,243,647 shares in the lending pool.
- 3 Based on a disclosure of interest filing made by the Hong Kong Government on 10 September 2007 which it stated was voluntary
- 4 It included aggregate interests in 49,776,011 underlying shares through its holding of certain physically settled listed equity derivatives (26 underlying shares) and cash settled unlisted equity derivatives (49,775,985 underlying shares).

Save for those disclosed above, as at 30 September 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 nine months ended 30 September 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 45,500 HKEx shares at a consideration of about \$7.3 million.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Note	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Three months ended 30 Sept 2011 \$m	Three months ended 30 Sept 2010 \$m
Trading fees and trading tariff	3	2,266	1,942	801	657
Stock Exchange listing fees	4	714	657	247	232
Clearing and settlement fees		1,268	1,085	441	358
Depository, custody and nominee services fees		586	461	192	141
Market data fees		491	495	159	160
Other revenue	5	357	319	111	115
REVENUE AND TURNOVER		5,682	4,959	1,951	1,663
Investment income/(loss)		237	335	(5)	176
Interest rebates to Participants		(2)	(3)	(1)	(2)
Net investment income/(loss)	6	235	332	(6)	174
	2	5,917	5,291	1,945	1,837
OPERATING EXPENSES					
Staff costs and related expenses	7	793	645	275	224
Information technology and computer maintenance expenses	8	222	195	73	67
Premises expenses		161	158	55	53
Product marketing and promotion expenses		11	11	2	3
Legal and professional fees		25	10	8	4
Depreciation		70	79	20	26
Other operating expenses		101	80	34	25
	2	1,383	1,178	467	402
PROFIT BEFORE TAXATION	2	4,534	4,113	1,478	1,435
TAXATION	9	(713)	(635)	(241)	(215)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		3,821	3,478	1,237	1,220
Basic earnings per share	11(a)	\$3.55	\$3.23	\$1.15	\$1.13
Diluted earnings per share	11(b)	\$3.54	\$3.22	\$1.15	\$1.13

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Note	At 30 Sept 2011			At 31 Dec 2010		
		Current \$m	Non- current \$m	Total \$m	Current \$m	Non- current \$m	Total \$m
ASSETS							
Cash and cash equivalents	12	37,348	–	37,348	19,361	–	19,361
Financial assets measured at fair value through profit or loss	13	10,729	685	11,414	9,949	1,241	11,190
Financial assets measured at amortised cost	14	14,629	675	15,304	7,021	783	7,804
Accounts receivable, prepayments and deposits	15	7,232	23	7,255	9,203	3	9,206
Fixed assets		–	603	603	–	295	295
Lease premium for land		–	25	25	–	25	25
Deferred tax assets		–	5	5	–	3	3
Total assets		69,938	2,016	71,954	45,534	2,350	47,884
LIABILITIES AND EQUITY							
Liabilities							
Margin deposits from Clearing Participants on derivatives contracts	17	44,549	–	44,549	22,702	–	22,702
Cash collateral from HKSCC Clearing Participants	18	5,852	–	5,852	3,594	–	3,594
Accounts payable, accruals and other liabilities	19	8,863	–	8,863	9,946	–	9,946
Dividend payable		2,327	–	2,327	–	–	–
Deferred revenue		249	–	249	473	–	473
Taxation payable		817	–	817	320	–	320
Other financial liabilities		52	–	52	58	–	58
Participants' contributions to Clearing House Funds	20	1,297	–	1,297	2,039	–	2,039
Provisions		36	29	65	28	29	57
Deferred tax liabilities		–	28	28	–	18	18
Total liabilities		64,042	57	64,099	39,160	47	39,207
Equity							
Share capital	21			1,079			1,078
Share premium	21			532			416
Shares held for Share Award Scheme	21			(228)			(219)
Employee share-based compensation reserve	22			114			56
Designated reserves	20, 23			578			580
Retained earnings	24			5,780			6,766
Shareholders' funds				7,855			8,677
Total liabilities and equity				71,954			47,884
Net current assets				5,896			6,374
Total assets less current liabilities				7,912			8,724

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital, share premium and shares held for Share Award Scheme (note 21) \$m	Employee share-based compensation reserve (note 22) \$m	Designated reserves (note 23) \$m	Retained earnings (note 24) \$m	Total equity \$m
At 1 Jan 2011	1,275	56	580	6,766	8,677
Profit attributable to shareholders	-	-	-	3,821	3,821
2010 final dividend at \$2.31 per share	-	-	-	(2,487)	(2,487)
2011 interim dividend at \$2.16 per share	-	-	-	(2,327)	(2,327)
Unclaimed dividends forfeited	-	-	-	5	5
Shares issued upon exercise of employee share options	8	-	-	-	8
Shares issued in lieu of cash dividends	103	-	-	-	103
Shares purchased for Share Award Scheme	(7)	-	-	-	(7)
Vesting of shares of Share Award Scheme	2	(2)	-	-	-
Employee share-based compensation benefits	-	62	-	-	62
Transfer of reserves	2	(2)	(2)	2	-
At 30 Sept 2011	1,383	114	578	5,780	7,855

	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	-	-	-	3,478	3,478
2009 final dividend at \$2.09 per share	-	-	-	(2,251)	(2,251)
2010 interim dividend at \$1.89 per share	-	-	-	(2,034)	(2,034)
Unclaimed dividends forfeited	-	-	-	16	16
Shares issued upon exercise of employee share options	34	-	-	-	34
Shares purchased for Share Award Scheme	(96)	-	-	-	(96)
Vesting of shares of Share Award Scheme	2	(2)	-	-	-
Employee share-based compensation benefits	-	22	-	-	22
Transfer of reserves	8	(8)	10	(10)	-
At 30 Sept 2010	1,348	55	573	5,220	7,196

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

		Nine months ended 30 Sept 2011 \$m	As restated Nine months ended 30 Sept 2010 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	25	4,894	4,443
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		(224)	(41)
Net proceeds from sales of fixed assets		–	1
Payments for acquisition of lease premium for land		–	(26)
Net decrease/(increase) in financial assets of the Corporate Funds:			
Decrease in time deposits with original maturities more than three months		726	79
Payments for purchases of financial assets measured at amortised cost (excluding time deposits)		(1,169)	(230)
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding time deposits)		1,411	621
Payments for purchases of financial assets measured at fair value through profit or loss		–	(52)
Net proceeds from sales or maturity of financial assets measured at fair value through profit or loss		88	575
Interest received from financial assets measured at amortised cost (excluding time deposits)		12	17
Interest received from financial assets measured at fair value through profit or loss		116	141
Net cash inflow from investing activities		960	1,085
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of employee share options		8	34
Purchase of shares for Share Award Scheme		(7)	(96)
Dividends paid		(2,398)	(4,255)
Net cash outflow from financing activities		(2,397)	(4,317)
Net increase in cash and cash equivalents		3,457	1,211
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)
Cash and cash equivalents at 30 Sept		5,402	2,530
Analysis of cash and cash equivalents			
Cash at bank and in hand		1,179	1,065
Time deposits with original maturities within three months		4,223	1,465
Cash and cash equivalents at 30 Sept		5,402	2,530

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 amendments 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 (SEOCH) and HKFE Clearing Corporation Limited (HKCC), which are responsible for clearing, settlement and custodian activities of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from 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:

	Nine months ended 30 Sept 2011				
	Cash	Derivatives	Clearing	Market	Group
	Market	Market	Business	Data	
\$m	\$m	\$m	\$m	\$m	
Income from external customers	2,561	646	1,983	492	5,682
Net investment income	28	169	38	-	235
	2,589	815	2,021	492	5,917
Operating expenses					
Direct costs	507	133	272	55	967
Indirect costs	202	57	129	28	416
	709	190	401	83	1,383
Reportable segment profit before taxation	1,880	625	1,620	409	4,534

	Nine months ended 30 Sept 2010				
	Cash	Derivatives	Clearing	Market	Group
	Market	Market	Business	Data	
\$m	\$m	\$m	\$m	\$m	
Income from external customers	2,282	536	1,644	497	4,959
Net investment income	77	203	52	-	332
	2,359	739	1,696	497	5,291
Operating expenses					
Direct costs	464	119	239	45	867
Indirect costs	153	42	94	22	311
	617	161	333	67	1,178
Reportable segment profit before taxation	1,742	578	1,363	430	4,113

3. Trading Fees and Trading Tariff

	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Three months ended 30 Sept 2011 \$m	Three months ended 30 Sept 2010 \$m
Trading fees and trading tariff were derived from:				
Securities traded on the Cash Market	1,566	1,366	533	465
Derivatives contracts traded on the Derivatives Market	700	576	268	192
	2,266	1,942	801	657

4. Stock Exchange Listing Fees

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

	Nine months ended 30 Sept 2011				Nine months ended 30 Sept 2010			
	Equity		CBCBs, DWs & others \$m	Total \$m	Equity		CBCBs, DWs & others \$m	Total \$m
Main Board \$m	GEM \$m	Main Board \$m			GEM \$m			
Stock Exchange Listing Fees								
Annual listing fees	309	18	2	329	275	18	2	295
Initial and subsequent issue listing fees	69	5	307	381	59	4	296	359
Other listing fees	4	-	-	4	3	-	-	3
Total	382	23	309	714	337	22	298	657
Costs of Listing Function								
Direct costs	196	44	13	253	173	37	14	224
Indirect costs	42	7	12	61	30	6	9	45
Total costs	238	51	25	314	203	43	23	269
Contribution to Cash Market								
Segment Profit before Taxation	144	(28)	284	400	134	(21)	275	388

4. Stock Exchange Listing Fees (continued)

	Three months ended 30 Sept 2011				Three months ended 30 Sept 2010			
	Equity		CBBCs, DWs & others	Total	Equity		CBBCs, DWs & others	Total
	Main Board	GEM			Main Board	GEM		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Stock Exchange Listing Fees								
Annual listing fees	106	6	1	113	94	6	1	101
Initial and subsequent issue listing fees	30	2	101	133	26	2	102	130
Other listing fees	1	-	-	1	1	-	-	1
Total	137	8	102	247	121	8	103	232
Costs of Listing Function								
Direct costs	69	16	5	90	59	11	5	75
Indirect costs	15	2	4	21	10	3	3	16
Total costs	84	18	9	111	69	14	8	91
Contribution to Cash Market								
Segment Profit before Taxation	53	(10)	93	136	52	(6)	95	141

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, enforcing the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, and disseminating information relating to listed companies. Indirect costs comprise costs of support services and other central overheads attributable to the Listing Function.

5. Other Revenue

	Nine months ended 30 Sept 2011	Nine months ended 30 Sept 2010	Three months ended 30 Sept 2011	Three months ended 30 Sept 2010
	\$m	\$m	\$m	\$m
Network, terminal user, dataline and software sub-license fees	281	252	87	89
Participants' subscription and application fees	26	26	9	9
Trading booth user fees	12	12	4	4
Sales of Trading Rights	16	7	3	3
Miscellaneous revenue	22	22	8	10
	357	319	111	115

6. Net Investment Income/(Loss)

	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Three months ended 30 Sept 2011 \$m	Three months ended 30 Sept 2010 \$m
Gross interest income	182	89	79	40
Interest rebates to Participants	(2)	(3)	(1)	(2)
Net interest income	180	86	78	38
Net fair value gains/(losses) including interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	45	245	(88)	135
Losses on disposal of financial assets measured at amortised cost	-	(4)	-	-
Others	10	5	4	1
Net investment income/(loss)	235	332	(6)	174

7. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Three months ended 30 Sept 2011 \$m	Three months ended 30 Sept 2010 \$m
Salaries and other short-term employee benefits	680	576	237	196
Employee share-based compensation benefits	62	22	21	12
Retirement benefit costs (note 28(b))	51	47	17	16
	793	645	275	224

8. Information Technology and Computer Maintenance Expenses

	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Three months ended 30 Sept 2011 \$m	Three months ended 30 Sept 2010 \$m
Costs of services and goods:				
– consumed by the Group	112	106	37	36
– directly consumed by Participants	110	89	36	31
	222	195	73	67

9. Taxation

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

	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Three months ended 30 Sept 2011 \$m	Three months ended 30 Sept 2010 \$m
Provision for Hong Kong Profits Tax at 16.5% (2010: 16.5%)	705	634	243	210
Overprovision in respect of prior years	–	(2)	–	(2)
	705	632	243	208
Deferred taxation	8	3	(2)	7
	713	635	241	215

10. Dividends

	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Three months ended 30 Sept 2011 \$m	Three months ended 30 Sept 2010 \$m
Interim dividend payable of \$2.16 (2010: \$1.89) per share	2,331	2,037	–	–
Less: Dividend for shares held by Share Award Scheme	(4)	(3)	–	–
	2,327	2,034	–	–

11. Earnings Per Share

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

(a) Basic earnings per share

	Nine months ended 30 Sept 2011	Nine months ended 30 Sept 2010	Three months ended 30 Sept 2011	Three months ended 30 Sept 2010
Profit attributable to shareholders (\$m)	3,821	3,478	1,237	1,220
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,076,912	1,076,330	1,077,353	1,076,573
Basic earnings per share (\$)	3.55	3.23	1.15	1.13

(b) Diluted earnings per share

	Nine months ended 30 Sept 2011	Nine months ended 30 Sept 2010	Three months ended 30 Sept 2011	Three months ended 30 Sept 2010
Profit attributable to shareholders (\$m)	3,821	3,478	1,237	1,220
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,076,912	1,076,330	1,077,353	1,076,573
Effect of employee share options (in '000)	1,101	1,874	952	1,337
Effect of Awarded Shares (in '000)	1,382	837	1,366	1,233
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,079,395	1,079,041	1,079,671	1,079,143
Diluted earnings per share (\$)	3.54	3.22	1.15	1.13

12. Cash and Cash Equivalents

	At 30 Sept 2011 \$m	At 31 Dec 2010 \$m
Cash and cash equivalents:		
– Clearing House Funds (note 20)	1,380	2,155
– Margin Funds (note 17)	25,820	12,418
– Cash collateral (note 18)	4,746	2,843
(note (a))	31,946	17,416
– Corporate Funds (note 16)	5,402	1,945
	37,348	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.

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

	At 30 Sept 2011			
	Clearing House Funds (note 20) \$m	Margin Funds (note 17) \$m	Corporate Funds (note 16) \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
– listed in Hong Kong	–	–	90	90
– listed outside Hong Kong	–	–	277	277
	–	–	367	367
Debt securities:				
– listed in Hong Kong	–	–	152	152
– listed outside Hong Kong	126	280	2,188	2,594
– unlisted	227	6,018	1,997	8,242
	353	6,298	4,337	10,988
Derivative financial instruments:				
– forward foreign exchange contracts	–	–	59	59
	353	6,298	4,763	11,414
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	353	6,298	4,078	10,729
More than twelve months	–	–	685	685
	353	6,298	4,763	11,414

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

	At 31 Dec 2010			
	Clearing	Margin	Corporate	Total
	House	Funds	Funds	
	Funds	Funds	Funds	
(note 20)	(note 17)	(note 16)		
	\$m	\$m	\$m	\$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 \$Nil (31 December 2010: \$359 million) and \$2,500 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.

14. Financial Assets Measured at Amortised Cost

	At 30 Sept 2011				
	Clearing House Funds (note 20) \$m	Margin Funds (note 17) \$m	Cash collateral (note 18) \$m	Corporate Funds (note 16) \$m	Total \$m
Debt securities:					
– listed outside Hong Kong	–	–	–	249	249
– unlisted	–	–	–	460	460
	–	–	–	709	709
Time deposits with original maturities over three months	172	12,391	1,106	876	14,545
Other financial assets	–	–	–	50	50
	172	12,391	1,106	1,635	15,304
The expected recovery dates of the financial assets are analysed as follows:					
Within twelve months (note (a))	172	12,391	1,106	960	14,629
More than twelve months	–	–	–	675	675
	172	12,391	1,106	1,635	15,304
	At 31 Dec 2010				
	Clearing House Funds (note 20) \$m	Margin Funds (note 17) \$m	Cash collateral (note 18) \$m	Corporate Funds (note 16) \$m	Total \$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 \$Nil (31 December 2010: \$2 million) attributable to the Clearing House Funds that could readily be liquidated to meet liquidity requirements of the Funds.

15. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement money obligations receivable under the T+2 settlement cycle, which accounted for 88 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.

16. Corporate Funds

	At 30 Sept 2011 \$m	At 31 Dec 2010 \$m
The Group's Corporate Funds were invested in the following instruments:		
Cash and cash equivalents (note 12)	5,402	1,945
Financial assets measured at fair value through profit or loss (note 13)	4,763	4,877
Financial assets measured at amortised cost (note 14)	1,635	2,600
	11,800	9,422

17. Margin Deposits from Clearing Participants on Derivatives Contracts

	At 30 Sept 2011 \$m	At 31 Dec 2010 \$m
Margin deposits from Clearing Participants comprised (note (a)):		
SEOCH Clearing Participants' margin deposits	8,318	3,528
HKCC Clearing Participants' margin deposits	36,231	19,174
	44,549	22,702
The margin deposits were invested in the following instruments for managing the obligations of the Margin Funds:		
Cash and cash equivalents (note 12)	25,820	12,418
Financial assets measured at fair value through profit or loss (note 13)	6,298	5,954
Financial assets measured at amortised cost (note 14)	12,391	4,323
Margin receivable from Clearing Participants	15	7
Other accounts receivable	25	-
	44,549	22,702

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

18. Cash Collateral from HKSCC Clearing Participants

	At 30 Sept 2011 \$m	At 31 Dec 2010 \$m
Cash collateral from HKSCC Clearing Participants (note (a))	<u>5,852</u>	<u>3,594</u>
The cash collateral was invested in the following instruments:		
Cash and cash equivalents (note 12)	4,746	2,843
Financial assets measured at amortised cost (note 14)	<u>1,106</u>	<u>751</u>
	<u>5,852</u>	<u>3,594</u>

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

19. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's Continuous Net Settlement money obligations payable, which accounted for 72 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.

20. Clearing House Funds

	At 30 Sept 2011 \$m	At 31 Dec 2010 \$m
The Clearing House Funds were attributable to:		
Clearing Participants' cash contributions due within twelve months (note (a))	1,297	2,039
Designated reserves (note 23)	<u>578</u>	<u>580</u>
	<u>1,875</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 12)	1,380	2,155
Financial assets measured at fair value through profit or loss (note 13)	353	359
Financial assets measured at amortised cost (note 14)	<u>172</u>	<u>130</u>
	1,905	2,644
Less: Other financial liabilities of Clearing House Funds	<u>(30)</u>	<u>(25)</u>
	<u>1,875</u>	<u>2,619</u>
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	228	224
SEOCH Reserve Fund	995	967
HKCC Reserve Fund	<u>652</u>	<u>1,428</u>
	<u>1,875</u>	<u>2,619</u>

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

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

	At 30 Sept 2011 \$m		At 31 Dec 2010 \$m		
Authorised:					
2,000,000,000 shares of \$1 each	2,000		2,000		
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 (c))	(1,298)	-	-	(188)	(188)
Vesting of shares of Share Award Scheme (note (d))	317	-	-	21	21
At 31 Dec 2010	1,076,436	1,078	416	(219)	1,275
At 1 Jan 2011	1,076,436	1,078	416	(219)	1,275
Shares issued upon exercise of employee share options (note (a))	460	-	8	-	8
Shares issued in lieu of cash dividends (note (b))					
- total	587	1	106	-	107
- to Share Award Scheme	(21)	-	-	(4)	(4)
	566	1	106	(4)	103
Transfer from employee share-based compensation reserve upon exercise of employee share options	-	-	2	-	2
Shares purchased for Share Award Scheme (note (c))	(46)	-	-	(7)	(7)
Vesting of shares of Share Award Scheme (note (d))	18	-	-	2	2
At 30 Sept 2011	1,077,434	1,079	532	(228)	1,383

- (a) During the nine months ended 30 September 2011, employee share options granted under the share option schemes were exercised to subscribe for 459,900 shares (year ended 31 December 2010: 1,902,000 shares) in HKEx at an average consideration of \$18.27 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.

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

- (b) On 27 May 2011, 586,917 new fully paid HKEx shares were issued and allotted at \$181.14 per share to the shareholders (including 21,148 new shares allotted to the Share Award Scheme) who elected to receive HKEx shares in lieu of cash for the 2010 final dividend pursuant to the scrip dividend scheme.
- (c) During the nine months ended 30 September 2011, the Share Award Scheme acquired 45,500 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 \$7 million (year ended 31 December 2010: \$188 million).
- (d) During the nine months ended 30 September 2011, the Share Award Scheme transferred 17,461 HKEx shares (year ended 31 December 2010: 317,172 shares) to the awardees upon vesting of certain shares awarded under the Share Award Scheme (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).

22. Employee Share-based Compensation Reserve

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

No share options were granted during the nine months ended 30 September 2011. Details of Awarded Shares awarded during the nine months ended 30 September 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
14 Dec 2010	8 Apr 2011	263	1,400	1,400	179.55	1 Apr 2013 – 1 Apr 2014
14 Dec 2010	9 Jun 2011	570	3,300	3,300	171.59	26 Apr 2013 – 26 Apr 2014
14 Dec 2010	8 Jul 2011	1,560	9,200	9,200	168.87	8 Jul 2013 – 8 Jul 2014
14 Dec 2010	7 Sept 2011	405	2,900	2,900	137.12	20 Jul 2013 – 20 Jul 2014

23. Designated Reserves

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

	At 30 Sept 2011 \$m	At 31 Dec 2010 \$m
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	124	125
– SEOCH Reserve Fund reserve	110	111
– HKCC Reserve Fund reserve	344	344
	<u>578</u>	<u>580</u>

24. Retained Earnings

	2011 \$m	2010 \$m
At 1 Jan	6,766	6,021
Profit for the period/year	3,821	5,037
Transfer from/(to) Clearing House Funds reserves	2	(17)
Dividends:		
2010/2009 final dividend	(2,487)	(2,251)
2011/2010 interim dividend	(2,327)	(2,034)
Unclaimed dividends forfeited	5	16
Vesting of shares of Share Award Scheme	–	(6)
	<u>5,780</u>	<u>6,766</u>
At 30 Sept 2011/31 Dec 2010		
Representing:		
Retained earnings	5,780	4,280
Proposed final dividend	–	2,486
	<u>5,780</u>	<u>6,766</u>
At 30 Sept 2011/31 Dec 2010		

25. Notes to the Condensed Consolidated Statement of Cash Flows

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

	Nine months ended 30 Sept 2011 \$m	As restated Nine months ended 30 Sept 2010 \$m
Profit before taxation	4,534	4,113
Adjustments for:		
Net interest income	(180)	(86)
Dividend income	(9)	(4)
Net fair value gains including interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	(45)	(245)
Losses on disposal of financial assets measured at amortised cost of Corporate Funds	–	4
Depreciation	70	79
Employee share-based compensation benefits	62	22
Gain on disposal of fixed assets	–	(1)
Provision for impairment losses of trade receivables	3	–
Changes in provisions	8	(5)
Net increase in Margin Fund financial assets	(21,908)	(5,411)
Net increase in Margin Fund financial liabilities	21,847	5,422
Net decrease/(increase) in Clearing House Fund financial assets	733	(1,336)
Net (decrease)/increase in Clearing House Fund financial liabilities	(737)	1,483
Net increase in financial assets of cash collateral	(2,258)	(2,320)
Net increase in cash collateral received from HKSCC Clearing Participants	2,258	2,320
Net increase in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	(88)	(154)
Decrease/(increase) in accounts receivable, prepayments and deposits	2,033	(2,265)
(Decrease)/increase in other current liabilities	(1,486)	2,878
Net cash inflow from operations	4,837	4,494
Dividends received	8	4
Interest received from bank deposits	169	71
Interest received from financial assets measured at fair value through profit or loss	90	82
Interest paid	(2)	(3)
Hong Kong Profits Tax paid	(208)	(205)
Net cash inflow from operating activities	4,894	4,443

26. Capital Expenditures and Commitments

During the nine months ended 30 September 2011, the Group incurred capital expenditures of \$378 million (2010: \$69 million) which were mainly on the new Data Centre at Tseung Kwan O with hosting service capability and the upgrade of the Cash Market trading system and Market Data system.

At 30 September 2011, the Group's commitments in respect of capital expenditures were as follows:

	At 30 Sept 2011	At 31 Dec 2010
	\$m	\$m
Contracted but not provided for	886	149
Authorised but not contracted for	976	1,926
	1,862	2,075

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

27. Contingent Liabilities

At 30 September 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 30 September 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 494 trading Participants covered by the indemnity at 30 September 2011 (31 December 2010: 484) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$99 million (31 December 2010: \$97 million).
- (c) The Group is currently being served a legal claim by an independent party. The Group sought legal advice and does not anticipate any material liabilities arising from the legal claim.
- (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.

28. Material Related Party Transactions

- (a) Key management personnel compensation

	Nine months ended 30 Sept 2011 \$m	Nine months ended 30 Sept 2010 \$m	Three months ended 30 Sept 2011 \$m	Three months ended 30 Sept 2010 \$m
Salaries and other short-term employee benefits	54	54	18	16
Employee share-based compensation benefits	19	6	7	3
Retirement benefit costs	4	5	1	2
	77	65	26	21

- (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.

29. Shareholders' Funds Set Aside for Risk Management

During the nine months ended 30 September 2011, the Group increased the amount of shareholders' funds set aside for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties by \$900 million to \$4,000 million (31 December 2010: \$3,100 million).

GLOSSARY

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
Cash Market	HKEx's securities related business excluding stock options
CBBC(s)	Callable Bull/Bear Contract(s)
CCASS	The Central Clearing and Settlement System
CPs	Clearing Participants
CSRC	China Securities Regulatory Commission
DCASS	The Derivatives Clearing and Settlement System
Derivatives Market	HKEx's derivatives related business including stock options
Director(s)	HKEx's director(s)
DW(s)	Derivative Warrant(s)
EPs 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
GDP	Gross Domestic Product
GEM	The Growth Enterprise Market
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKSCC	Hong Kong Securities Clearing Company Limited
Hong Kong Government	Government of the Hong Kong Special Administrative Region of the People's Republic of China
H-shares Index or HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index
IPO(s)	Initial Public Offering(s)
IT	Information Technology
IVs	Information Vendors
JP	Justice of the Peace
Listing Rule(s) or Rule	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDF	The Market Datafeed
MDS	The Market Data System
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MOU	Memorandum of Understanding
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
REIT(s)	Real Estate Investment Trust(s)
RMB	Renminbi
SEOCH	The SEHK Options Clearing House Limited
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
US	The United States of America
USD	United States dollar
\$/HKD	Hong Kong dollar
\$bn	Hong Kong dollar in billion
\$m	Hong Kong dollar in million

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