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

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

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

2011 FINAL RESULTS,
FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board submits the Group's consolidated results for the year ended 31 December 2011.

FINANCIAL HIGHLIGHTS

	2011	2010	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange (\$bn)	69.7	69.1	1%
Average daily number of derivatives contracts traded on the Futures Exchange	269,525	221,487	22%
Average daily number of stock options contracts traded on the Stock Exchange	302,750	246,474	23%

	2011 \$m	2010 \$m	Change
RESULTS			
Revenue and other income	7,855	7,566	4%
Operating expenses	1,823	1,612	13%
Profit before taxation	6,032	5,954	1%
Taxation	(939)	(917)	2%
Profit attributable to shareholders	5,093	5,037	1%
Basic earnings per share	\$4.73	\$4.68	1%
Diluted earnings per share	\$4.72	\$4.67	1%
Interim dividend per share	\$2.16	\$1.89	14%
Final dividend per share	\$2.09	\$2.31	(10%)
	\$4.25	\$4.20	1%
Dividend payout ratio	90%	90%	-

	2011	2010	Change
KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds (\$m)	9,159	8,677	6%
Total assets ¹ (\$m)	54,028	47,884	13%
Net assets per share ² (\$)	8.50	8.06	5%

Notes:

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

2 Based on 1,077,670,473 shares as at 31 December 2011, being 1,079,906,640 shares issued and fully paid less 2,236,167 shares held for the Share Award Scheme (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)

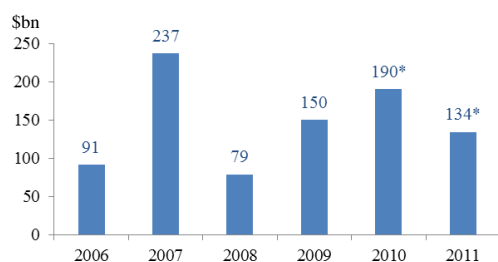
CHAIRMAN’S STATEMENT

“I am honoured to have served as your Chairman in the past 6 years during which HKEx continued to grow in the midst of severe and unprecedented global economic and financial turmoil. HKEx has also been improving its platform infrastructure and market structure to remain competitive because of the changing exchange landscape. Notwithstanding these challenges, I am pleased to see that 2011 was another year of positive results for our Shareholders.”

HKEx’s Performance

While our markets were not immune to the impact of the unstable and shrinking global economy, it is encouraging to note that the Hong Kong securities market remained as the world’s biggest IPO centre for the third consecutive year, and had a record high of about 40 trillion shares traded and 215 million deals in 2011. Many new records were also set in the derivatives market, notably in the total options contracts traded. Against this backdrop, HKEx’s profit attributable to Shareholders in 2011 was about \$5.1 billion, a rise of 1 per cent from a year ago. Based on a payout ratio of 90 per cent, the Board is recommending a final dividend of \$2.09 per share, which adds up to a total dividend of \$4.25 per share for 2011, an increase of 1 per cent against that for 2010.

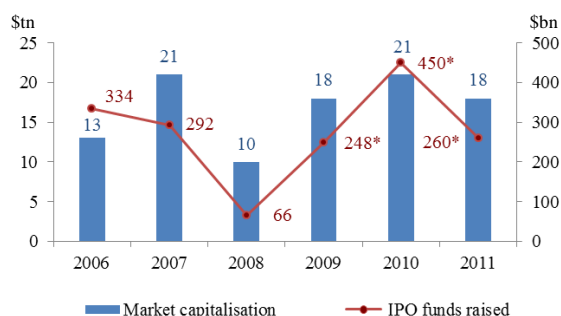
HKEx’s market capitalisation (as at 31 December)



* ranked first among the world’s listed exchanges

Note: Figures have been rounded.
Source: WFE Monthly Statistics and Reuters

Market capitalisation of companies listed (as at 31 December) and IPO funds raised on the Exchange



* ranked first among the world exchanges

Economic Slowdown and Global Competition

Last year was a challenging one marked by events of local and global significance. The world financial order was disrupted by cross-border uncertainties – the absence of a credible and speedy solution to the Eurozone sovereign debt crisis, the risk of a double dip recession in the US, and, as a consequence, concerns of an economic hard-landing in the Mainland – and resulting in a profound adverse impact on investor sentiment as well as the performance of the global financial markets. Confronted by the global financial instability, Hong Kong experienced a slowdown in market activities, particularly in the second half of 2011. Other than the macroeconomic issues, regulated exchanges also have to contend with the proliferation of alternative trading platforms as well as mergers of leading exchanges, which have intensified competition in the global arena. In this respect, HKEx may not be immune to the fragmentation of trading of securities that has taken significant market share from some global exchanges.

In the midst of political and economic uncertainties around the world, reinforcing investors' confidence is of utmost importance. The WFE, of which I have the privilege to be the chairman, will continue to maintain close contact with the International Organization of Securities Commissions to focus on regulatory matters to ensure fair, transparent, and efficient markets can be maintained world-wide. The WFE will also remind global policy makers, regulators and stakeholders of the important role of its 54 member exchanges play in capital formation, particularly for small and medium enterprises and the creation of employment.

Despite the moves by central banks to ease liquidity, aversion to risk is likely to persist. Individuals and institutions will understandably, be cautious in making investment decisions. The Hong Kong stock market is likely to remain volatile. Nevertheless, HKEx will continue to be vigilant about global financial development trends, responsive to market views, and flexible whilst making further progress in strengthening its core capabilities and enhancing its competitiveness in the implementation of its strategic plan.

Exploring Global Opportunities

The listing of Mainland enterprises in Hong Kong since 1993 has remained a win-win situation for them and HKEx. During my term, the growth of international listings has propelled HKEx to the rank of a global exchange in the Asian time zone. Apart from over 600 Mainland enterprises, there are over 140 enterprises from different parts of the world, including Brazil, France, Germany, Italy, Japan, Mongolia, Russia, and Switzerland listed on the Exchange. Indeed, the acceptable jurisdictions as an issuer's place of incorporation have been increased to 23. Furthermore, overseas issuers can opt to list through Depositary Receipts or seek a secondary listing. More international listings are in the pipeline.

We will continue with our global marketing effort to promote the Exchange as a platform for Mainland and overseas companies to showcase themselves, their products, and their technologies worldwide, and to participate in the growing Mainland and Asian economies and markets. The issuer services that we launched in October 2011 can further assist listed issuers raise their visibility and improve their communication with the investment community.

International Listings on the Exchange



Notes:

- a A company from Macau is also classified as one from Australia as it is jointly controlled by shareholders from both places.
- b A company from Taiwan is also classified as one from France as it is jointly controlled by shareholders from both places.

According to the World Economic Forum's 4th annual Financial Development Report released in 2011, Hong Kong overtook the US and the UK to top the Financial Development Index for the first time, due to strong scores in non-banking financial services such as IPO activity and insurance.

In order to improve cooperation with our peers, HKEx has been entering into a number of MOUs on cooperation and exchange of information with other exchanges and regulators. As the world is repositioning itself towards multipolar sources of growth with economic power more broadly distributed than before, HKEx made 2 major strategic moves in 2011. 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 for the development of index and other equity derivatives products, and the compilation of new indices. In addition, letters of intent were signed in October 2011 with exchanges from Brazil, Russia, India, and South Africa to form the BRICS Exchanges Alliance, aiming to cross-list benchmark equity index derivatives on the boards of each of the other alliance members to be traded in the currency of the host exchange and to further develop innovative products to track the BRICS exchanges. 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.

MOUs signed in 2011

- Inner Mongolia's Office of Financial Affairs
- Taiwan Stock Exchange Corporation
- Dalian Commodity Exchange
- Jiangsu Province's Office of Financial Affairs
- Guangxi Zhuang Autonomous Region's Financial Affairs Office
- Kazakhstan's Eurasian Trading System Commodity Exchange Joint Stock Company
- Administrative Committee of Zhongguancun Science Park
- Zhengzhou Commodity Exchange
- Taiwan Depository & Clearing Corporation
- Sichuan Province's Financial Affairs Office

MOU signed in January 2012

- China Financial Futures Exchange

Reinforcing the Role as Mainland's Gateway

For decades, Hong Kong has been the gateway to the Mainland and its window to the world. The Exchange's role as China's international capital formation centre has also grown with the Mainland's robust economic growth. The acceleration of the RMB's internationalisation presents great opportunities to Hong Kong in its role as a gateway to the Mainland and a channel for capital destined to and from the Mainland.

In the National 12th Five-Year Plan, Hong Kong was designated to be a major offshore RMB centre and the testing ground to broaden the RMB's role in the world. Furthermore, with the launch of the RQFII (RMB Qualified Foreign Institutional Investors) Pilot Scheme in December 2011, eligible applicants under the Scheme can make use of the RMB raised in Hong Kong to invest in the Mainland securities markets. This marked a significant step for Hong Kong to reinforce its position as the preferred offshore RMB centre.

In response to the opportunities, HKEx has changed our systems to support the growing offshore RMB business in Hong Kong. In April 2011, the successful listing of Hui Xian REIT on the Exchange set an important milestone, as it was the first IPO and listing of RMB-denominated securities in Hong Kong. Apart from RMB-denominated debt securities and REITs, HKEx is well prepared for the introduction of other products such as RMB-denominated shares, futures and options. We have introduced the Dual Tranche Dual Counter (RMB/HKD) model and developed the RMB Equity Trading Support Facility (TSF) to facilitate listing and trading in RMB-denominated securities. Given the strong market interest in RMB stocks in Hong Kong, it is likely that we will soon see the first IPO of RMB-denominated shares.

Since the debut of A-share industry sector ETFs in 2009, more cross-listings of ETFs on the Exchange, including the first cross-listing from the Taiwan Stock Exchange, were seen. Another noteworthy development is the listing of the world's first RMB-denominated gold ETF on the Exchange on 14 February 2012. Currently, we are exploring cross-market ETFs with the Shanghai Stock Exchange, which would offer Mainland investors exposure to the Hong Kong stock market and vice versa. We believe that ETFs tracking Hong Kong stocks could soon start trading on the Mainland.

By the end of 2011, we had 77 ETFs on the Exchange. Their turnover grew to more than \$545 billion, accounting for 3 per cent of our total market turnover.

To promote the further growth of ETFs, our website, which was awarded the Most Informative ETF Website (Asia-Pacific region) in the 7th Annual ETF Global Awards for the 3rd consecutive year in 2011, was enhanced to promote greater transparency.

Strengthening HKEx's Core Capabilities

The rollout of AMS/3.8 in December last year significantly improved our securities market's efficiency and transparency, and it paved the way for future market growth. Our MDS has also been upgraded for better dissemination of quality market data. The NGMDS to be introduced in the middle of 2013, will enable us to launch new market data products and distribute our market data on the Mainland. Meanwhile, we are also considering upgrading HKATS/DCASS to a new technology platform. All these initiatives are important steps in raising the capacity, reducing the latency, and further enhancing the overall performance of our market infrastructure.

Another milestone in HKEx's development is the establishment of our new Data Centre which highlights our strategy and future development. To increase HKEx's competitiveness in the world of advanced information technology, we must stay ahead of the game to ensure that our system infrastructure is in line with the latest developments in technology and standards, and subject to prudent risk management. The new Data Centre at Tseung Kwan O is being built to meet the best international standards for reliability and environmental protection. The project has achieved precertification under the US Green Building Council's Leadership in Energy and Environmental Design (LEED) at gold level. With its completion in 2012, we will be able to improve our efficiency by consolidating many key operations under one roof, and contribute to our service offerings by the provision of Hosting Services.

Enhancing HKEx's Competitiveness

Our market infrastructure has been evolving over time to meet the ever-changing demand in the financial services industry. We are pleased that the first phase of extension of trading hours was implemented smoothly. The second phase will take effect on 5 March 2012. Thereafter, the gap in trading hours between our markets and our competitors will be reduced further. HKEx's attractiveness to investors will again be enhanced by the introduction of after-hours futures trading in 2012.

We recognise the importance of our clearing houses to Hong Kong as an international financial centre. Therefore, we will continue to respond swiftly to the changing regulatory landscape to ensure the robustness of our risk management measures. We are grateful to our Participants for their support to our proposed risk management measures which are aimed to reinforce the long-term stability and competitiveness of Hong Kong.

In addition, HKEx, in support of the Group of Twenty, or G-20, is working on the formation of a clearing house for the clearing and settlement of derivatives traded in the OTC market. While this is part of our effort to minimise systemic risk and promote transparency in the OTC derivatives market, it has its strategic value as well, particularly in line with the trend towards wider use of RMB in international transactions.

The future prosperity of the Hong Kong financial market hinges on its competitiveness. Your Board and the management have been working closely with the Government to modify our market infrastructure. Nevertheless, the market reform initiatives can never be completed without market participants' support. We look forward to continue partnering with them as we proceed along the road of reform.

Developing a Sustainable Marketplace

As an exchange operator, our primary responsibility is to ensure the sustainability of our securities and derivatives markets. Building an informed investment community with quality and integrity is always one of our main goals.

The Exchange is committed to advocating high corporate governance standards among listed companies. The current economic and business environment underscores the need for good corporate governance. In addition to supporting the statutory backing to the price-sensitive disclosure rules, we announced changes in 2011 with respect to the CG Code and other Listing Rules to highlight best corporate governance practices and help sustain market integrity. Most of the changes took effect on 1 January 2012; the others will be introduced in phases.

On our journey towards sustainability, the past few years have proved rewarding. A remarkable milestone is the establishment of the CSR management system to ensure systematic development of our CSR practices within the Group. Since 2009, we have published a standalone CSR Report that reaches the Global Reporting Initiative application level A+ standard annually. Our CSR Report, which delineates our activities as a socially responsible corporate citizen, is available on the HKEx website. I am happy to report to you that our CSR work is recognised, as exemplified by HKEx's inclusion in the Hang Seng Corporate Sustainability Index Series and the Dow Jones Sustainability Asia Pacific Index since 2010.

In the coming decades, environmental and community issues will be of growing importance, and both are likely to demand swift actions at times. As a frontline regulator, we strongly advocate the integration of sustainability into a company's business practices. In 2011, we introduced an ESG programme to all listed companies to encourage and support their participation in this important area. Through our joint efforts with our listed companies and market participants, we hope to establish a culture that embraces ESG factors. We welcome market views on our proposed ESG Reporting Guide, which aims to raise ESG awareness and encourage listed companies to start ESG reporting. The consultation will end in April 2012.

Acknowledgments

My term as your Chairman will end after the 2012 AGM. I am honoured to have been given the opportunity to serve on the Board for 6 years which I have thoroughly and immensely enjoyed. In all the work I have done and in every decision that I have made for the Company, I have been guided by 3 complementary objectives: first, upholding public interest; second, working for the Shareholders' interest; and third, reinforcing Hong Kong's position as an international financial centre. I am profoundly grateful to my fellow Board and Committee members, including Dr the Honourable Marvin Cheung, who retired from the Board after the 2011 AGM, and Mr John Harrison, who joined us in April 2011, for their unstinting support and dedication which contribute significantly to HKEx's success. In particular, I would like to thank my colleagues who will also retire after the conclusion of the 2012 AGM, the Honourable Mrs Laura Cha and Dr Moses Cheng, for their devotion and invaluable advice during their 6 years of service on the Board.

On behalf of the Board, I would like to extend our deepest appreciation for our Shareholders' continued support to and confidence in your Board members. I believe that every member will remain committed to delivering the best results for our Shareholders. The Board also wishes to thank our Participants, the community, and all other stakeholders for their unwavering support and understanding. Last, but by no means least, it remains for me to thank the management team and every employee for their hard work and commitment.

I have every confidence that HKEx will continue to play an integral role in the Hong Kong economy, keep up its good work, be mindful of its mission to operate an open, fair, and vibrant marketplace, and contribute to the success of Hong Kong as an international financial centre.

Ronald Joseph ARCULLI
Chairman

CHIEF EXECUTIVE'S REVIEW

“As the world’s economic order and the competitive landscape for exchanges are going through significant structural changes, we not only need to preserve and grow our core businesses but also must proactively consider our strategic direction for the future. We have looked into the potential strategic opportunities available to us and begun to take the initiatives that I believe will lead Hong Kong markets to new horizons.”

If 2010 was the incubation year of our Strategic Plan 2010-2012, then 2011 was the important development year. In spite of high uncertainty in the world economy, we continued to make significant progress on many fronts, including attracting international companies to list in Hong Kong, laying down the regulatory and infrastructure foundation for the listing and trading of RMB products, undertaking important market structural enhancement, and completing a number of major IT platform upgrades. We also made important breakthroughs in 2011 with regards to cross-exchange cooperation and alliances for product development.

Looking ahead, 2012 will be a critical implementation year. While we will continue carrying out initiatives already under way in our current strategic plan, we have also begun critical reviews of future opportunities in new asset classes because we think the accelerated opening of the Mainland market will present opportunities that are substantial yet fleeting. As our new slogan puts it, HKEX is proactively preparing itself to “lead Hong Kong markets to new horizons”.

Market Performance

In 2011, our primary market performed competitively despite challenging market conditions globally. For the third year in a row, we achieved world number 1 ranking¹ in terms of total IPO funds raised, as IPOs in Hong Kong generated \$260 billion.

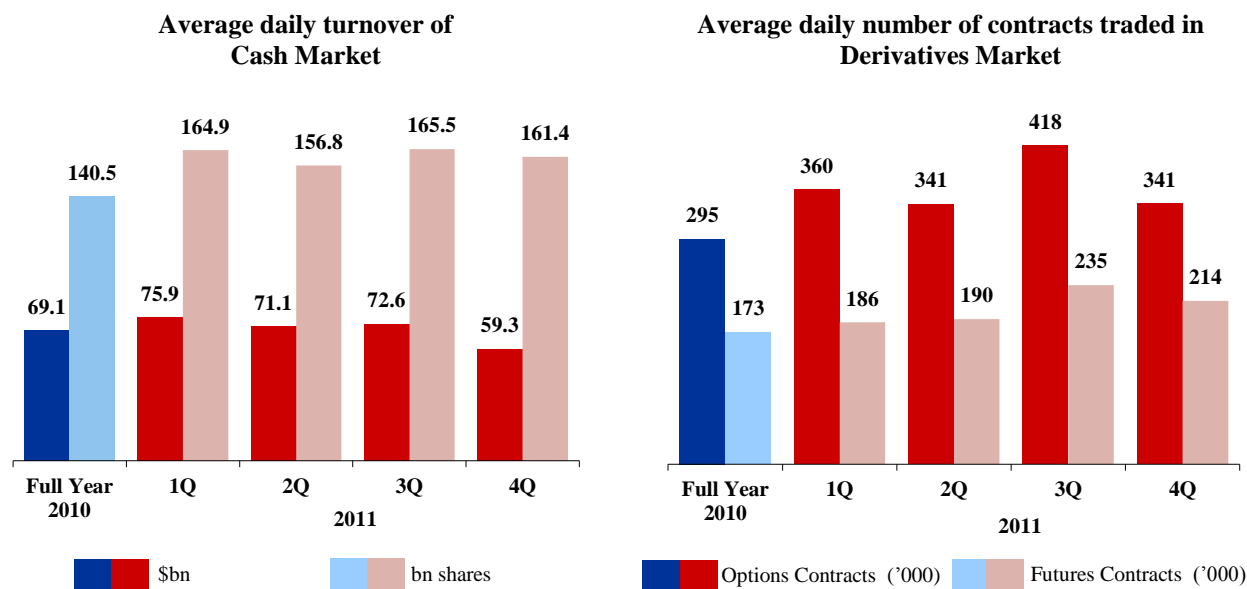
Secondary market trading in 2011 was unusually volatile, mainly due to the Japan earthquake in March and the European sovereign debt crisis that began making headlines in the third quarter. Since its launch in February 2011, the VHSI has had an average level of 26.37 points, with a high of 51.97 on 9 August 2011².

Cash Market turnover varied from quarter to quarter in 2011. Impacted by the second round of quantitative easing announced by the US Federal Reserve in late 2010, turnover was strong in the first three months of 2011, with average daily turnover value of \$75.9 billion. Daily turnover reached a 52-week high following the Japan earthquake in March and high turnover continued into April. Trading activities slowed in the middle of the year then picked up again in August when Europe’s sovereign debt situation deteriorated. As a result, average daily turnover value reached \$73.2 billion by the end of the third quarter. Turnover fell substantially in the fourth quarter, mainly due to a decline in market value. In terms of shares traded, average daily turnover reached a record high of 162.2 billion shares in 2011. Looking ahead, with uncertainty still high overseas, we expect market conditions to remain challenging.

¹ Source: WFE Monthly Statistics

² In the 12 months of 2006 – before the financial crisis – the US’s benchmark volatility index moved between a low of around 10 and a high of less than 24.

Turnover in the Derivatives Market rose to its best level ever. Full-year turnover reached an all-time high of 140,493,472 contracts, a 21 per cent increase from 2010. The growth was mainly driven by increased trading of Stock Options, H-shares Index Futures, HSI Options, and Mini-HSI Futures. Trading of HSI/HSCEI Dividend Point Index Futures³ and Flexible HSI/H-shares Index Options⁴, 4 relatively new products, also recorded significant increases in 2011 (average daily turnover of these products was up 81 per cent from 2010).



Business Development Review

Promoting International Listings

In 2011, we continued our efforts to diversify our listed companies. We visited potential issuers in 17 countries/regions, including Europe, Japan, Korea, Malaysia, Mongolia, and Russia. We also increased recognised jurisdictions of incorporation for the purpose of eligibility for listing by 4, bringing the total number of recognised jurisdictions to 23.

The momentum of international listings in Hong Kong continued to grow in 2011, with shares of 18⁵ overseas companies trading on the Exchange for the first time. IPOs by overseas companies raised \$134 billion, which accounted for 52 per cent of total IPO funds raised, compared to 45 per cent in 2010.

Cross-Market Collaboration

To expand our market reach and product offering, we started 2 major strategic cross-market initiatives. In mid-2011, we started discussions with the Shanghai Stock Exchange and the Shenzhen Stock Exchange with a view to establishing a joint venture in Hong Kong to develop index and other equity derivatives products and compile new indices.

³ Launched on 1 November 2010

⁴ Launched on 8 February 2010

⁵ Excluding 1 company that transferred from GEM to the Main Board

In October, we announced the BRICS Exchanges Alliance (the Alliance) with the leading exchanges from Brazil, Russia, India, and South Africa. Our goal is to enable investors from the 5 countries/regions to gain exposure to the BRICS bloc of emerging economies. The first phase of the Alliance is to cross-list benchmark equity index derivatives on the boards of each of the other alliance members.

Platform Infrastructure Upgrade

Improving platform infrastructure and market structure is critical to our business as it lays the foundation for future growth and expansion. Some of our initiatives in this area began to bear fruit in 2011. In terms of IT platform infrastructure, we focused on the following goals:

- **Achieve higher trading capacity and lower latency:** We completed an upgrade of our Cash Market trading system (known as AMS/3.8) in December. As a result of the upgrade, the trading system's processing capacity has been increased by about 10-fold to 30,000 orders per second, scalable to 150,000 orders per second, and latency has been reduced to 2 milliseconds on an average trading day, about 70 times faster than before.
- **Increase market transparency and efficiency:** AMS/3.8 displays the 10 best price levels compared to the 5 best price levels in the previous version of the trading system. In addition, the market data broadcast rate has doubled.
- **Provide flexibility for future expansion and market needs:** The construction of our Next Generation Data Centre (NGDC) in Tseung Kwan O Industrial Estate is on track and will be completed in the second half of 2012.
- **Build an ecosystem for global connection:** We continued to develop our Hosting Services within the NGDC. They will be launched by the end of 2012.
- **Support future business growth and models:** We started a programme to prepare for the next generation of our various IT platforms and began developing our NGMDS, which will enable us to consolidate market data distribution for all our asset classes through a single platform.

Market Structure Reform

- **Maintain competitiveness and position HKEx for further cross-border developments:** We implemented the first phase of our new trading hours in March 2011, aligning our morning open with the Mainland market. The second phase of our new trading hours, which will begin on 5 March 2012, will align our afternoon open with the Mainland market.
- **Broaden our market reach:** We completed our market consultation on after-hours futures trading (AHFT). We received majority support for our AHFT proposal and will implement it in the second half of 2012.
- **Strengthen our risk management framework:** We completed a market consultation on clearing house risk management reform measures. We received overwhelming support in the market consultation. This is a long overdue market reform which will allow our clearing houses to significantly enhance their risk management capabilities through substantially enhanced margin collection and guarantee and reserve funds. We expect to begin implementing the reform in the second and third quarters of 2012.

2010-2012 Strategic Plan Review

As stated in our Strategic Plan 2010-2012, we believe the internationalisation of the RMB and further opening up of the Mainland market will have a significant bearing on our business opportunities. We recognise that this process will take time to complete and our value proposition must evolve at different stages of the process. While the essential substance of our Strategic Plan has remained the same, we have further refined the way we articulate the dynamic relationships among the various key components of the Strategic Plan along the following 3 themes:

- Chapter 1 – China’s Offshore Capital Formation Centre;
- Chapter 2 – China’s Offshore RMB Centre; and
- Chapter 3 – China’s Comprehensive International Financial Centre

In all 3 “Chapters”, we will stay true to our central mission: to be the international exchange of choice for our Chinese clients and the China exchange of choice for our international clients.

Chapter 1 – China’s Offshore Capital Formation Centre

In our Chapter 1, we have worked to provide a platform for Mainland issuers to meet international investors and raise funds in Hong Kong. Our business thrived in the past decade as a result of Chapter 1 and this chapter continues to be a critical component of our business today. In 2011, a total of 101 companies (including 12 transfers from GEM) were newly listed in Hong Kong, including 54 (including 9 transfers from GEM) from the Mainland. In terms of funds raised through IPOs, 36 per cent went to Mainland issuers. At the end of 2011, Mainland enterprises accounted for nearly 56 per cent of our total market capitalisation and 66 per cent of our average daily turnover value.

Although we have a strong track record, our IPO-driven primary market growth has become more mature, largely because the market capitalisation on the Exchange has grown to today’s scale. Meanwhile, the Mainland’s stock markets have become more established and competitive. While there are still large and growing numbers of Mainland enterprises yet to tap into the offshore capital market, more transformative growth in our primary market is likely to be driven by majority shareholders of Mainland enterprises listed in Hong Kong further monetising their stakes. At the end of 2011, for example, H-share companies represented 23 per cent of the market capitalisation of all our listed companies, but large state-owned holdings in the companies were not included in the calculation because they were not part of the free float. We expect the large holdings will become part of the free float over time, either through add-on share issues or sell-downs by the majority shareholder. As that occurs, it will significantly increase the market capitalisation as well as the average daily turnover on the Exchange.

Chapter 2 – China’s Offshore RMB Centre

For Hong Kong’s offshore RMB market, 2011 was a year of rapid growth. We expect growth will continue to be strong, particularly as China accelerates the opening of its capital account and further internationalises the RMB. We see this as a strategic opportunity for us to achieve our long-term goal of building a currency-neutral offshore market for Mainland investors seeking to diversify their investments beyond their home market.

We began to lay down important foundations in 2011 for our part of the offshore RMB market. We have to date undertaken 3 key initiatives:

- We completed RMB Readiness Testing in our Cash Market in March – 365 EPs and 35 CPs (representing about 90 per cent of market turnover value) confirmed they are ready to participate in the trading and clearing of RMB products.
- To ensure the development of our RMB equity market will not be completely dependent upon offshore RMB liquidity, we launched our RMB Equity TSF in January 2012 to enable investors to buy RMB-traded shares using their readily available currency, HKD.
- To facilitate the listing and trading of RMB equities, we introduced our DTDC model to allow the listing and trading of a company's shares in both RMB and HKD.

We had our first RMB product IPO in April 2011. It was by Hui Xian REIT and raised RMB10.5 billion. We also saw growth of listed RMB bonds continue, as a total of 9 RMB bonds issued by 7 companies were listed on the Exchange during the year. We expect more RMB products will be listed with us when market conditions turn more favourable.

Chapter 3 – China's Comprehensive International Financial Centre

With the significant structural shift of the global economic balance towards Asia, coupled with the increased pace of China's further opening, we felt it was critical for us to review our strategy to ensure that we are positioned appropriately to take advantage of opportunities from these trends.

We therefore began to accelerate our evaluation of asset classes beyond our traditional focus on equity. More specifically, we believe that the rapid pace of RMB internationalisation and China's long-term demand for natural resources present substantial opportunities for an exchange such as HKEx to develop trading, clearing, and risk management solutions for financial derivatives and commodities. Although financial derivatives and commodities are globally competitive businesses in which we have had a limited track record to date, we believe HKEx is uniquely positioned to develop first-mover advantages by focusing primarily on an Asia-time-zone, RMB-enabled, and China-benchmarked product and service offering.

We first started developing OTC derivatives clearing as a new business line in 2011, initially focusing on interest rate and foreign exchange products relating to RMB. We will next look into exchange-traded financial derivatives on offshore RMB (CNH) related products such as CNH bond index products.

In late 2011, we intensified our analysis of the feasibility of developing an offshore platform for trading and clearing commodities with a particular focus on providing Asia-time-zone and RMB-enabled solutions that are not yet available.

These initiatives are still in their early days, but we believe urgent action is required because the opportunities described above and others like them will be available only to those who are prepared.

Outlook

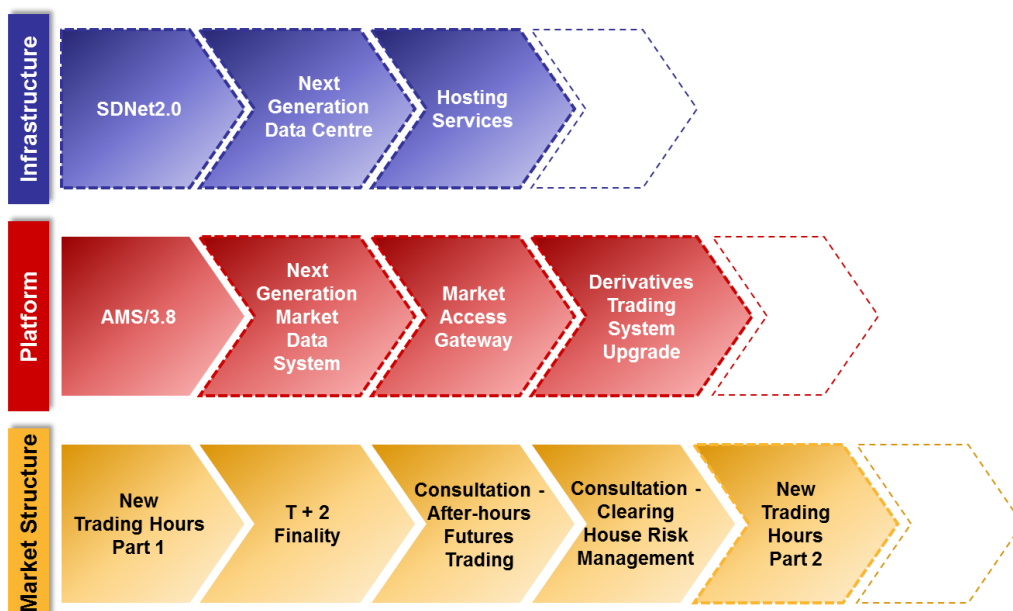
The rest of 2012 will be a critical time for us as we will be implementing a number of important initiatives. Platform infrastructure and market structure enhancements to be launched by the end of the year include the NGDC, Hosting Services, and AHFT.

From HKEx’s perspective, these initiatives will position us to capture future opportunities while increasing our total revenue incrementally. Some initiatives may require longer payback periods than others and hence could have an impact on our margin structure and cash flow in the interim so we will continue to strengthen our project management and apply stringent fiscal discipline.

From our market participants’ perspective, corresponding changes to their systems and operations may be needed when we implement some of our initiatives. We are very aware of the potential impact on the market and will continue to communicate with market participants.

In the long run, we believe our initiatives will create a better business environment and benefit the market as a whole.

HKEx’s essential infrastructure investment – a comprehensive plan



Although the rollout of our Chapter 3 strategy will take place over a number of years into the future, we plan to do substantive preparatory work in 2012, including recruiting and feasibility studies of trading and clearing of financial derivatives and commodities.

Appreciation

I would like to express my great appreciation to the HKEx staff, who maintained our high standard of operational stability in 2011 while working hard to make all the new initiatives possible.

I would also like to thank our market participants and other stakeholders for their continuous support for our new initiatives under our Strategic Plan 2010-2012.

Last but not least, I would like to thank my fellow members of the Board for their tremendous support and guidance. On behalf of the Company, I would like to express everyone's gratitude to our Chairman, the Honourable Mr Ronald Arculli, who will step down in April 2012. During his 6 years of service on the Board and as Chairman, Mr Arculli has set our strategic direction, upheld shareholder value, and devoted himself to promoting HKEx as the first-choice international listing venue. His work has had and will continue to have a far-reaching impact on HKEx.

LI Xiaojia, Charles

Director and Chief Executive

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Listing

Review of Listing Rules

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

List of consultation conclusions issued in 2011	Issue date	Effective date of Listing Rule amendments
• Reduction of the Minimum Shareholder Requirement for the Market Capitalisation/Revenue Test from 1,000 to 300 Shareholders	Jan	1 Feb 2011
• Changes to Requirements for Qualified Property Acquisitions and Formation of Joint Ventures	Jan	1 Feb 2011
• Trading Ex-entitlement Only after Shareholder Approval	May	20 Jun 2011
• Changes to Requirements for the Listing of Debt Issues to Professional Investors Only	Oct	11 Nov 2011
• Changes to Property Valuation Requirements (Joint Consultation with the SFC)	Oct	1 Jan 2012
• Changes to the Corporate Governance Code (Code) and Associated Listing Rules	Oct	
– most Rule amendments;		1 Jan 2012
– the Code and certain Rule amendments; and		1 Apr 2012
– new Rule requiring issuers to appoint independent non-executive directors representing at least one-third of the board		31 Dec 2012

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

List of proposals under review in 2012

- Review of overseas listings
- Review of trading halt policy
- Possible changes to the Listing Rules arising from the SFC's consultations on structured products and selling practices, and reforms to the prospectus regime
- Consequential amendments to the Listing Rules from the proposed statutory backing to continuing disclosure obligations
- Further review of the connected transaction Rules
- Further simplification of prospectuses and related documents
- Review of the operation of Chapter 18 of the Main Board Listing Rules
- Consultation on ESG Reporting Guide

Development of ESG Reporting Guide

HKEx organised 5 seminars and 10 workshops on ESG reporting for issuers between May and July 2011, with a view to raising ESG awareness and encouraging issuers to start ESG reporting. Over 800 participants from 498 issuers attended the seminars and over 500 participants from 348 issuers attended the workshops. HKEx received positive feedback from the participants.

HKEx published a consultation paper on ESG Reporting Guide on 9 December 2011 and subject to market comments, the ESG Reporting Guide may be implemented as a recommended best practice.

Enhanced Service for Structured Product Issuers

In May 2011, the Exchange implemented SPRINTS, a new web-based system, to automate and streamline the listing application of structured products. It allows issuers to submit term sheet data electronically to the Exchange in a standardised format (Extensible Markup Language, XML) or to enter term sheet data on a pre-defined screen provided by the system one sheet at a time. The new system serves to enhance the communication and workflow between issuers and the Exchange.

To help structured product issuers prepare for the new system, the Exchange organised briefing sessions, trial tests and user training sessions prior to system implementation. A help desk function is also setup to address any system operational questions that issuers may have.

As at 31 December 2011, 18 out of 22 structured product issuers used SPRINTS for term sheet submissions. It is anticipated that all structured product issuers will submit term sheets via SPRINTS by March 2012.

Enhancement of Continuing Disclosure among Listed Companies

The Exchange continues to provide input and support to the Government on an on-going basis 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. At an appropriate stage, HKEx will conduct a consultation on consequential amendments to the relevant parts of the Listing Rules.

IPO Processing

The Exchange has continued to process applications for new equity listings, including transactions by issuers deemed to be new listings, and handled pre-IPO enquiries. The relevant statistics relating to its IPO work in 2011 are set out in the following table.

Record of IPO work

	2011	2010
Number of listing applications vetted	286 ¹	235
Number of first comment letters issued to new listing applicants	212 ²	156
Average time (in calendar days) between receipt of application and issuance of first comment letter	16	20
Number of applications brought to the Listing Committees (or their delegates) for decisions	147	135
Number of applications reviewed by Listing Committees (or their delegates) within 120 calendar days	85	107
Number of applications reviewed by Listing Committees (or their delegates) within more than 180 calendar days	17	9
Number of applications to which approval was granted in principle	167 ³	164
Number of requests for guidance from listing applicants or their advisers seeking clarifications of Listing Rules relevant to new listing applications to which responses were made	165	110
Average response time (in calendar days)	7	6
Number of listing applications for transfer of listing from GEM to Main Board accepted	14	15

Notes:

- 1 247 were new applications and 39 applications were brought forward from 2010.
- 2 The number was less than the total number of new applications accepted because a number of cases (eg, investment vehicles seeking for listing under Chapter 20 of the Main Board Listing Rules and transfer of listing from GEM to the Main Board) required no comments from the Listing Division and proceeded to the approval process directly.
- 3 As at the end of 2011, 51 approved applications had not yet been listed, and 21 of them lapsed during the year.

Number of IPO transactions

	2011	2010	2009	2008	2007
New listing applications accepted	247	204	123	137	125
Applications listed	112	141	93	57	96
Companies listed on Main Board under Chapter 8	75	94	64	29	78
Investment vehicles listed on Main Board	10	27	19	7	11
Transfer of listing from GEM to Main Board	12	12	4	18	4
Companies listed on GEM	13	7	5	2	2
Deemed new listings	2	1	1	1	1
New listing applications rejected	3	2	0	1	0
New listing applications withdrawn	1	9	3	8	3
Applications in process as at year-end	64	39	31	27	42
Active applications with approval granted but not yet listed at year-end	51	23	12	24	9

Compliance and Monitoring

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

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

	2011	2010	2009	2008	2007
Announcements of issuers vetted	32,508	32,099	27,588	20,784	19,025
Pre-vetted	151	188	1,589	4,266	5,215
Post-vetted ¹	32,357	31,911	25,999	16,518	13,810
Circulars of issuers vetted	1,565	1,782	1,731	2,849	3,048
Pre-vetted	1,228	1,344	1,275	2,761	3,023
Post-vetted	337	438	456	88	25
Share price and trading volume monitoring actions undertaken	4,507	5,091	8,112	8,439	10,083
Clarification announcements published by issuers in response to share price and trading volume monitoring actions undertaken ²	360 ³	328	840	2,627	5,597
Press enquiries raised	156	221	311	536	495
Clarification announcements published by issuers in response to press enquiries raised	35	55	81	43	50
Complaints handled	657	630	599	516	512
Cases (including complaints) referred to Listing Enforcement Department for investigation	58	59	54	86	90

Notes:

- 1 Included clarification announcements published by issuers in response to share price and/or trading volume movements in their securities
- 2 In 2011, there were 693 enquiries (2010: 802) on unusual share price and trading volume and 59 resumption announcements (2010:104).
- 3 Comprising 184 qualified announcements (2010:186) and 176 standard negative announcements (2010: 142)

Since January 2010, the Exchange only pre-vets issuers' announcements on very substantial disposals/acquisitions, reverse takeovers, cash companies, and transactions or arrangements which would result in a fundamental change in an issuer's principal activities after listing. All other categories of issuers' announcements are subject to post-vetting. The Exchange's experience with the post-vetting regime continued to be positive as issuers' compliance with the Rules maintained at a satisfactory level. In 2011, post-vetted announcements which required follow-up actions by the Exchange remained at 4 per cent (2010: 4 per cent).

During 2011, the Exchange continued to conduct a high-level review of all announcements and notices before the commencement of each trading session, and conducted detailed reviews of those announcements which related to more significant transactions, or which posed a higher risk to Rule compliance. As a result of an exercise performed in mid-2010 to shift certain categories of announcements with high compliance rates from detailed post-vetting to high-level review only, a decrease in detailed post-vetting on announcements was noted in 2011. The Exchange will continue to reduce the scope of detailed post-vetting as issuers' compliance with the Rules improves.

Post-vetted announcements

	2011	2010
Subject to detailed post-vetting *	9,448	11,615
Required follow-up actions by issuers (eg, clarification announcements)	22%	22%
Involved Rule non-compliance	15%	14%

* Representing 29 and 36 per cent of all post-vetted announcements in 2011 and 2010 respectively

While issuers have an obligation to disclose price-sensitive information to the market in a timely manner, the Exchange monitors issuers' compliance with their continuing obligations to ensure that the trading of their securities is in an orderly, informed and fair market. In 2011, the Exchange took follow-up actions with issuers on about 15 per cent (2010: 16 per cent) of the share price and trading volume alerts generated, 8 per cent (2010: 10 per cent) of these cases involved unpublished price-sensitive information and suspension in trading of those issuers concerned.

In 2011, 58 cases (2010: 59) of suspected breaches of the Listing Rules were subject to investigation by the Exchange's enforcement section. Cases involving suspected violations of laws and other rules and regulations were referred to the appropriate law enforcement agencies for their consideration. Specific written or verbal guidance was issued to resolve minor non-compliance cases.

To promote issuers' self-compliance with the Listing Rules, the Exchange encourages issuers to seek individual guidance on Rule interpretations. In 2011, the Exchange handled 393 written enquiries (2010: 430) on Rule interpretations and related matters, and processed 262 waiver applications (2010: 622) for a particular section of the Listing Rules. The reduction in waiver applications was attributable to the Rule amendments in 2010 which simplified circular publication requirements.

In 2011, the Exchange published a series of listing decisions and frequently asked questions providing further guidance on Listing Rules matters. The Exchange also issued periodic letters to issuers on Rule amendments and to provide guidance on current topics including disclosure obligations, trading suspensions and administrative arrangements. Following a thematic review of issuers' compliance with website publication requirements, the Exchange provided general guidance highlighting areas with high rates of non-compliance. The Exchange also circulated to issuers a detailed contingency arrangement for the HKExnews website dissemination system.

To discharge part of its regulatory function, the Exchange has a Financial Statements Review Programme under which the periodic financial reports published by issuers were reviewed by sampling. The objective of the programme is to monitor compliance with the disclosure requirements of the Listing Rules and accounting standards. In order to enhance transparency and encourage high standards of financial disclosure, key findings and observations from its review were regularly released. In January 2012, the Exchange published the third report of key findings and observations from its reviews of 100 periodic financial reports released by issuers between October 2009 and April 2011. The report is available on the HKEx website. The Exchange encourages directors and other persons responsible for financial reporting to take note of the matters discussed in the report and to review their existing financial reporting systems to ensure the information presented in their financial reports is specific, relevant and material, in compliance with the disclosure requirements, and will be useful to users in making economic decisions.

Communication with Issuers

The Exchange continued its programme of issuer education and market outreach to issuers and other stakeholders with a view to promoting issuers' self-compliance with the Rules and facilitating mutual understanding of regulatory issues through dialogue. In 2011, the Exchange organised a series of 10 issuer seminars in Hong Kong on corporate governance Rule amendments and practical compliance issues which attracted almost 1,800 participants. The same issuer seminars in Putonghua were held in Hong Kong, Shanghai and Beijing in January 2012 which attracted almost 600 participants. The Exchange also conducted 11 "meet and greet" sessions with over 400 issuers' representatives and market practitioners to discuss controversial and evolving issues.

As part of the Exchange's effort to enhance its communication channels and to reduce its paper burden, the Exchange offered issuers and advisors additional communication channels through email or the newly enhanced e-submission system in December 2011.

Operational Efficiency

To streamline its information management process, the Listing Division implemented a new content management system in December 2011. The new system supports the electronic submission of documents and text recognition technology, helps reduce the need for hard copies of documents, and makes searches for information easier. The text recognition technology and file management tools support a central information repository which allows the Listing Division to maintain a centralised knowledge management database.

To improve transparency, quality and predictability of service, the Compliance and Monitoring Department has progressively established, reviewed and refined service standards to measure the timeliness of its monitoring and guidance actions as well as its subsequent responses to issuers' actions. The Department also tracks the overall response time and efficiency in bringing cases to resolution.

Service standards set for initial responses in 2011

	Service standard	% of cases meeting the service standard	
		2011	2010
Pre-vetting activities			
Initial response to pre-vetted announcements	Same day	77%	66%
Initial response to pre-vetted circulars (very substantial acquisition) *	10 business days	95%	94%
Initial response to pre-vetted circulars (other than very substantial acquisition) *	5 business days	98%	98%
Issuer enquiries			
Initial response to issuer's enquiries	5 business days	96%	91%
Waiver applications			
Initial response to waiver applications (other than application for delay in despatch of circulars)	5 business days	93%	89%
Post-vetting activities			
Initial response to post-vetted results announcements	5 business days	99%	94%
Initial response to post-vetted announcements (other than results announcements)	1 business day	96%	93%

* In 2010, the Exchange heightened the level of scrutiny of circulars on complex transactions including very substantial acquisitions and potential reverse takeovers, and required better quality of disclosure in issuers' circulars. New service standards were established for these circulars. Figures for 2010 have been restated accordingly.

In 2011, the rates of compliance with the service standards for initial responses were comparable to 2010 and remained at a satisfactory level.

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

	Main Board		GEM	
	2011	2010	2011	2010
Resumption of trading of securities during the year	10	5	2	6
Cancellation of listings during the year	2	0	0	0
Companies in the 3 rd stage of delisting	4	12	N/A	N/A
Companies notified of Exchange's intention to cancel their listing	0	0	2	2
Companies suspended for 3 months or more	39	39	11	9

Listing Enforcement

In 2011, the Exchange continued its strategy of enforcement of the Listing Rules as set out in the October 2004 edition of the *Exchange* newsletter. In summary, egregious conduct which may involve a breach of the SFO is referred to the SFC and any serious breaches of the Listing Rules will be subject to disciplinary action by the Exchange. Other conduct may be disposed of by warning or, if appropriate, no action.

Where the SFC commences an investigation of a case, the Exchange will normally suspend its investigation and give its support to the SFC. Under this arrangement, the Exchange is currently suspending the investigation of 9 cases. After the SFC completes an investigation into an individual case, the Exchange will consider if a reactivation of its investigation is required for possible disciplinary action.

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

During the year, a number of investigations arising from breaches of the Listing Rules were completed, leading to the imposition of public and private sanctions by the Listing Committees. The relevant information is available on the HKExnews website. There are currently 9 ongoing disciplinary actions at various stages of the disciplinary process.

Number of disciplinary actions (as at year-end)

	2011	2010	2009	2008	2007
Investigations ¹	142	133	147	171	167
Public censures ²	6	7	4	10	9
Public statements/criticisms ²	3	1	4	5	7
Private reprimands	0	1	1	0	0
Warning/caution letters ³	42	27	28	68	63

Notes:

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

In 2011, 8 cases originating from a complaint were subject to enforcement investigation and which might give rise, after investigation, to disciplinary proceedings.

To further improve the efficiency of investigations, training on investigation techniques was offered to the Listing Division's staff in 2011. Improvements continue to be made to the internal decision-making structures to enable earlier identification of serious misconduct and breaches of the Listing Rules. This helps facilitate the delivery of regulatory outcomes as quickly as possible while observing the principles of natural justice and due process. The average time for completion of an investigation (at which point in time a decision as to the level of regulatory action (if any) is taken) was 5.6 months for cases in which the investigation commenced in 2010 and 2011. There is hence an improvement of 2.1 months over the average time for investigation completion of 7.7 months for cases in which the investigation commenced in 2009 and 2010, as reported last year.

As at 31 December 2011, there were 31 cases under investigation, all of which commenced in 2011. By comparison, as at 31 December 2010, 90 per cent of the 51 cases then under investigation had been initiated in the same year.

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

Compliance with the Listing Rules is the collective and individual responsibility of directors whether they hold executive or non-executive roles in the management of the issuer. For example, when they are in possession of specific information of certain events or developments that might materially affect the business affairs of an issuer and fail to ensure disclosure as soon as reasonably practicable, this can give rise to a breach of the Rules by the issuer. Compliance with these substantive obligations can be achieved through the creation of compliance systems and with sufficient controls to ensure that the directors collectively can discharge that responsibility. Directors may be subject to disciplinary sanctions should they be held liable for substantive breaches of Listing Rules by the issuer, and if they fail to create and maintain adequate internal controls by which compliance can be achieved.

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

	2011	2010	2009	2008
Executive directors	17	30	20	67
Non-executive directors	7	4	10	17
INEDs	15	18	16	26
Total	39	52	46	110

As at 31 December 2011, 65 executive directors, non-executive directors, and INEDs were subject to ongoing disciplinary action, whose cases are at various stages of the process or subject to settlement negotiations.

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

Number of contested or settlement cases

	2011	2010	2009	2008
Involving "Internal Control Review" direction	1	1	6	4
Involving "Retention of Compliance Adviser" direction	1	5	5	5
Involving "Training of Directors" direction	7	6	7	4

Work is also being undertaken to revise and improve the existing procedures for the disposal of disciplinary matters by the Listing Committees. The proposals will be put forward to the Listing Committees for consideration in 2012.

Listing Operations

During the year, a total of 7,089 DW listing applications (2010: 8,236) were processed, of which 6,917 were new issues (2010: 7,826) and 172 further issues (2010: 410). Moreover, 5,394 CBBC listing applications (2010: 6,634) were processed, of which 5,334 were new issues (2010: 6,541) and 60 further issues (2010: 93). A total of 50 new debt securities (2010: 38), including Exchange Fund Notes and Government Bonds, were listed in 2011.

Number of DWs

	2011	2010	2009	2008	2007
Newly listed DWs	6,917	7,826	4,230	4,822	6,312
Delisted DWs	8,038	6,045	3,874	6,294	3,788
DWs listed as at year-end	4,027	5,148	3,367	3,011	4,483
Percentage change in number of listed DWs	(22%)	53%	12%	(33%)	129%

Number of CBBCs

	2011	2010	2009	2008	2007
Newly listed CBBCs	5,334	6,541	8,072	4,231	391
CBBC knockouts	4,087	4,835	5,899	2,837	250
Delisted CBBCs	1,410	2,334	1,795	211	34
CBBCs listed as at year-end	901	1,064	1,692	1,314	131
Percentage change in number of listed CBBCs	(15%)	(37%)	29%	903%	446%

During the year, the Latest Listed Company Information section remained one of the most popular sections on the HKExnews website. The majority of issuers' submissions were uploaded within 2 seconds (excluding the Internet transmission time which is beyond HKEx's control). Up to the end of 2011, the HKExnews website housed a total of 1,299,255 archived issuer documents for public access free of charge. During the year, it recorded over 35 million searches for these issuer documents and 80 per cent of searches were responded to within 0.1 second (excluding the Internet transmission time which is beyond HKEx's control). The Exchange also administers the filing and publication of DI notices through the HKExnews website in accordance with the SFC's requirements and specifications under Part XV of the SFO.

Primary market information *

	2011	2010	2009	2008	2007
Number of issuer news filings processed	201,597	202,492	191,266	143,410	120,622
Hit rates for issuer news website (m)	288	235	176	121	151
Number of DI filings processed by the Exchange	53,480	49,958	46,574	54,965	62,211
Hit rates for DI filings (m)	117	38	27	28	31

* Statistics cover Main Board and GEM issuers.

On 10 August 2011, the Exchange experienced malicious attacks on its HKExnews website, causing disruption to issuers' news dissemination and the suspension of 7 equity securities and their related debt/derivative products. The Exchange has, since the malicious attacks, announced revised issuers' information dissemination and suspension arrangements in the event of a similar failure of the HKExnews dissemination system in the future.

Cash Market

Market Performance

In 2011, 88 companies were newly listed on the Main Board (including 12 transfers from GEM), and 13 on GEM. Total capital raised, including post-listing funds, reached \$490.4 billion. As at 31 December 2011, 1,326 and 170 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about \$17,537.3 billion. In addition, there were 4,027 DWs, 901 CBBCs, 9 REITs, 77 ETFs and 192 debt securities listed on 31 December 2011. The average daily turnover value in 2011 was \$69.5 billion on the Main Board and \$256 million on GEM.

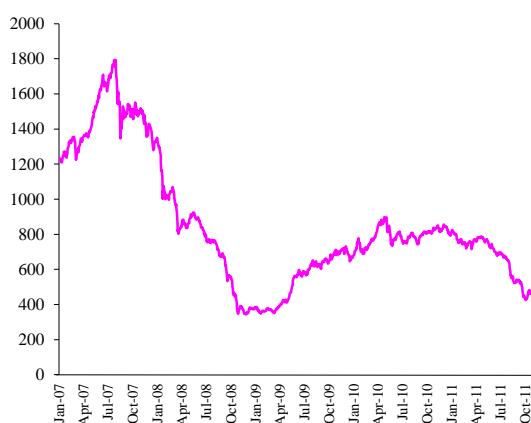
Closing indices (as at year-end)

	2011	2010	Change
HSI	18434	23035	(20%)
HSCEI	9936	12692	(22%)
Hang Seng China-affiliated Corporations Index	3682	4170	(12%)
S&P/HKEx LargeCap Index	22252	27392	(19%)
S&P/HKEx GEM Index	474	810	(41%)

HSI (01/2007 – 12/2011)



S&P/HKEx GEM Index (01/2007 – 12/2011)

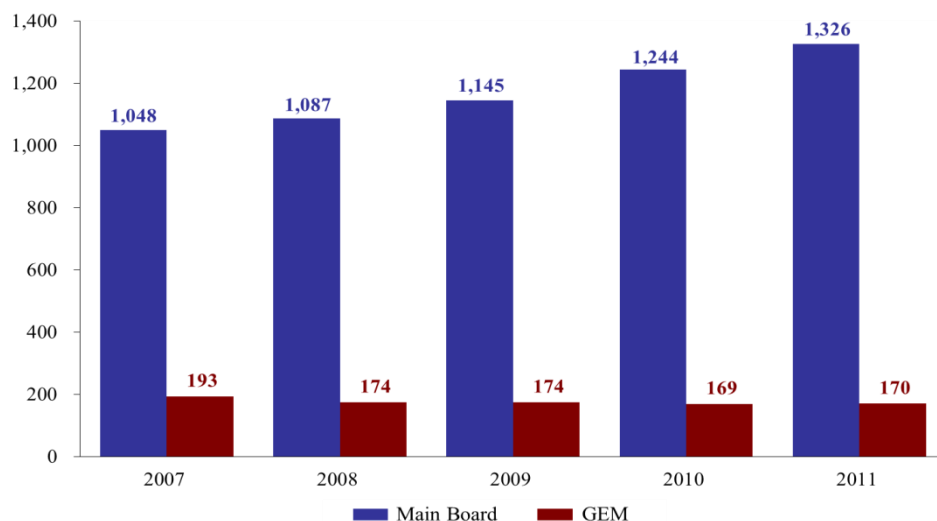


Market performance of Main Board and GEM

	Main Board			GEM		
	2011	2010	Change	2011	2010	Change
IPO funds raised (\$bn)	259	449	(42%)	1.3	0.7	86%
Market capitalisation as at year-end (\$bn)	17,453	20,942	(17%)	85	135	(37%)
Number of listed companies as at year-end	1,326	1,244	7%	170	169	1%
Number of listed securities as at year-end	6,551	7,730	(15%)	172	170	1%
Total turnover (\$bn)	17,091	17,076	0%	63	134	(53%)
Average daily turnover (\$m)	69,476	68,580	1%	256	537	(52%)

Note: Figures have been rounded.

Number of listed companies (as at year-end)

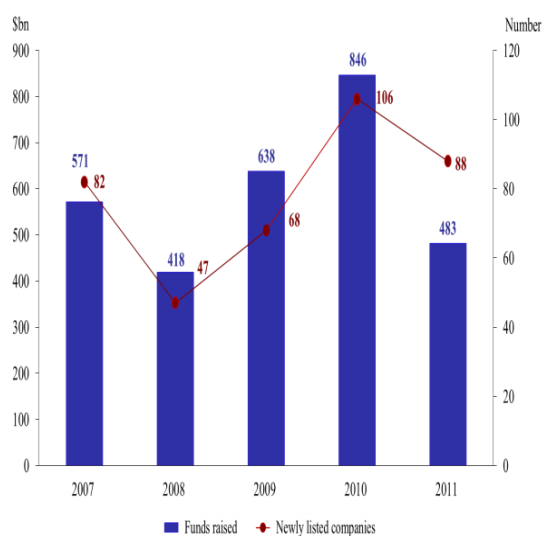


Number of listed companies by industry classification * – Main Board and GEM (as at year-end)

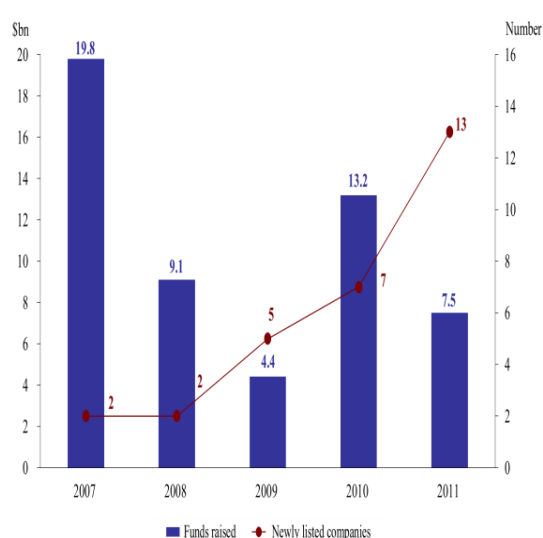
	2011	2010	2009	2008	2007
Energy	63	52	44	34	28
Materials	132	123	105	93	81
Industrial Goods	119	120	111	113	114
Consumer Goods	388	359	330	327	336
Services	230	212	209	198	188
Telecommunications	18	18	18	17	18
Utilities	43	39	32	24	20
Financials	117	109	102	100	103
Properties & Construction	203	198	191	174	166
IT	161	160	154	158	161
Conglomerates	22	23	23	23	26
Total	1,496	1,413	1,319	1,261	1,241

* According to the Hang Seng Indexes Company Limited

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

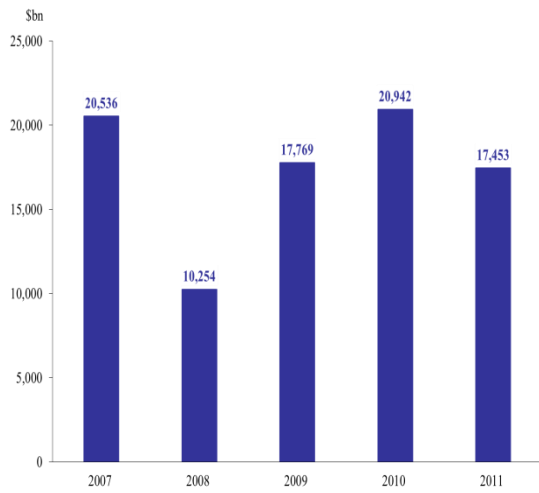


GEM – Total equity funds raised and number of newly listed companies

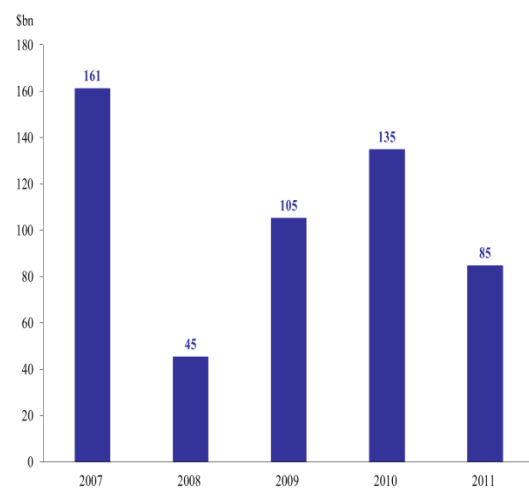


Note: Figures have been rounded.

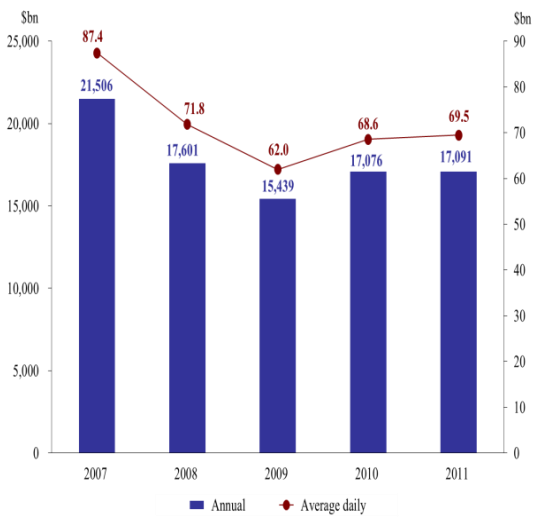
Main Board – Market capitalisation (as at year-end)



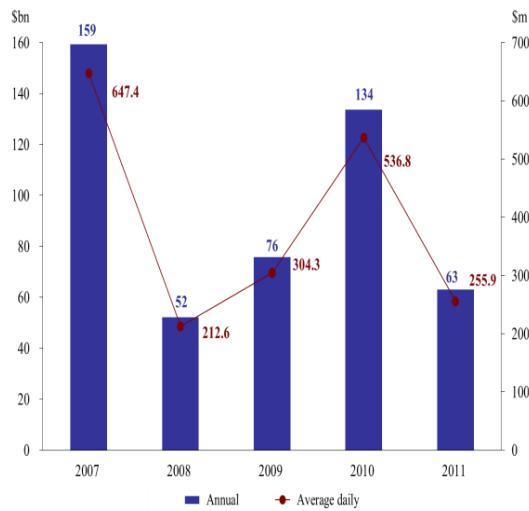
GEM – Market capitalisation (as at year-end)



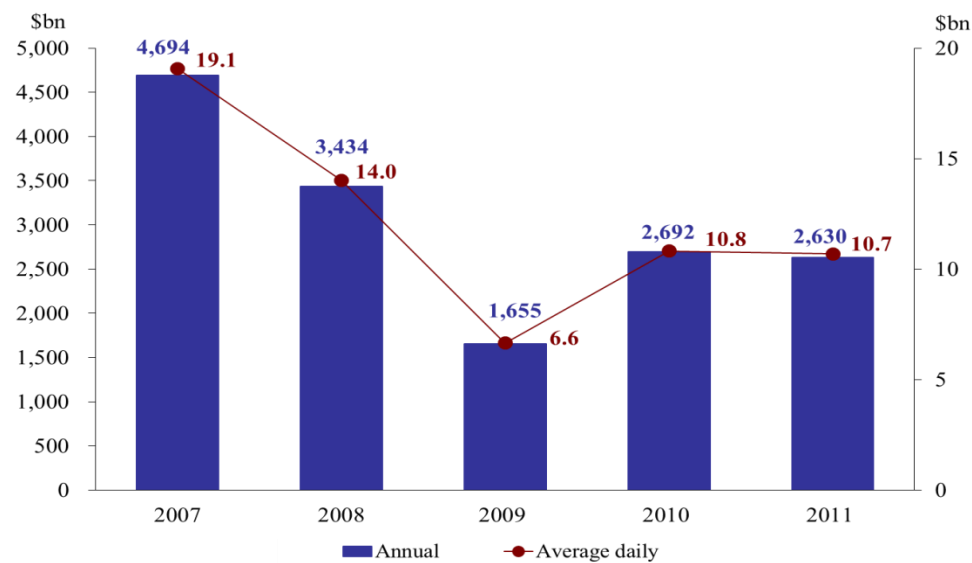
Main Board – Total annual and average daily trading value



GEM – Total annual and average daily trading value

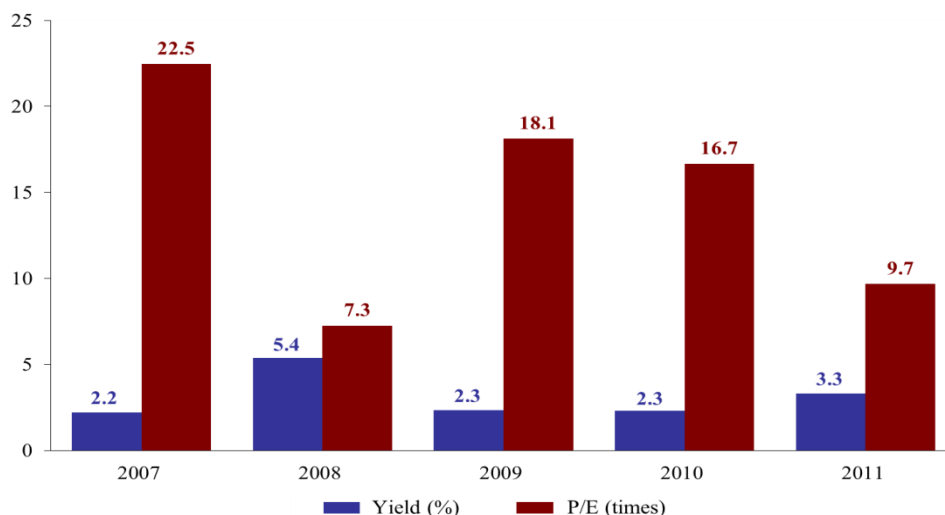


Main Board – Total annual and average daily trading value of DWs



Note: Figures in the above diagrams have been rounded.

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



Main Board – New listings

	2011	2010	2009	2008	2007
Listed Companies *	88	106	68	47	82
Preference Shares	0	1	0	0	0
Warrants	6,924	7,838	4,241	4,840	6,329
Equity Warrants	7	12	11	18	17
DWs	6,917	7,826	4,230	4,822	6,312
CBBCs	5,334	6,541	8,072	4,231	391
ELIs	0	0	0	0	0
Debt Securities	50	38	23	20	26
Unit Trusts and Mutual Funds	9	27	19	7	11

* Included the number of companies transferred from GEM

Extension of Trading Hours

Following a series of market simulations in the middle of February 2011 to assist EPs and IVs in verifying their readiness, the first phase of the extended trading hours in the Cash and Derivatives Markets was implemented on 7 March 2011. The second phase will be implemented on 5 March 2012 in which the trading hours will be further extended for another half-an-hour and the duration of continuous trading in the Cash Market in a trading day will become 5.5 hours. The objectives of the extension are to improve the price discovery function for Mainland-related securities listed in Hong Kong by increasing the overlap of its trading hours with the Mainland exchanges' trading hours as well as to enhance the regional competitiveness of the Hong Kong market by narrowing the gaps between its trading hours and those of its regional competitors.

ETF Market Development

2011 was a challenging year for Hong Kong's ETF market. Turnover of ETFs decreased 10 per cent from 2010 to \$545 billion (2010: \$604 billion), whilst ETF trading maintained at 3 per cent of the total market turnover (2010: 4 per cent). A total of 8 ETFs were newly listed (2010: 26), increasing the total number of ETFs listed on the Exchange by 12 per cent from 69 to 77. With the entry of 2 new ETF managers from the Mainland and Korea respectively in 2011, there are now 15 managers. However, 1 ETF manager already announced its delisting of ETFs in March 2012, making it the first delisting in ETF history in Hong Kong. HKEx has established procedures to handle and protect investors' interest.

ETFs newly listed in 2011	Number
• Tracking Korea stocks	1
• Tracking Hong Kong listed Mainland China stocks	3
• Tracking Hong Kong stocks	1
• Tracking Taiwan stocks	1
• Tracking Greater China Region	1
• Tracking Mainland China stocks listed globally outside Mainland China	1

In August 2011, the SFC imposed a requirement on domestic 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.

To promote HKEx's ETF market, we enriched the ETF section on the HKEx website in October 2011 by adding an ETF search engine which allows investors to search and compare ETFs, and introducing new functionalities which enable investors to find actively traded ETFs, browse daily/monthly statistics and view other useful reference information.

Derivatives Market

Market Performance

The Derivatives Market turnover reached an all-time high of 140,493,472 contracts in 2011, surpassing the previous high of 116,054,377 contracts in 2010 (up 21 per cent).

Products	% increase in turnover year on year
Stock Options	22
H-shares Index Futures	21
HSI Options	25

Record high daily volume and open interest achieved in 2011

Products	Daily volume		Open interest	
	Date	Number of contracts	Date	Number of contracts
HSI Futures	9 Aug	235,385	–	–
Mini-HSI Futures	9 Aug	86,812	17 Jun	21,682
H-shares Index Futures	27 Sept	220,600	28 Sept	177,892
H-shares Index Options	–	–	28 Dec	380,344
Mini H-shares Index Futures	9 Aug	19,556	17 Jun	6,030
HSI Dividend Point Index Futures	2 Feb	1,600	29 Dec	6,008
HSCEI Dividend Point Index Futures	14 Sept	15,000	29 Dec	36,441
HSI Options	5 Aug	116,835	28 Sept	483,835
Mini-HSI Options	5 Aug	10,618	29 Aug	22,086
Flexible HSI Options	–	–	29 Dec	8,310
Flexible H-shares Index Options	26 Sept	5,770	3 Nov	12,074
Stock Futures	–	–	25 Aug	26,482
Stock Options	–	–	28 Nov	9,218,955

Derivatives Market statistics

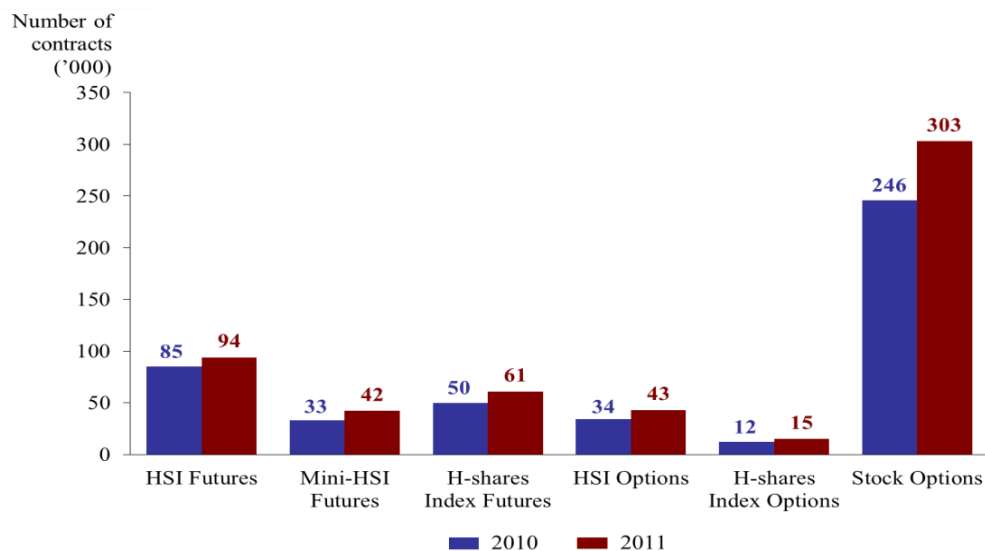
	2011		2010	
	Volume	Period-end	Volume	Period-end
	Number of contracts	open interest Number of contracts	Number of contracts	open interest Number of contracts
Futures				
HSI Futures	23,085,833	86,409	21,031,085	88,816
Mini-HSI Futures	10,294,537	5,129	8,300,654	7,359
H-shares Index Futures	15,003,870	106,277	12,429,800	94,734
Mini H-shares Index Futures	1,845,116	1,520	992,224	1,867
HSI Dividend Point Index Futures ¹	11,196	4,460	2,123	1,270
HSCEI Dividend Point Index Futures ¹	53,054	34,270	4,667	1,138
Stock Futures	444,014	11,277	239,259	11,514
1-Month HIBOR Futures	245	25	14	0
3-Month HIBOR Futures	414	24	1,055	267
3-Year Exchange Fund Note Futures	0	0	0	0
Gold Futures	3,716	0	5,642	85
Total	50,741,995	249,391	43,006,523	207,050
Options				
HSI Options	10,667,426	184,402	8,515,049	187,784
Mini-HSI Options	954,414	3,873	482,691	4,859
H-shares Index Options	3,771,799	158,628	2,910,713	104,994
Flexible HSI Options ²	9,260	7,510	11,222	500
Flexible H-shares Index Options ²	23,510	3,500	2,532	0
Stock Options	74,325,068	5,329,494	61,125,647	5,381,215
Total	89,751,477	5,687,407	73,047,854	5,679,352
Total Futures and Options	140,493,472	5,936,798	116,054,377	5,886,402

Notes:

1 Launched on 1 November 2010

2 Launched on 8 February 2010

Average daily turnover of major derivatives products



Consultation on After-hours Futures Trading

The HKEx Board approved the proposal on the introduction of after-hours futures trading; the consultation conclusion was published on 15 December 2011. The consultation paper published in May 2011 drew 455 responses comprising submissions from EPs/CPs, professional and industry associations, market practitioners and individuals. Among them, 353 respondents (about 78 per cent) supported the proposal, including 67 futures market EPs which accounted for 80 per cent of HSI futures and H-shares Index futures market trading in the first half of 2011. HKEx is preparing for system and market readiness for after-hours futures trading, which is scheduled for launch in the second half of 2012.

Introduction of VHSI and its Futures Contract

On 21 February 2011, the real-time VHSI was launched as a stock market volatility benchmark for Hong Kong. VHSI Futures was introduced for trading on 20 February 2012, which is an innovative tool for investors in hedging volatility risk or obtaining pure volatility exposure with a single futures contract.

Development of Stock Options Market

On 21 November 2011, 3 new stock option classes commenced trading on the Exchange. 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 Exchange. Participants have confirmed their system readiness following the RMB readiness test conducted on 14 January 2012.

System Enhancements on HKATS to Promote Options Business

HKEx introduced several system enhancements on HKATS to promote its options business in the Derivatives Market in 2011, including the extension of the Bulletin Board function to cover futures and options on Mini-HSI and H-shares index markets in May 2011, introduction of Synthetic Futures trading in selected stock options classes in the first half of 2011, and enrichment of trading information on standard combination series in December 2011.

Clearing

CCASS statistics

	2011	2010	Change
Average daily Exchange Trades handled by CCASS			
Number of trades	873,654	778,877	12%
Value of trades (\$bn)	69.8	69.1	1%
Share quantity involved (bn)	162.2	140.5	15%
Average daily SIs settled by CCASS			
Number of SIs	83,833	80,163	5%
Value of SIs (\$bn)	211.2	187.9	12%
Share quantity involved (bn)	47.8	47.2	1%
Average daily ISIs settled by CCASS			
Number of ISIs	714	574	24%
Value of ISIs (\$m)	261.1	273.0	(4%)
Share quantity involved (m)	123.7	117.3	5%
Average daily settlement efficiency of CNS stock positions on due day (T+2)	99.88%	99.87%	–
Average daily settlement efficiency of CNS stock positions on the day following the due day (T+3)	99.99%	99.99%	–
Average daily buy-ins executed on T+3			
Number of brokers involved	6	8	(25%)
Number of buy-ins	7	9	(22%)
Value of buy-ins (\$m)	2.4	3.1	(23%)
Shares deposited in the CCASS depository			
Number of shares (bn)	3,694.2	3,834.1	(4%)
Percentage of total issued shares of the admitted securities	70%	72%	–
Value of shares (\$bn)	9,599.9	11,294.5	(15%)
Percentage of the total market capitalisation of the admitted securities	50%	50%	–

Note: Figures for 2010 have been restated to include transactions in all currencies.

T+2 Finality

On 25 July 2011, HKEX launched the T+2 Finality for CCASS money settlement, which reduces the overnight credit risk of Participants and aligns the money settlement arrangement in Hong Kong with international best practices by bringing finality of securities and money settlement onto the same day.

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 in 2012.

DCASS Service Enhancement

Effective 12 December 2011, DCASS's capital adjustment process for derivatives contracts was enhanced for higher efficiency. Since then, CPs could access historical trades based on unadjusted series. Other service improvements include enhancing the Rectify Trade function to allow further rectification of partially given-up trades.

RMB Business Development

As at 31 December 2011, 11 RMB-denominated debt securities and 1 RMB-denominated REIT were listed for trading on the Exchange. A majority of the EPs had confirmed their readiness for dealing in and/or clearing of RMB securities.

HKEx is ready to support the 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. 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.

The RMB Equity TSF system which supports the trading of any RMB stocks on the Exchange was released on 24 October 2011. TSF is designed to serve as a back-up facility to enable investors who wish to buy RMB-traded shares in the secondary market with HKD if they do not have sufficient RMB or have difficulty in obtaining RMB from other channels. While RMB is not fully convertible and is subject to liquidity constraints, the TSF is intended to enable investors to invest in RMB-traded shares using their readily available currency, HKD. As of 31 December 2011, a total of 37 brokers and custodians have registered to provide the RMB Equity TSF service to their clients.

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.

Participant Services

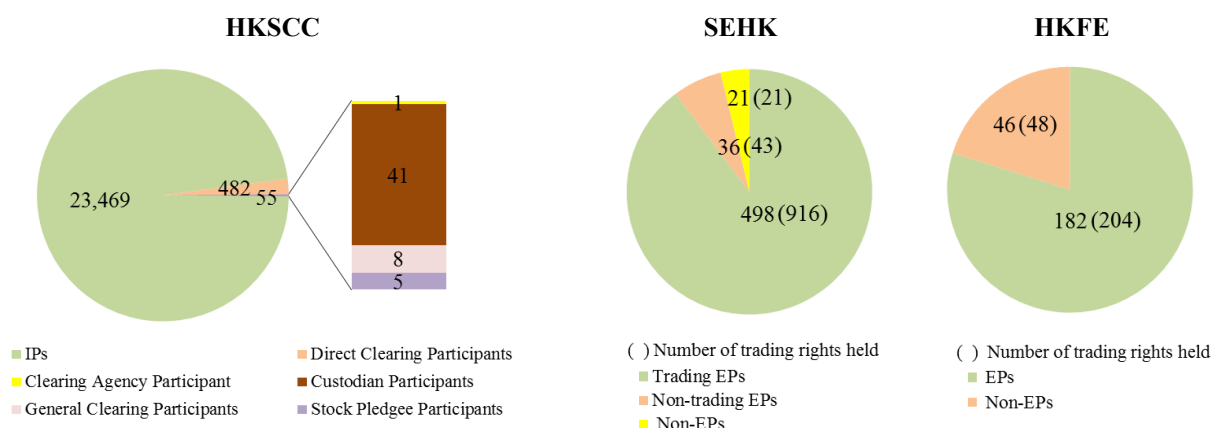
Participant Training and Market Education

Throughout 2011, HKEx and the Hong Kong Securities Institute jointly organised 16 Continuous Professional Training courses on the HKATS terminal or derivatives. There were also 10 training courses related to AMS and 32 related to CCASS or DCASS. Under HKEx's joint promotion programme with EPs, over 5,700 people participated in 53 briefings and 12 seminars on derivatives led by HKEx in 2011.

Participant Recruitment

At the end of December 2011, there were 534 SEHK Participants and 182 HKFE Participants, including 25 SEHK Participants and 12 HKFE Participants admitted in 2011. For HKSCC, there were 24,006 CCASS Participants, including 1,025 IPs admitted in 2011.

Number of Participants (as at the end of 2011)



Market Data

Market Performance

As at the end of 2011, there were 149 and 80 real-time and delayed IV licences respectively. The licensed IVs altogether offered a total of 914 types (2010: 909) of real-time market data services to the market. Despite an increase of 5 delayed IVs in 2011, the total number dropped from 97 to 80 as at the end of 2011, mainly because 13 of them, who are both real-time and delayed products subscribers, were consolidated under the Single Licence Regime and another 9 migrated to real-time.

Products subscribed	Number of real-time IVs	
	2011	2010
• Securities market data	139	129
• Derivatives market data	64	59
• Issuer Information Feed Service	11	12
• More than 1 data product groups	57	54

Single Licence Regime

HKEx completed the implementation of the Single Licence Regime by the end of October 2011, under which all licensed IVs are now under the new regime. The new regime helps streamline the management of market data licence agreements by consolidating the previous 4 separate market data licence agreements for HKEx's securities market data, stock options market data, HKFE's market data and Issuer Information Feed Service into a single agreement with standard contractual terms. The structure of the new agreement could also support the rollout of new and multiple datafeed products by the Exchange like MDS/3.8 and NGMDS.

Mainland Market Data Collaboration Programmes

The Mainland Market Data Collaboration Programmes with the Shanghai Stock Exchange (SHSE Programme) and the Shenzhen Stock Exchange (SZSE Programme), which were originally due to expire by the end of 2011, have been extended for 2 years until the end of 2013. Under these programmes, HKEx and the Shanghai Stock Exchange/Shenzhen Stock Exchange are allowed to redistribute the other party's basic real-time market data of companies dually listed on the respective markets to their respective authorised IVs for onward transmission to their subscribers for internal display purposes.

At the end of December 2011	Number of IVs
SHSE Programme	19
SZSE Programme	9

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

Following the review of the discount programme for Mainland users of HKEx's real-time securities market data (which was originally due to expire at the end of 2011), the discounted monthly fees of \$80 for retail clients and \$120 for corporate clients will continue to be applicable until the end of 2012. A derivatives data package without price depth will continue to be offered together with the securities data package free of charge under the discount programme. The programme benefited more than 13,500 individual investors and 3,000 institutional investors on the Mainland.

Introduction of BMP Service

The BMP Service, based largely on the Free Prices Website Service Pilot Programme introduced in October 2009, was launched on 1 April 2011 to enhance market transparency and raise the profile of the Hong Kong securities and derivatives market. Under the BMP Service, HKEx provides basic Cash and Derivatives Market data to service providers at a flat monthly fee. The

BMP Service has been well received by the market and up to date, there are 22 BMP Service providers including IVs, EPs or their affiliates, and mass portals. These service providers together offer services through a total of 32 websites and 16 mobile applications. HKEx expects that the number of BMP service providers will continue to grow with wider varieties of services.

Introduction of PRS Plus

HKEx introduced an enhanced derivatives market datafeed, PRS Plus, on 11 April 2011. The PRS Plus sends market data updates 5 times more frequently than the existing datafeed PRS, which remains as an option to the users. HKEx also introduced an End-user Licence for both PRS and PRS Plus. As at 31 December 2011, there were 28 IVs offering PRS Plus on their services and 24 companies (mainly EPs and market makers) with the End-user Licence for the internal usage of PRS Plus.

Enhancement of Securities Market Data Service of MDS/3.8

After the upgrade of the Derivatives Market data service in April 2011, HKEx also diversified its Cash Market data offerings by introducing an enhanced version of MDF, known as MDF 3.8, following the upgrade of its market data system from MDS/3.5 to MDS/3.8. MDF 3.8 doubles the market depth from 5 price levels to 10, and reduces its data latency by 80 per cent from 0.5 seconds to 0.1 second. Its stock update rate was also doubled from 1,000 updates per second to 2,000 per second. In order to promote usage, the deeper and faster Cash Market data are made available to the market without a change in price. In parallel with the rollout of 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 MDF 3.8. MDF 3.8 was introduced to the market on 5 December 2011. Most of the direct connection Cash Market data IVs have migrated to MDF 3.8.

Development of NGMDS

In the fourth quarter of 2011, HKEx started to develop a new market data system, NGMDS – the first part of the overall roadmap towards the next generation core platforms. The NGMDS will support multi-asset classes and consolidate the HKEx market data distribution of the Cash Market and Derivatives Market into a single platform. It will enable HKEx to distribute its market data to the Mainland via a Mainland market data hub, and further facilitate the offering of a new suite of market data products across 2 markets, including conflated, streaming, market-by-price, and market-by-order feeds, to better serve HKEx’s customers with diversified business needs.

The design phase of NGMDS was completed in December 2011. The system development work is being conducted by HKEx and its engaged system vendor. The NGMDS is expected to be rolled out in the Cash Market around mid-2013.

Risk Management

Clearing Houses’ Risk Management Reform Measures

On 8 July 2011, HKEx published a consultation paper “HKEx Clearing House Risk Management Reform Measures” to propose several major risk management reform measures which aim to fundamentally strengthen HKEx’s clearing house risk management regime, address certain identified gaps relative to international standards, and contribute to the long-term stability and competitiveness of Hong Kong as an international financial centre.

The key 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 various measures of financial support from HKEx to reduce the impact on CPs.

As part of the overall strengthening of its risk management regime, HKEx also increased the amount of its shareholders' funds set aside to support the clearing houses' financial resources from \$3.1 billion to \$4 billion in 2011.

During the consultation period, which closed on 28 October 2011, over 600 responses were received from CPs, brokerage industry associations, professional bodies, other non-CPs as well as individuals. The overall responses were broadly supportive and the consultation conclusions are scheduled to be released in the first quarter of 2012.

Enterprise Risk Management

In 2011, we conducted regular reviews of the previously identified risks across the organisation based on the Enterprise Risk Management Framework, as well as identified and assessed new significant risks on different areas such as credit, liquidity, market, operational and strategic, using a common platform and standardised process. All identified significant risks were scored in terms of their potential impact and likelihood, and were reported to the Senior Management Committee with associated action plans and controls designed to mitigate the risks, where applicable, at appropriate levels.

Market Surveillance

Under the MOU between the SFC and HKEx on matters relating to market surveillance, HKEx referred a total of 37 cases (2010: 28) 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 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 reliability throughout 2011.

On 10 August 2011, the HKExnews website became unstable around midday under malicious intrusion in the form of Distributed Denial of Service (DDoS) attacks. Normal service resumed around 8:00 pm. During the incident, HKEx's other systems, including all market systems, continued to operate normally. HKEx has implemented relevant security enhancements to strengthen protection against further attacks, and will pursue continuous improvements to sustain reliability and stability of its mission critical systems.

Technology Upgrades

In 2011, HKEx allocated substantial resources towards upgrading its systems to increase its competitiveness as an operator of international markets. These included (i) the introduction of PRS Plus in April 2011 to deliver an additional datafeed for the Derivatives Market to support a higher price update frequency of about 6,600 messages per second; (ii) the increase in the DCASS capacity by about 60 per cent in December 2011 to handle 475,000 account positions; (iii) the

rollout of AMS/3 upgrade (referred to as AMS/3.8) in December 2011 to increase capacity by 10-fold to 30,000 orders per second (scalable to 150,000 orders per second) with corresponding reduction of one-time throttle charge by half to \$50,000, to reduce order processing latency by 70-fold to 2 milliseconds on an average trading day, and to improve market transparency by displaying the 10 best price levels compared to the 5 best price levels in AMS/3.5; and (iv) the further upgrade of MDS to MDS/3.8 in December 2011 to increase the price update frequency to 2,000 stock pages per second for performance alignment with AMS/3.8.

At the same time, HKEx has started the phased implementation of the next generation market systems according to the established technology roadmap. Initially, these include: (i) launching a market datafeed solution to replace the existing MDS and PRS with a single, common, flexible, and ultra low-latency market data dissemination platform for all asset classes traded on HKEx; (ii) introducing a new OTC platform required for the operation of the new OTC clearing house; (iii) concluding the study for an HKATS/DCASS upgrade to a new technology platform; and (iv) evaluating the Central Gateway solution that will support high performance access of the Cash Market trading system by Participants.

In addition, we have kicked off the migration of EP/IV circuits to the SDNet2.0, which is a new network infrastructure operated by multiple service providers that will support network circuits with higher bandwidth capacity and lower transmission latency for access of all HKEx market systems. Circuit migration for AMS, HKATS/DCASS and CCASS will be carried out by phases between 2012 and 2013.

System Enhancements for RMB Products

System enhancement for RMB Equity TSF was duly completed and implemented on 24 October 2011. Various enhancements were also completed during 2011 to facilitate the clearing and settlement of RMB products, including (i) conversion of HKSCC marks and collateral requirements in RMB and other currencies into HKD equivalent with haircut; (ii) share transfer support for the DTDC model; and (iii) the enhanced DCASS capability to support Stock Options with trading/settlement currencies other than HKD.

Independent Reviews

An independent review of the AMS/3.8 and MDS/3.8 project was completed in October 2011, and concluded that essential controls were in place to mitigate key risks of the project rollout.

HKEx also completed a review with an external security consultant to benchmark its security policy against the best practices in the financial industry, particularly the e-Banking security requirements. HKEx will examine the identified gaps and establish a plan in due course to implement the corresponding improvement actions.

Operational Efficiency

HKEx implemented a number of new systems in 2011 for efficiency improvement, including (i) the SPRINTS to facilitate automation of the approval process for DW and CBBC listing applications; and (ii) the Enterprise Content Management system to streamline the document management process and enhance operational efficiency in the Listing Division. We also completed the upgrade of the corporate personal computers and productivity tools in January 2012 for alignment with the software vendor's product lifecycle.

New Data Centre and IT Office Consolidation

HKEx has received the Certificate of Completion for the foundation site works that were completed in May 2011 for its new Data Centre in Tseung Kwan O. The core and shell construction was also completed by the end of 2011. Other electrical, mechanical and redundancy power works are in progress and it is aimed to deliver a dust free environment by mid-2012. Provisioning of network infrastructure and structured cabling systems will be conducted thereafter to facilitate installation and commissioning of the IT equipment.

The first phase of relocation to the new Data Centre will take place in the fourth quarter of 2012, which includes the IT office and primary data centre for the Cash Market. The consolidation with other data centres will be completed by phases till the end of 2013.

Market Development**BRICS Exchanges Alliance**

HKEx led the formation of an alliance among the leading exchanges in the BRICS countries, namely BM&FBOVESPA, MICEX (recently merged with RTS), BSE Limited and the Johannesburg Stock Exchange. This alliance was announced upon the signing of an MOU on 12 October 2011 at the WFE Annual Meeting in Johannesburg, South Africa.

In the first phase of the alliance, each alliance partner will list futures and/or forward contracts on the benchmark equity index of the other alliance members, giving investors worldwide easier access to the dynamic equity markets of the emerging BRICS economies. These cross-listings are planned to take place in the first half of 2012.

The second phase will include the development of products combining exposure to equity markets of all alliance partner exchanges. These products would then be listed and traded in local currencies on the respective alliance exchanges, allowing investors to gain exposure to other emerging markets through a locally listed product.

Issuer Services

HKEx launched a series of services for issuers, which are aimed at enhancing the visibility of listed companies and improving communication between listed companies and the investment community.

HKEx will organise periodically “Know the Listed Companies” conferences at HKEx’s Auditorium where representatives from listed companies of the same industry, sector, or theme will brief the audience on updates to company information. These conferences will be a platform for listed companies to present themselves to analysts, institutional investors and other market professionals in order to raise their profile, keep shareholders informed, and attract new investors. Listed companies may also commemorate their business milestones by participating in market open ceremonies where their representatives and guests will have the unique opportunity to open the market by hitting the gong at the HKEx Trading Hall to mark the start of the trading day. Video clips and photos of the ceremony will be hosted on the HKEx website and distributed to the media.

These issuer services will allow listed companies to gain additional visibility amongst investors, who in turn will have greater awareness of each company’s investment case and commercial activities, and will also help to enhance secondary market liquidity and provide access to additional capital. At a later date, HKEx may offer referral-based market intelligence and

communications services to facilitate listed companies' understanding of their shareholders and how they are perceived by investors.

Hosting Services

HKEx has been developing the operational model and customer offerings of Hosting Services for launch in 2012. The total capacity of the hosting floors inside the new Data Centre can support up to 1,200 cabinets of server space, and the development will be divided into 3 phases. Phase 1, of around 320 cabinets, will be made available in the fourth quarter of 2012.

HKEx's Hosting Services will further support Hong Kong's financial markets community using an ecosystem approach. EPs, IVs, technology vendors and telecommunications providers will be able to interact within the ecosystem. This will allow infrastructure and software provisioned by hosted technology vendors. A low latency local area network will also be provided for EPs to access the Cash and Derivatives Markets following the migration of the 2 markets to the new Data Centre in October 2012 and April 2013 respectively.

The Hosting Services Founding Members Programme was launched in February 2012 to allow select hosting ecosystem service providers to participate in the early set-up of the hosting ecosystem. Those companies which enrol in the Founding Members Programme will be invited to participate in joint marketing efforts with HKEx.

OTC Clearing House

In October 2011, the HKMA and the SFC issued a joint consultation paper on the regulatory regime for the OTC derivatives market in Hong Kong. HKEx provided feedback which emphasised the importance of mandating the clearing of HKD and RMB OTC derivatives by a Hong Kong Central Counterparty.

After an in-depth evaluation of proposals submitted by various system vendors, HKEx selected Calypso Technology Inc as the provider for the clearing and risk management platform. Implementation work commenced in November 2011.

During the fourth quarter of 2011, HKEx met with over 30 potential participants, including local banks, Mainland banks and international banks with branches or affiliates in Hong Kong for interactive discussions on the future development.

In 2012, HKEx will finalise the business model, risk management structure, the detailed rulebook and operations manual. Pending completion of the legislative process by the Government, market rehearsals are scheduled to be coordinated in the middle of 2012 before the debut of the clearing house operation.

IT Platform Development

In 2011, a roadmap was established to elevate HKEx's core IT platforms to a level of global competitiveness, and to position HKEx for future challenges. The roadmap defines an incremental approach; the first component being market data. A competitive tender was conducted for the supply of a new system to (i) provide a low latency platform for the dissemination of market data, (ii) expand the range of market data products available to customers, and (iii) support distribution of market data in the Mainland. The project commenced in September 2011, and rollout is scheduled for 2013.

We will focus on market access components and scoping of the core trading system replacement in 2012.

Mainland Development

In August 2011, HKEx announced the potential joint venture with the Shanghai Stock Exchange and the Shenzhen Stock Exchange, which is a milestone development for the Mainland and Hong Kong capital markets. It symbolises the commitment of the 3 exchanges to strengthen cooperation in promoting Chinese securities in international markets.

HKEx has broadened and deepened its relationships with Mainland authorities (at both central and provincial levels), regulators, exchanges, and market participants. We extended our reach to our key Mainland counterparts, including the China Financial Futures Exchange, the Zhengzhou Commodity Exchange, the Dalian Commodity Exchange, the Shanghai Futures Exchange, the China Securities Depository and Clearing Corporation Limited, the Shanghai Clearing House, the China Foreign Exchange Trade System, and the National Association of Financial Market Institutional Investors, etc. With regular dialogue and bilateral meetings at all levels, HKEx aims to explore opportunities for closer cooperation in the interests of our securities markets, such as the OTC clearing project, development of HKEx's market data and issuer services in the Mainland, and strategies on commodities.

HKEx has organised exchange programmes for Mainland authorities to strengthen their understanding of our businesses and to forge closer working relationships. During 2011, we arranged over 400 hours of exchange programmes for senior officials from the People's Bank of China, the China Securities Regulatory Commission, the State Administration of Foreign Exchange and the Shanghai Stock Exchange.

Issuer Marketing

In line with our core strategy to generate organic growth, we have continued our work on promoting HKEx as a pre-eminent listing venue for Mainland and international companies seeking capital, profile and a liquid secondary market. Throughout 2011, we maintained a high level of marketing activity including roadshows on the Mainland and in many other countries around the world to identify and meet with potential issuers. In addition, we collaborated closely with the Mainland and Hong Kong governments to organise promotional activities in strategically important Mainland cities and regions to attract companies to list in Hong Kong.

In 2011, HKEx hosted 21 events of different scales ranging from large conferences to small roundtable discussions and workshops in 14 Mainland cities and Hong Kong to potential issuers. We made 74 trips to different Mainland cities to speak at listing promotion events. We met with government officials and potential issuers, including companies that are looking for a second listing and leading enterprises in a number of sectors and industries. Major marketing events were organised in Mongolia and Hong Kong where natural resources companies expressed strong interest in raising funds through a Hong Kong listing.

Major events organised by HKEx for Mainland enterprises in 2011

January

Listing in Hong Kong Conference in Shandong
 - Shandong Financial Services Office as a co-organiser

23 24 25 26 27 28 29
 30 31

March

Listing Seminar for Sichuan Enterprises in Hong Kong
 - Sichuan Provincial Government as a co-organiser

6 7
 13 14
 20 21 22 23 24
 27 28

Listing in Hong Kong Conference in Changchun, Jilin
 - HKTDC, Jilin Province Economic and Technological Cooperation Bureau, and Financial Affairs Office of Changchun National High-tech Industries Development as co-organisers

1 2 3 4 5
 8 9 10 11 12

April

Listing in Hong Kong Conference in Harbin, Heilongjiang
 - HKTDC, Heilongjiang Province of Department of Commerce, Industry and Commerce Administration Bureau, and Financial Affairs Office as co-organisers

May

Smarthk exposition – “Go Global” Seminar for Guangzhou Enterprises in Guangzhou
 - InvestHK, HKTDC, and the Department of Foreign Trade and Economic Cooperation of Guangzhou as co-organisers

June

Financing and Listing Seminar in Fuzhou
 - Hong Kong Economic and Trade Office in Guangdong, and Hong Kong and Macao Affairs Office of Fujian Province as co-organisers

July

Listing in Hong Kong Event in Suzhou
 - Suzhou Financial Service Office as a co-organiser

24 25 26 27 28 29 30
 31

August

Hong Kong Listing Roundtable Meeting for Foshan Enterprises in Foshan
 - Foshan Financial Service Bureau as a co-organiser

September

Listing and Investment in Hong Kong Forum in Beijing
 - InvestHK and Beijing Youth Chamber of Commerce as co-organisers

Financing and Listing Seminar in Quanzhou, Fujian
 - Fujian, Hong Kong and Macao Affairs Office of the State Council, Hong Kong Economic and Trade Office in Guangdong, China Council for the Promotion of International Trade Quanzhou Branch, and InvestHK as co-organisers

18 19 20 21 22 23 24
 25 26 27 28 29 30 31

October

3rd Conference on Guangxi and HK Financial Cooperation in Hong Kong
 - the Guangxi Government, Financial Services and the Treasury Bureau, HKMA, and HKTDC as co-organisers

Listing in Hong Kong seminar in Hefei, Anhui
 - Hefei Finance Office as a co-organiser

November

Wuhan – Hong Kong Capital Market Promotion and Cooperation Conference in Hong Kong
 - Wuhan Municipal Government as a co-organiser

Hong Kong Listing Seminar for Sichuan Enterprises in Hong Kong
 - Sichuan Provincial Government as a co-organiser

In 2011, we continued to see more overseas companies (from Kazakhstan, Indonesia, Japan, Singapore, and Taiwan in Asia; Switzerland, Luxembourg, Italy and France in Europe; and the US) listed on the Exchange. Riding on the strong economic growth in the Mainland and robust fund-raising activities on the Exchange, we expect more Mainland enterprises and overseas companies, in particular those in the natural resources and consumer goods sectors and those with an Asian business nexus, to continue to view Hong Kong as the ideal platform for fund raising or extending their international reach. At the various events held in overseas markets, we focused on introducing the advantages of listing in Hong Kong to prospective issuers for their China-related business operation.

HKEx's Chairman has played a key role in introducing the Exchange to potential issuers, intermediaries and government officials from overseas. In 2011, he visited France, Italy, Mongolia, Russia, South Africa and the US to promote HKEx as their preferred choice.

Major events organised by HKEx in Hong Kong targeting overseas companies in 2011

Date	Event	Co-organiser(s)
Apr	Listing of Italian Companies in Hong Kong	Consulate General of Italy in Hong Kong and Italian Chamber of Commerce in Hong Kong & Macao
Apr	Cocktail for South African high level delegation	The South African Consulate General
Nov	Listing of European Companies in Hong Kong	The European Chamber of Commerce in Hong Kong
Nov	HKEx Deloitte Seminar for Japanese Companies	Deloitte Touche Tohmatsu

Listing Training Sessions

As part of our issuer marketing initiatives in 2011, we co-organised an introductory programme for about 80 participants on China Domestic Financial Markets Conference with an investment bank. In addition, we co-organised 3 training sessions in Hong Kong for over 100 senior executives from Mainland enterprises with The Hong Kong Polytechnic University and the State Council's Office of Hong Kong and Macao Affairs Research Institute. We aimed to provide the Mainland enterprises with knowledge of good corporate governance and the latest rules and regulations relating to listing in Hong Kong.

Research and Corporate Development

HKEx published the Cash Market Transaction Survey 2009/10 in February 2011 and the Derivatives Market Transaction Survey 2010/11 in November 2011. The survey findings revealed that the contribution of overseas investors to the total market turnover remained at relatively high levels – 46 per cent in value terms in the securities market in 2009/10, surpassing the contribution from local investors for the first time; and 23 per cent in volume terms in the derivatives market in 2010/11. In addition, HKEx has completed the Retail Investor Survey 2011, a biennial survey to assess the degree of retail participation in, and their views on, the HKEx markets. The survey report will be published in due course.

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

Promoting HKEx's Markets

Apart from promoting the Exchange as an international fund-raising platform, HKEx has proactively participated in various events on promoting the Hong Kong financial industry organised by different international and local organisations from time to time. We made use of the opportunities to introduce HKEx and its markets to market participants from different parts of the world. In 2011, HKEx's Chairman participated in the Asian Financial Forum, Latin America Asia-Pacific Investors Forum, 2nd Russia – Capital Raising and Investment Summit Hong Kong, Kazakh Equity Capital Raising & Investment Forum, Bloomberg China Conference, China Daily Asia Leadership Roundtable luncheon, Economic Summit 2012, and HKGCC Business Forum in Hong Kong, as well as the St. Petersburg International Economic Forum 2011 in Russia and the BRICS – Conference 2011 in Austria promoting HKEx's markets.

Major events participated by HKEx in 2011

Date	Event	HKEx's Objectives
15 Mar	Seminar on the launch of VHSI & its Application organised by HKEx in Hong Kong	To promote the VHSI Futures to EPs
13 May	Conference on Development of ETFs and Other Index Products organised by HKEx and the Shanghai Stock Exchange in Hong Kong	To provide an opportunity for regulators and industry participants to discuss the development of the ETFs market and other index products in the Mainland, Hong Kong and other markets
7 - 8 June	4 th FIA/FOA International Derivatives Expo organised by The Futures Industry Association (FIA) in London	To promote HKEx's derivatives products to FIA members and international market participants
1 Sept	Seminar to Mainland brokers organised by HKEx in Hangzhou	To recruit new EPs
23 Sept	China's Macroeconomic Forum organised by HKEx and the Renmin University of China's Institute of Economic Research in Hong Kong	To exchange views on the RMB internationalisation and the restructuring of Hong Kong as an international financial centre
11 - 12 Oct	27 th Annual Futures & Options Expo organised by FIA in the US	To promote HKEx's derivatives products to FIA members and international market participants
7 - 9 Nov	Asia Pacific Financial Information Conference co-hosted by HKEx and organised by the Financial Information Services Division of the Software and Information Industry Association in Hong Kong	To promote HKEx's market data business
22 Nov	2011 Annual Conference: Hong Kong – Mainland: Synergy & Opportunities organised by The Hong Kong Management Association in Hong Kong	To promote Hong Kong's role as an international financial centre bridging the Mainland and the international markets
29 Nov - 1 Dec	7 th Annual FIA Asia Derivatives Conference organised by FIA Asia in Singapore	To promote HKEx's derivatives products and OTC clearing to FIA members and international market participants
2 Dec	Hong Kong: America's Bridge to Asian Growth Business Seminar organised by HKTDC in the US	To promote the Exchange as well as explain HKEx's role in the RMB internationalisation

Treasury

The Group's funds available for investment comprise Corporate Funds, cash collateral, Margin Funds and Clearing House Funds, totalling \$48.2 billion on average in 2011 (2010: \$40.5 billion).

As compared with 31 December 2010, the overall size of funds available for investment as at 31 December 2011 increased by 19 per cent or \$7.4 billion to \$45.7 billion (31 December 2010: \$38.3 billion). Details of the asset allocation of the investments as at 31 December 2011 against those as at 31 December 2010 are set out below.

	Investment Fund Size \$bn		Bonds *		Cash or Bank Deposits *		Global Equities	
	2011	2010	2011	2010	2011	2010	2011	2010
Corporate Funds	9.7	9.4	53%	58%	43%	38%	4%	4%
Cash collateral	3.2	3.6	0%	0%	100%	100%	0%	0%
Margin Funds	31.3	22.7	20%	26%	80%	74%	0%	0%
Clearing House Funds	1.5	2.6	19%	14%	81%	86%	0%	0%
Total	45.7	38.3	25%	31%	74%	68%	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 and mutual funds held under the Corporate Funds (\$0.4 billion as at 31 December 2011 and \$0.4 billion as at 31 December 2010), which have no maturity date, the maturity profiles of the remaining investments as at 31 December 2011 (\$45.3 billion) and 31 December 2010 (\$37.9 billion) were as follows:

	Investment Fund Size \$bn		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		> 3 years	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Corporate Funds	9.3	9.0	20%	19%	4%	4%	42%	27%	17%	34%	17%	16%
Cash collateral	3.2	3.6	72%	72%	0%	7%	28%	21%	0%	0%	0%	0%
Margin Funds	31.3	22.7	14%	27%	26%	24%	54%	26%	4%	23%	2%	0%
Clearing House Funds	1.5	2.6	49%	74%	7%	7%	44%	5%	0%	14%	0%	0%
Total	45.3	37.9	20%	33%	19%	16%	50%	24%	6%	23%	5%	4%

Credit exposure is well diversified. The Group's bond portfolio (which includes certain principal-guaranteed structured notes) held is of investment grade and, as at 31 December 2011, had a weighted average credit rating of Aa3 (31 December 2010: Aa2) and a weighted average maturity of 1.8 years (31 December 2010: 2.1 years). Deposits (which include certain principal-guaranteed structured deposits) are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

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

	Average VaR \$m		Highest VaR \$m		Lowest VaR \$m	
	2011	2010	2011	2010	2011	2010
Corporate Funds	23.9	19.2	27.5	27.1	17.5	15.3
Cash collateral	0.3	0.0	0.3	0.4	0.1	0.0
Margin Funds	5.1	15.3	7.5	34.5	3.2	7.2
Clearing House Funds	0.7	1.9	1.8	2.4	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.

FINANCIAL REVIEW

Overall Performance

	Note	2011 \$m	2010 \$m	Change
RESULTS				
Revenue and other income:				
Income affected by market turnover	(A)	5,284	5,024	5%
Stock Exchange listing fees	(B)	949	945	0%
Market data fees	(C)	637	670	(5%)
Other revenue	(D)	487	455	7%
Net investment income	(E)	390	472	(17%)
Other income	(F)	108	-	N/A
		7,855	7,566	4%
Operating expenses		1,823	1,612	13%
Profit before taxation		6,032	5,954	1%
Taxation		(939)	(917)	2%
Profit attributable to shareholders		5,093	5,037	1%

Profit attributable to shareholders increased to \$5,093 million for the year ended 31 December 2011 against \$5,037 million for 2010 mainly due to higher turnover-related income and other income. However, this was offset by an increase in operating expenses and a drop 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 second half of the year.

Income affected by market turnover rose by \$260 million to \$5,284 million in 2011 mainly due to the higher trading fees and trading tariff of the Derivatives Market driven by the record high number of contracts traded, and an increase in clearing and settlement fees.

The drop in net investment income was primarily attributable to a drop in fair value gains of investments of the Corporate Funds and Margin Funds reflecting market movements but was partly offset by an increase in net interest income.

Total operating expenses rose during the year mainly due to higher staff costs and IT and computer maintenance expenses.

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA, which were in alignment with the requirements of International Financial Reporting Standards in all material respects at 31 December 2011.

Revenue and Other Income

(A) Income Affected by Market Turnover

	2011 \$m	2010 \$m	Change
Trading fees and trading tariff	2,936	2,843	3%
Clearing and settlement fees	1,663	1,569	6%
Depository, custody and nominee services fees	685	612	12%
Total	5,284	5,024	5%

Key Market Indicators

	2011	2010	Change
Average daily turnover value on the Stock Exchange (\$bn)	69.7	69.1	1%
Average daily number of derivatives contracts traded on the Futures Exchange	269,525	221,487	22%
Average daily number of stock options contracts traded on the Stock Exchange	302,750	246,474	23%

Trading Fees and Trading Tariff

	2011 \$m	2010 \$m	Change
Trading fees and trading tariff were derived from:			
Securities traded on the Cash Market	2,010	2,030	(1%)
Derivatives contracts traded on the Derivatives Market	926	813	14%
	2,936	2,843	3%

The decrease in trading fees and trading tariff from the Cash Market was mainly due to lower trading fees from new issues on account of less IPO activities and lower funds raised.

The increase in trading fees and trading tariff from the Derivatives Market was mainly driven by the increase in the number of contracts traded. The total number of futures and options contracts traded in 2011 was at a record high.

Clearing and Settlement Fees

Clearing and settlement fees are derived predominantly from Cash Market transactions. Clearing and settlement fees are also affected by the volume of SIs, and despite being mostly ad valorem, they are subject to a minimum and a maximum per transaction and therefore may not always move exactly with the changes in the turnover of the Cash Market. In 2011, the increase in clearing and settlement fees was mainly due to higher turnover of the Cash Market and a higher proportion of the value of exchange-traded transactions subject to the minimum fee.

Depository, Custody and Nominee Services Fees

Depository, custody and nominee services fees mainly comprise scrip fees, corporate action fees, stock custody fees, dividend collection fees, stock withdrawal fees, and eIPO handling fees. Other than the eIPO handling fees, which are affected by the number of eIPO allotments, the other fees are generally influenced by the level of Cash Market activity; however, they do not move proportionately with changes in the turnover of the Cash Market as they vary mostly with the number of board lots rather than the value or turnover of the securities concerned and many are subject to a maximum fee. Moreover, scrip fees are only chargeable on the net increase in individual Participants' aggregate holdings of the securities between book closing dates and thus are usually large on the first book closing date after a new listing. Depository, custody and nominee services fees rose mainly due to an increase in scrip fees on account of the high number of IPOs in 2010 which had their first book close in 2011.

(B) Stock Exchange Listing Fees

	2011 \$m	2010 \$m	Change
Annual listing fees	444	400	11%
Initial and subsequent issue listing fees	500	539	(7%)
Others	5	6	(17%)
Total	949	945	0%

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

Initial and subsequent issue listing fees dropped with the decrease in the number of newly listed DWs, CBBCs and listed companies.

Key Drivers for Annual Listing Fees

	At 31 Dec 2011	At 31 Dec 2010	Change
Number of companies listed on Main Board	1,326	1,244	7%
Number of companies listed on GEM	170	169	1%
Total	1,496	1,413	6%

Key Drivers for Initial and Subsequent Issue Listing Fees

	2011	2010	Change
Number of newly listed DWs	6,917	7,826	(12%)
Number of newly listed CBBCs	5,334	6,541	(18%)
Number of newly listed companies on Main Board	88	106	(17%)
Number of newly listed companies on GEM	13	7	86%
Number of other newly listed securities on Main Board and GEM *	118	119	(1%)
Total number of newly listed securities	12,470	14,599	(15%)

* Figures included preference shares, equity warrants, unit trusts, debt securities and rights issue

	2011 \$bn	2010 \$bn	Change
Total equity funds raised on Main Board			
– IPOs	258.5	448.8	(42%)
– Post-IPO	224.4	396.7	(43%)
Total equity funds raised on GEM			
– IPOs	1.3	0.7	86%
– Post-IPO	6.2	12.5	(50%)
Total	490.4	858.7	(43%)

(C) Market Data Fees

	2011 \$m	2010 \$m	Change
Market data fees	637	670	(5%)

Market data fees decreased as there was a decline in certain fees charged on a per quote basis.

(D) Other Revenue

	2011 \$m	2010 \$m	Change
Network, terminal user, dataline and software sub-license fees	370	345	7%
Participants' subscription and application fees	35	34	3%
Brokerage on direct IPO allotments	23	27	(15%)
Trading booth user fees	15	15	0%
Sales of Trading Rights	20	11	82%
Miscellaneous revenue	24	23	4%
Total	487	455	7%

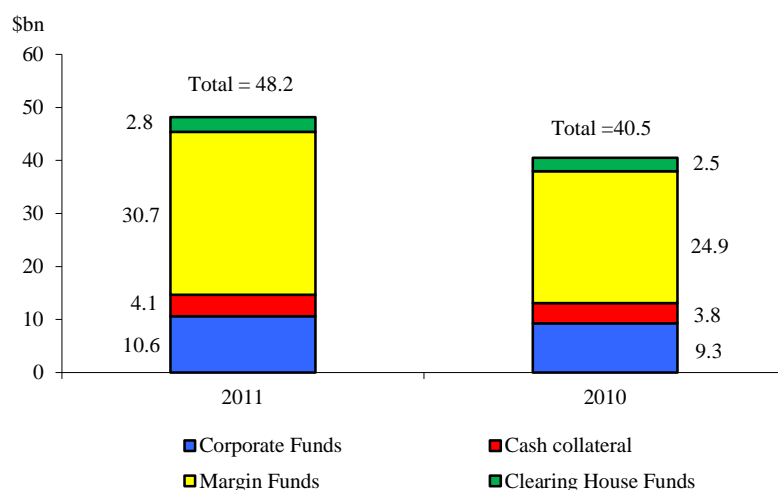
Network, terminal user, dataline and software sub-license fees increased mainly due to an increase in Cash Market trading system line rental income, higher sales of hardware and software, and higher Derivatives Market trading system sub-license fee income.

(E) Net Investment Income

	2011 \$m	2010 \$m	Change
Gross investment income	392	476	(18%)
Interest rebates to Participants	(2)	(4)	(50%)
Net investment income	390	472	(17%)

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

Average amount of funds available for investment

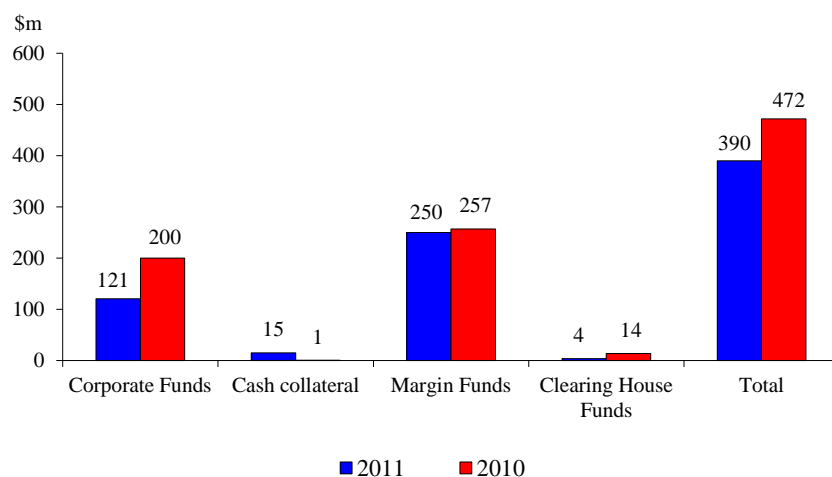


The average amount of Corporate Funds increased mainly due to an increase in profit retained from prior years and the profit generated during the year.

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

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

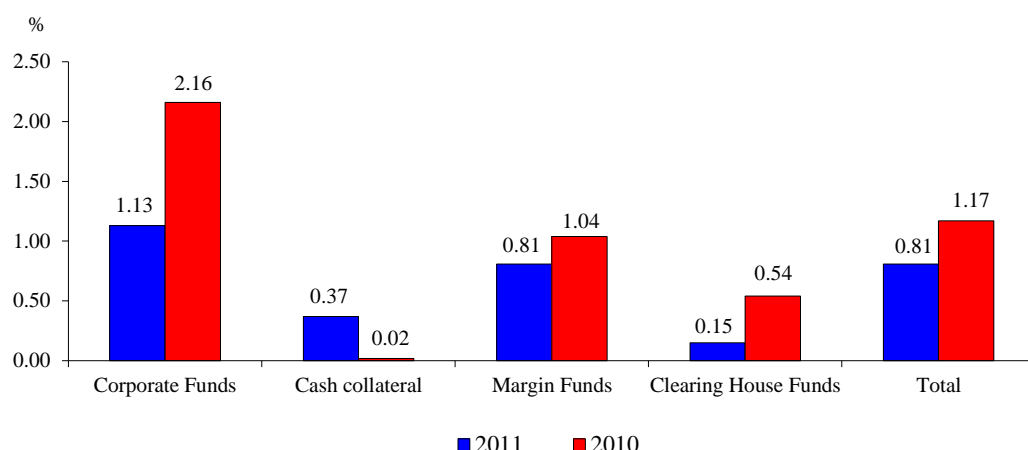
Net investment income by funds



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

The annualised net return by Funds was as follows:

Annualised net return on funds available for investment



Investment income of Corporate Funds decreased mainly due to the drop in net fair value gains of investments, including certain principal-guaranteed structured notes and deposits, during the year, which led to a lower yield in 2011. 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.

The increase in net investment income and return of cash collateral was mainly attributable to the allocation of a portion of the funds to longer-term time deposits for yield enhancement.

The lower net investment income and return of Margin Funds were due to the drop in net fair value gains of investments, offset by higher net interest income on account of the increase in Margin Funds.

Net investment income and return of Clearing House Funds declined mainly due to the fair value losses on certain principal-guaranteed structured notes during the year.

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

(F) Other Income

During 2011, the Group exercised its forfeiture right to appropriate \$108 million (2010: \$Nil) of cash dividends held by HKSCC Nominees Limited (HKSN) which had remained unclaimed for a period of more than 7 years and recognised such dividends as other income.

Operating Expenses

	2011 \$m	2010 \$m	Change
Staff costs and related expenses	1,030	892	15%
IT and computer maintenance expenses	302	265	14%
Premises expenses	217	210	3%
Product marketing and promotion expenses	16	15	7%
Legal and professional fees	35	16	119%
Depreciation	90	107	(16%)
Other operating expenses	133	107	24%
Total	1,823	1,612	13%

Staff costs and related expenses increased by \$138 million mainly as a result of an increase in permanent headcount (from 866 at 31 December 2010 to 940 at 31 December 2011) primarily for various new initiatives under the Strategic Plan 2010-2012, and salary adjustments to keep up with the market trend, a rise in performance bonus due to the increased headcount, and higher employee share-based compensation expenses arising from the shares granted to employees in 2010.

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by the Participants of \$146 million (2010: \$122 million), were \$156 million (2010: \$143 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. The increase in IT and computer maintenance expenses consumed by the Group was mainly for the enhancement of IT security.

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.

The increase in other operating expenses was mainly attributable to fees for new bank credit facilities, costs of placing special advertisements in newspapers to inform investors of scheduled results announcements of listed companies following the attack on the HKExnews website in the third quarter, and an increase in index license fees due to the higher number of derivatives contracts traded.

Taxation

	2011 \$m	2010 \$m	Change
Taxation	939	917	2%

Taxation increased mainly due to higher profit before taxation.

Liquidity, Financial Resources, Gearing and Capital Commitment

Working capital rose by \$1,265 million to \$7,639 million at 31 December 2011 (31 December 2010: \$6,374 million). The increase was due to profit generated during the year of \$5,093 million, a drop in non-current financial assets of \$1,441 million, and the increase in other working capital of \$70 million. The increase was partly offset by the payment of the 2010 final dividend and 2011 interim dividend, net of scrip dividend, of \$2,384 million and \$2,222 million respectively, purchases of shares for the share award scheme of \$80 million, and an increase in fixed assets of \$653 million.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. At 31 December 2011, the Group's total available banking facilities amounted to \$13,010 million (31 December 2010: \$13,010 million), which include \$4,000 million (31 December 2010: \$4,000 million) of committed banking facilities and \$9,000 million (31 December 2010: \$9,000 million) of repurchase facilities.

Borrowings of the Group have been rare and are mostly event driven, with little seasonality. At 31 December 2011 and 31 December 2010, the Group had no bank borrowings and, therefore, maintained a zero gearing.

At 31 December 2011, 98 per cent (31 December 2010: 99 per cent) of the Group's cash and cash equivalents (comprising cash on hand, bank balances and time deposits within 3 months of maturity when acquired) were denominated in HKD or USD.

The Group's capital expenditure commitments at 31 December 2011, including those authorised by the Board but not yet contracted for, amounted to \$1,605 million (31 December 2010: \$2,075 million) and were mainly related to the construction of the new Data Centre with hosting services capability, the development of the NGMDS and the OTC derivatives clearing system. The Group has adequate internal resources to fund its capital expenditure commitments.

Charges on Assets

None of the Group's assets was pledged as at 31 December 2011 and 31 December 2010.

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

Save for those disclosed in this announcement, there were no significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the year. Apart from the construction of the new Data Centre with hosting services capability, the development of the NGMDS and the OTC derivatives clearing system, there is no committed plan for other material investments or additions of capital assets as of the date of this announcement.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

At 31 December 2011, the aggregate net open foreign currency positions amounted to HK\$2,116 million, of which HK\$427 million were non-USD exposures (31 December 2010: HK\$2,401

million, of which HK\$375 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK\$5,180 million (31 December 2010: HK\$3,749 million). All forward foreign exchange contracts would mature within 3 months (31 December 2010: 2 months).

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

Contingent Liabilities

The Group had a contingent liability in respect of potential calls to be made by the SFC to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$71 million (31 December 2010: \$71 million). Up to 31 December 2011, no calls had been made by the SFC in this connection.

The Group had undertaken to indemnify the Collector of Stamp Revenue against any underpayment of stamp duty by its Participants of up to \$200,000 for each Participant. In the unlikely event that all of its 498 trading Participants covered by the indemnity at 31 December 2011 (31 December 2010: 484) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$100 million (31 December 2010: \$97 million).

HKEx had given an undertaking in favour of HKSCC to contribute up to \$50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within 1 year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs of winding up.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	2011 \$m	2010 \$m
Trading fees and trading tariff		2,936	2,843
Stock Exchange listing fees		949	945
Clearing and settlement fees		1,663	1,569
Depository, custody and nominee services fees		685	612
Market data fees		637	670
Other revenue	4	487	455
REVENUE AND TURNOVER		7,357	7,094
Losses on disposal of financial assets measured at amortised cost		-	(4)
Other investment income		392	480
Interest rebates to Participants		(2)	(4)
Net investment income	5	390	472
Other income	6	108	-
	3	7,855	7,566
OPERATING EXPENSES			
Staff costs and related expenses		1,030	892
Information technology and computer maintenance expenses		302	265
Premises expenses		217	210
Product marketing and promotion expenses		16	15
Legal and professional fees		35	16
Depreciation		90	107
Other operating expenses	7	133	107
	3	1,823	1,612
PROFIT BEFORE TAXATION	3	6,032	5,954
TAXATION	8	(939)	(917)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		5,093	5,037
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		5,093	5,037
DIVIDENDS	9	4,579	4,520
Earnings per share			
Basic	10(a)	\$4.73	\$4.68
Diluted	10(b)	\$4.72	\$4.67

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2011**

	Note	At 31 Dec 2011			At 31 Dec 2010		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS							
Cash and cash equivalents	11	18,221	-	18,221	19,361	-	19,361
Financial assets measured at fair value through profit or loss	11	11,169	180	11,349	9,949	1,241	11,190
Financial assets measured at amortised cost	11	15,848	403	16,251	7,021	783	7,804
Accounts receivable, prepayments and deposits	11, 12	7,210	23	7,233	9,203	3	9,206
Fixed assets		-	948	948	-	295	295
Lease premium for land		-	25	25	-	25	25
Deferred tax assets		-	1	1	-	3	3
Total assets		52,448	1,580	54,028	45,534	2,350	47,884
LIABILITIES AND EQUITY							
Liabilities							
Margin deposits from Clearing Participants on derivatives contracts	11	31,359	-	31,359	22,702	-	22,702
Cash collateral from HKSCC Clearing Participants	11	3,233	-	3,233	3,594	-	3,594
Accounts payable, accruals and other liabilities	13	8,456	-	8,456	9,946	-	9,946
Deferred revenue		524	-	524	473	-	473
Taxation payable		262	-	262	320	-	320
Other financial liabilities		60	-	60	58	-	58
Participants' contributions to Clearing House Funds	11	880	-	880	2,039	-	2,039
Provisions		35	27	62	28	29	57
Deferred tax liabilities		-	33	33	-	18	18
Total liabilities		44,809	60	44,869	39,160	47	39,207
Equity							
Share capital				1,080			1,078
Share premium				639			416
Shares held for Share Award Scheme				(296)			(219)
Employee share-based compensation reserve				106			56
Designated reserves				577			580
Retained earnings	14			7,053			6,766
Shareholders' funds				9,159			8,677
Total liabilities and equity				54,028			47,884
Net current assets				7,639			6,374
Total assets less current liabilities				9,219			8,724

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**1. Basis of Preparation and Accounting Policies**

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

The Group has not adopted any new/revised HKFRSs during the year ended 31 December 2011.

2. Turnover

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

3. Operating Segments

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

The Group has 4 reportable segments which are managed separately as each business offers different products and services and requires different IT systems and marketing strategies. The operations of the Group's reportable segments are as follows:

The **Cash Market** business mainly refers to the operations of the Stock Exchange, which covers all products traded on the Cash Market platforms, such as equities, CBBCs and DWs. Currently, the Group operates 2 Cash Market platforms, the Main Board and GEM. The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market.

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

The **Clearing Business** refers to the operations of the 3 clearing houses, namely HKSCC, SEIOCH and HKCC, which are responsible for clearing, settlement and custodian activities of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from providing clearing, settlement, depository, custody and nominee services and net investment income earned on the Clearing House Funds.

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

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

	2011				
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Group \$m
Income from external customers	3,344	855	2,519	639	7,357
Net investment income	52	272	65	1	390
Other income	-	-	108	-	108
	3,396	1,127	2,692	640	7,855
Operating expenses					
Direct costs	665	174	350	73	1,262
Indirect costs	271	78	174	38	561
	936	252	524	111	1,823
Reportable segment profit before taxation	2,460	875	2,168	529	6,032
Interest income	21	217	40	-	278
Interest rebates to Participants	-	(2)	-	-	(2)
Depreciation	(35)	(14)	(38)	(3)	(90)
Other material non-cash items:					
Forfeiture of unclaimed cash dividends held by HKSX	-	-	108	-	108
Employee share-based compensation expenses	(34)	(7)	(15)	(5)	(61)
Provision for impairment losses	(1)	-	-	(1)	(2)
Additions to non-current assets other than financial assets and deferred tax assets	383	90	226	64	763
	2010				
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Group \$m
Income from external customers	3,345	752	2,324	673	7,094
Net investment income	103	293	75	1	472
	3,448	1,045	2,399	674	7,566
Operating expenses					
Direct costs	629	162	319	61	1,171
Indirect costs	220	59	131	31	441
	849	221	450	92	1,612
Reportable segment profit before taxation	2,599	824	1,949	582	5,954
Interest income	19	102	16	-	137
Interest rebates to Participants	-	(2)	(2)	-	(4)
Depreciation	(49)	(17)	(38)	(3)	(107)
Other material non-cash items:					
Employee share-based compensation expenses	(20)	(4)	(9)	(3)	(36)
Reversal of provision for impairment losses	-	-	4	-	4
Additions to non-current assets other than financial assets and deferred tax assets	53	21	40	11	125

- (a) The accounting policies of the reportable segments are the same as the Group's accounting policies. Central income (mainly net investment income of the Corporate Funds) and central costs (mainly costs of support functions that centrally provide services to all of the operating segments) are allocated to the operating segments as they are included in the measure of the segments' profit before taxation for the purpose of assessing segment performance. Taxation charge/(credit) is not allocated to reportable segments.

- (b) Geographical information

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

	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
Hong Kong	994	322
China	2	1
	996	323

- (c) Information about major customers

In 2011 and 2010, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's total revenue.

4. Other Revenue

	2011 \$m	2010 \$m
Network, terminal user, dataline and software sub-license fees	370	345
Participants' subscription and application fees	35	34
Brokerage on direct IPO allotments	23	27
Trading booth user fees	15	15
Sales of Trading Rights	20	11
Miscellaneous revenue	24	23
	487	455

5. Net Investment Income

	2011 \$m	2010 \$m
Interest income from financial assets measured at amortised cost		
- bank deposits	261	115
- listed securities	5	4
- unlisted securities	12	18
Gross interest income	278	137
Interest rebates to Participants	(2)	(4)
Net interest income	276	133
Net fair value gains including interest income on financial assets mandatorily measured at fair value through profit or loss		
- listed securities	41	90
- unlisted securities	83	223
- bank deposits with embedded derivatives	-	15
- exchange differences	115	123
	239	451
Net fair value losses on financial liabilities at fair value through profit or loss, held for trading		
- listed securities	-	(6)
- exchange differences	(137)	(108)
	(137)	(114)
Losses on disposal of unlisted financial assets measured at amortised cost	-	(4)
Others	12	6
Net investment income	390	472

6. Other Income

During the year ended 31 December 2011, in accordance with CCASS Rule 1109, the Group exercised its forfeiture right to appropriate cash dividends held by HKSX which had remained unclaimed for a period of more than 7 years and recognised such dividends as other income. The Group has, however, undertaken to honour all claims if adequate proof of entitlement is provided by the beneficial owner claiming the dividends forfeited.

7. Other Operating Expenses

	2011 \$m	2010 \$m
Insurance	4	4
Financial data subscription fees	6	6
Custodian and fund management fees	13	11
Bank charges	19	15
Repair and maintenance expenses	10	11
License fees	19	16
Communication expenses	6	6
Overseas travel expenses	10	7
Contribution to Financial Reporting Council	4	4
Other miscellaneous expenses	42	27
	133	107

8. Taxation

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

	2011	2010
	\$m	\$m
Provision for Hong Kong Profits Tax at 16.5 per cent (2010: 16.5 per cent)	922	918
Overprovision in respect of prior years	-	(2)
	922	916
Deferred taxation	17	1
	939	917

9. Dividends

	2011	2010
	\$m	\$m
Interim dividend paid:		
\$2.16 (2010: \$1.89) per share	2,331	2,037
Less: Dividend for shares held by Share Award Scheme (note (a))	(4)	(3)
	2,327	2,034
Final dividend proposed (notes (b) and (c)):		
\$2.09 (2010: \$2.31) per share based on issued share capital at 31 Dec	2,257	2,490
Less: Dividend for shares held by Share Award Scheme at 31 Dec (note (a))	(5)	(4)
	2,252	2,486
	4,579	4,520

- (a) The results and net assets of The HKEx Employees' Share Award Scheme are included in HKEx's financial statements. Therefore, dividends for shares held by The HKEx Employees' Share Award Scheme were deducted from the total dividends.
- (b) Actual 2010 final dividend paid was \$2,487 million (after eliminating \$4 million paid for shares held by the Share Award Scheme), of which \$1 million was paid for shares issued for employee share options exercised after 31 December 2010.
- (c) The final dividend proposed after 31 December was not recognised as a liability at 31 December.
- (d) The 2011 final dividend will be payable in cash with a scrip dividend alternative subject to the permission of SFC of the listing of and permission to deal in the new shares to be issued.

10. Earnings Per Share

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

(a) Basic earnings per share

	2011	2010
Profit attributable to shareholders (\$m)	5,093	5,037
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,077,202	1,076,404
Basic earnings per share (\$)	4.73	4.68

(b) Diluted earnings per share

	2011	2010
Profit attributable to shareholders (\$m)	5,093	5,037
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,077,202	1,076,404
Effect of employee share options (in '000)	1,035	1,743
Effect of Awarded Shares (in '000)	1,383	916
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,079,620	1,079,063
Diluted earnings per share (\$)	4.72	4.67

11. Financial Assets

As part of its day to day operations, the Group receives margin deposits from CPs on derivatives contracts, cash collateral from HKSCC CPs, and Participants' contributions to Clearing House Funds. The Group classifies the corresponding assets into the following funds:

Margin Funds – the margin deposits are established by cash received or receivable from SEOCH and HKCC CPs to cover their open positions in derivatives contracts. These funds are held for segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities.

Cash collateral – cash collateral is received from HKSCC CPs to cover their open positions. These funds are refundable to the Participants when they settle their positions.

Clearing House Funds – The Clearing House Funds are established under the Clearing House Rules. Assets contributed by the CPs and the Group are held by the respective clearing houses (ie, HKSCC, HKCC and SEOCH) (together with the accumulated income less related expenses) expressly for the purpose of ensuring that the respective clearing houses are able to fulfil their counterparty obligations in the event that one or more of the CPs fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting CPs arising from depositing defective securities into CCASS. These funds are held for segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities.

Financial assets belonging to the Group for its own corporate use are classified as Corporate Funds.

The Margin Funds, cash collateral, Clearing House Funds and Corporate Funds are invested into cash and cash equivalents, financial assets measured at fair value through profit or loss and financial assets measured at amortised cost, details of which are as follows:

	At 31 Dec 2011 \$m	At 31 Dec 2010 \$m
<u>Clearing House Funds</u>		
Cash and cash equivalents	835	2,155
Financial assets measured at fair value through profit or loss	284	359
Financial assets measured at amortised cost	367	130
	1,486	2,644
<u>Margin Funds</u>		
Cash and cash equivalents	12,719	12,418
Financial assets measured at fair value through profit or loss	6,265	5,954
Financial assets measured at amortised cost	12,368	4,323
Accounts receivable, prepayments and deposits	7	7
	31,359	22,702
<u>Cash collateral</u>		
Cash and cash equivalents	2,327	2,843
Financial assets measured at amortised cost	906	751
	3,233	3,594
<u>Corporate Funds</u>		
Cash and cash equivalents	2,340	1,945
Financial assets measured at fair value through profit or loss	4,800	4,877
Financial assets measured at amortised cost	2,610	2,600
	9,750	9,422
	45,828	38,362

12. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's CNS money obligations under T+2 settlement, which accounted for 90 per cent (31 December 2010: 90 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within 2 days after the trade date. Fees receivable are due immediately or up to 60 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits were due within 3 months.

13. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's CNS money obligations payable under T+2 settlement cycle, which accounted for 77 per cent (31 December 2010: 83 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations payable mature within 2 days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within 3 months.

14. Retained Earnings (Including Proposed Dividend)

	2011	2010
	\$m	\$m
At 1 Jan	6,766	6,021
Profit attributable to shareholders	5,093	5,037
Transfer from/(to) Clearing House Funds reserves	3	(17)
Dividends:		
2010/2009 final dividend	(2,487)	(2,251)
2011/2010 interim dividend	(2,327)	(2,034)
Unclaimed HKEx dividends forfeited	6	16
Vesting of shares of Share Award Scheme	(1)	(6)
At 31 Dec	7,053	6,766
Representing:		
Retained earnings	4,801	4,280
Proposed dividend	2,252	2,486
At 31 Dec	7,053	6,766

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS (PwC) HONG KONG

The financial figures in this announcement have been agreed by the Group's external auditor, PwC Hong Kong, to the amounts set out in the Group's draft consolidated financial statements for the year ended 31 December 2011. The work performed by PwC Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and consequently no assurance has been expressed by PwC Hong Kong on this announcement.

REVIEW OF 2011 CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee (AC) reviewed the 2011 consolidated financial statements in conjunction with HKEX's external and internal auditors. Based on this review and discussions with management, the AC was satisfied that the consolidated financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2011.

DISTRIBUTABLE RESERVES

HKEX's distributable reserves as at 31 December 2011, calculated under Section 79B of the Companies Ordinance and with reference to the "Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance" issued by the HKICPA, amounted to \$6.4 billion (31 December 2010: \$1.2 billion).

FINAL DIVIDEND

The Board recommends the payment of a final dividend of \$2.09 per share (2010: \$2.31 per share) to Shareholders whose names appear on the ROM on 30 April 2012, and the retention of the remaining profit for the year. The proposed final dividend together with the interim dividend payment amounts to a total of about \$4.6 billion (2010: \$4.5 billion), which represents a payout ratio of 90 per cent (2010: 90 per cent) and includes dividends of about \$9 million (2010: \$7 million) for shares held in trust under the Share Award Scheme. The Board also proposed to offer a scrip dividend alternative to allow Shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares instead of in cash.

SCRIP DIVIDEND ALTERNATIVE

Subject to Shareholders' approval of the proposed final dividend and a general mandate to issue shares at the 2012 AGM, the final dividend will be payable in cash with a scrip dividend alternative to Shareholders whose names appear on the ROM on Monday, 30 April 2012. The scrip dividend alternative is also conditional upon the SFC's granting the listing of, and permission to deal in, the new shares of HKEX to be issued pursuant thereto.

A circular containing details of the scrip dividend alternative, where available, together with an election form will be despatched to Shareholders on or about Monday, 7 May 2012. Definitive share certificates in respect of the scrip dividend and dividend warrants will be despatched to Shareholders on or about Tuesday, 29 May 2012.

CLOSURE OF ROM

For the purposes of determining Shareholders' eligibility to attend and vote at the 2012 AGM, and entitlement to the final dividend, the ROM will be closed. Details of such closures are set out below:

- (i) For determining eligibility to attend and vote at the 2012 AGM:
- | | |
|--|--|
| Latest time to lodge transfer documents for registration | 4:30 pm on Wednesday, 18 April 2012 |
| Closure of ROM | Thursday, 19 April 2012 to
Monday, 23 April 2012 (both dates inclusive) |
| Record date | Monday, 23 April 2012 |
- (ii) For determining entitlement to the final dividend:
- | | |
|--|--|
| Latest time to lodge transfer documents for registration | 4:30 pm on Thursday, 26 April 2012 |
| Closure of ROM | Friday, 27 April 2012 to
Monday, 30 April 2012 (both dates inclusive) |
| Record date | Monday, 30 April 2012 |

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2012 AGM, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with HKEx's registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The 2012 AGM will be held on Monday, 23 April 2012. The Notice of the 2012 AGM, which constitutes part of the circular to Shareholders, will be sent together with the 2011 Annual Report. The Notice of the 2012 AGM and the proxy form will also be available on the HKEx website.

APPOINTMENT AND ELECTION OF DIRECTORS

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

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

CORPORATE GOVERNANCE

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

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

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

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

CORPORATE SOCIAL RESPONSIBILITY

A full report on HKEx's CSR performance in 2011 is set out in the 2011 CSR Report which will be available on the HKEx website on or about 15 March 2012. HKEx is committed to operating in an economically, socially and environmentally sustainable manner with effective corporate governance and stakeholder engagement as the overarching principles.

As at 31 December 2011, the Group had 940 permanent employees (2010: 866) and 57 temporary employees (2010: 17). HKEx's remuneration policy is to offer equitable and market-competitive remuneration packages that support the performance culture and enable the achievement of strategic business goals. A performance development process is in place to help employees set performance objectives, focus on performance improvement, and identify training and development opportunities. Information about employees' training is set out in the 2011 CSR Report.

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

PURCHASE, SALE OR REDEMPTION OF HKEX'S LISTED SECURITIES

In 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 627,700 HKEx shares at a total consideration of \$80 million.

PUBLICATION OF 2011 FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the HKExnews website at www.hkexnews.hk and the HKEx website at www.hkex.com.hk/eng/exchange/invest/results/2012Results.htm. The 2011 Annual Report will be available on the HKExnews and HKEx websites, and despatched to Shareholders on or about Thursday, 15 March 2012.

BOARD OF DIRECTORS

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

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

Hong Kong, 29 February 2012

Glossary

2011 AGM	Annual general meeting held on 20 April 2011 at 4:30 pm at the Exchange Auditorium in the Exchange Exhibition Hall of SEHK
2012 AGM	Annual general meeting to be held on 23 April 2012
AGM	HKEx's annual general meeting
AMS/3	The Automatic Order Matching and Execution System/Third Generation
Awarded Shares	Shares awarded under the Share Award Scheme
BMP Service	Basic Market Prices Service
Board	HKEx's board of directors
BRICS	Refers to Brazil, Russia, India, China and South Africa, in connection with the BRICS Exchanges Alliance
Cash Market	HKEx's securities related business excluding stock options
CBBC(s)	Callable Bull/Bear Contract(s)
CCASS	The Central Clearing and Settlement System
CG Code	Code on Corporate Governance Practices
CNS	Continuous Net Settlement
CPs	Clearing Participants
CSR	Corporate Social Responsibility
DCASS	The Derivatives Clearing and Settlement System
Derivatives Market	HKEx's derivatives related business including stock options
DI	Disclosure of Interests
Director(s)	HKEx's director(s)
DTDC model	Dual Tranche Dual Counter model
DW(s)	Derivative Warrant(s)
eIPO	Electronic IPO
Elected Director(s)	Director(s) elected by the Shareholders at general meetings
ELIs	Equity Linked Instruments
EP(s) or Participant(s)	Exchange Participant(s)
ESG	Environmental, Social and Governance
ETF(s)	Exchange Traded Fund(s)
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of the HKSAR
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GEM	The Growth Enterprise Market
Government	HKSAR Government
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
HKEx's Articles	HKEx's Articles of Association
HKFRSs	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
HKMA	Hong Kong Monetary Authority
HKSAR	Hong Kong Special Administrative Region of the People's Republic of China
HKSCC	Hong Kong Securities Clearing Company Limited
HKTDC	Hong Kong Trade Development Council
H-shares Index or HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index

INEDs	Independent Non-executive Directors
IPs	Investor Participants
IPO(s)	Initial Public Offering(s)
ISIs	Investor SIs
IT	Information Technology
IVs	Information Vendors
Listing Committees	Listing Committee and GEM Listing Committee
Listing Rule(s) or Rule(s)	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDF	The Market Datafeed
MDS	The Market Data System
MOU(s)	Memorandum(s) of Understanding
NGMDS	Next Generation Market Data System
OTC	Over-the-counter
PRS	The Price Reporting System
REIT(s)	Real Estate Investment Trust(s)
RMB	Renminbi
ROM	HKEx's Register of Members
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
SIs	Settlement Instructions
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
SPRINTS	Structured Products Integrated Transaction System
UK	United Kingdom
US	United States of America
USD	United States dollar
VHSI	HSI Volatility Index
WFE	World Federation of Exchanges
\$/HKD	Hong Kong dollar
\$bn/bn	Hong Kong dollar in billion/billion
\$m/m	Hong Kong dollar in million/million
\$tn	Hong Kong dollar in trillion