(Stock Code: 388)

Consolidated Financial Statements

For the year ended 31 December 2011

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

(Financial figures are expressed in Hong Kong Dollar)

	Note	**2011** **$m**	2010 $m
Trading fees and trading tariff	5	**2,936**	2,843
Stock Exchange listing fees	6	**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	7	**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	8	**390**	472
Other income	9	**108**	-
	4	**7,855**	7,566
OPERATING EXPENSES			
Staff costs and related expenses	10	**1,030**	892
Information technology and computer maintenance expenses	11	**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	12	**133**	107
	4	**1,823**	1,612
PROFIT BEFORE TAXATION	4/13	**6,032**	5,954
TAXATION	16(a)	**(939)**	(917)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	39	**5,093**	5,037
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		**5,093**	5,037
DIVIDENDS	17	**4,579**	4,520
Earnings per share			
Basic	18(a)	**$4.73**	$4.68
Diluted	18(b)	**$4.72**	$4.67

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2011

(Financial figures are expressed in Hong Kong Dollar)

		At 31 Dec 2011			At 31 Dec 2010		
		Current	**Non-current**	**Total**	Current	Non-current	Total
	Note	**$m**	**$m**	**$m**	$m	$m	$m
ASSETS							
Cash and cash equivalents	19, 20	**18,221**	**-**	**18,221**	19,361	-	19,361
Financial assets measured at fair value through profit or loss	19, 21	**11,169**	**180**	**11,349**	9,949	1,241	11,190
Financial assets measured at amortised cost	19, 22(a)	**15,848**	**403**	**16,251**	7,021	783	7,804
Accounts receivable, prepayments and deposits	24	**7,210**	**23**	**7,233**	9,203	3	9,206
Fixed assets	25(a)	**-**	**948**	**948**	-	295	295
Lease premium for land	26	**-**	**25**	**25**	-	25	25
Deferred tax assets	33(d)	**-**	**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	19, 27	**31,359**	**-**	**31,359**	22,702	-	22,702
Cash collateral from HKSCC Clearing Participants	19, 28	**3,233**	**-**	**3,233**	3,594	-	3,594
Accounts payable, accruals and other liabilities	29	**8,456**	**-**	**8,456**	9,946	-	9,946
Deferred revenue		**524**	**-**	**524**	473	-	473
Taxation payable		**262**	**-**	**262**	320	-	320
Other financial liabilities	30	**60**	**-**	**60**	58	-	58
Participants' contributions to Clearing House Funds	19, 31	**880**	**-**	**880**	2,039	-	2,039
Provisions	32(a)	**35**	**27**	**62**	28	29	57
Deferred tax liabilities	33(d)	**-**	**33**	**33**	-	18	18
Total liabilities		**44,809**	**60**	**44,869**	39,160	47	39,207
Equity							
Share capital	35			**1,080**			1,078
Share premium	35			**639**			416
Shares held for Share Award Scheme	35			**(296)**			(219)
Employee share-based compensation reserve	36			**106**			56
Designated reserves	31, 37			**577**			580
Retained earnings	39			**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

Approved by the Board of Directors on 29 February 2012

Ronald Joseph ARCULLI
Director

LI Xiaojia, Charles
Director

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2011

(Financial figures are expressed in Hong Kong Dollar)

		At 31 Dec 2011			At 31 Dec 2010		
		Current	**Non-current**	**Total**	Current	Non-current	Total
	Note	**$m**	**$m**	**$m**	$m	$m	$m
ASSETS							
Cash and cash equivalents	19, 20	**607**	**-**	**607**	45	-	45
Financial assets measured at amortised cost	19, 22(b)	**1,480**	**7**	**1,487**	84	15	99
Accounts receivable, prepayments and deposits	24	**21**	**5**	**26**	15	3	18
Amounts due from subsidiaries	34(b)	**5,123**	**-**	**5,123**	3,684	-	3,684
Fixed assets	25(b)	**-**	**55**	**55**	-	29	29
Investments in subsidiaries	34(a)	**-**	**1,854**	**1,854**	-	4,157	4,157
Deferred tax assets	33(d)	**-**	**1**	**1**	-	2	2
Total assets		**7,231**	**1,922**	**9,153**	3,828	4,206	8,034
LIABILITIES AND EQUITY							
Liabilities							
Accounts payable, accruals and other liabilities	29	**244**	**-**	**244**	201	-	201
Amounts due to subsidiaries	34(b)	**39**	**-**	**39**	2,030	-	2,030
Taxation payable		**21**	**-**	**21**	19	-	19
Other financial liabilities	30	**11**	**-**	**11**	11	-	11
Provisions	32(b)	**33**	**1**	**34**	28	1	29
Total liabilities		**348**	**1**	**349**	2,289	1	2,290
Equity							
Share capital	35			**1,080**			1,078
Share premium	35			**639**			416
Shares held for Share Award Scheme	35			**(296)**			(219)
Employee share-based compensation reserve	36			**106**			56
Merger reserve	38			**694**			2,997
Retained earnings	39			**6,581**			1,416
Shareholders' funds				**8,804**			5,744
Total liabilities and equity				**9,153**			8,034
Net current assets				**6,883**			1,539
Total assets less current liabilities				**8,805**			5,745

Approved by the Board of Directors on 29 February 2012

Ronald Joseph ARCULLI
Director

LI Xiaojia, Charles
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

(Financial figures are expressed in Hong Kong Dollar)

	Share capital, share premium and shares held for Share Award Scheme (note 35) $m	Employee share-based compensation reserve (note 36) $m	Designated reserves (note 37) $m	Retained earnings (note 39) $m	Total equity $m
At 1 Jan 2010	1,400	43	563	6,021	8,027
Profit attributable to shareholders	-	-	-	5,037	5,037
2009 final dividend at $2.09 per share	-	-	-	(2,251)	(2,251)
2010 interim dividend at $1.89 per share	-	-	-	(2,034)	(2,034)
Unclaimed HKEx dividends forfeited	-	-	-	16	16
Shares issued upon exercise of employee share options	34	-	-	-	34
Shares purchased for Share Award Scheme	(188)	-	-	-	(188)
Vesting of shares of Share Award Scheme	21	(15)	-	(6)	-
Employee share-based compensation benefits	-	36	-	-	36
Transfer of reserves	8	(8)	17	(17)	-
At 31 Dec 2010	1,275	56	580	6,766	8,677
At 1 Jan 2011	**1,275**	**56**	**580**	**6,766**	**8,677**
Profit attributable to shareholders	**-**	**-**	**-**	**5,093**	**5,093**
2010 final dividend at $2.31 per share	**-**	**-**	**-**	**(2,487)**	**(2,487)**
2011 interim dividend at $2.16 per share	**-**	**-**	**-**	**(2,327)**	**(2,327)**
Unclaimed HKEx dividends forfeited	**-**	**-**	**-**	**6**	**6**
Shares issued upon exercise of employee share options	**8**	**-**	**-**	**-**	**8**
Shares issued in lieu of cash dividends	**208**	**-**	**-**	**-**	**208**
Shares purchased for Share Award Scheme	**(80)**	**-**	**-**	**-**	**(80)**
Vesting of shares of Share Award Scheme	**10**	**(9)**	**-**	**(1)**	**-**
Employee share-based compensation benefits	**-**	**61**	**-**	**-**	**61**
Transfer of reserves	**2**	**(2)**	**(3)**	**3**	**-**
At 31 Dec 2011	**1,423**	**106**	**577**	**7,053**	**9,159**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

(Financial figures are expressed in Hong Kong Dollar)

	Note	**2011** **$m**	2010 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	40	**5,273**	4,986
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		**(456)**	(80)
Net proceeds from sales of fixed assets		**-**	1
Payments for acquisition of lease premium for land		**-**	(26)
Net (increase)/decrease in financial assets of Corporate Funds:			
Increase in time deposits with original maturities more than three months		**(253)**	(928)
Payments for purchases of financial assets measured at amortised cost (excluding time deposits)		**(1,169)**	(387)
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding time deposits)		**1,411**	726
Payments for purchases of financial assets measured at fair value through profit or loss		**-**	(53)
Net proceeds from sales or maturity of financial assets measured at fair value through profit or loss		**88**	575
Interest received from financial assets measured at amortised cost (excluding time deposits)		**19**	25
Interest received from financial assets measured at fair value through profit or loss		**160**	199
Net cash (outflow)/inflow from investing activities		**(200)**	52
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of employee share options		**8**	34
Purchases of shares for Share Award Scheme		**(80)**	(188)
Dividends paid		**(4,606)**	(4,258)
Net cash outflow from financing activities		**(4,678)**	(4,412)
Net increase in cash and cash equivalents		**395**	626
Cash and cash equivalents at 1 Jan		**1,945**	1,319
Cash and cash equivalents at 31 Dec	20	**2,340**	1,945
Analysis of cash and cash equivalents			
Cash at bank and in hand		**1,291**	1,402
Time deposits with original maturities within three months		**1,049**	543
Cash and cash equivalents at 31 Dec	20	**2,340**	1,945

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Financial figures are expressed in Hong Kong Dollar)

1. General Information

Hong Kong Exchanges and Clearing Limited (HKEx) and its subsidiaries (collectively, the Group) own and operate the only stock exchange and futures exchange in Hong Kong and their related clearing houses.

HKEx is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is 12th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

These consolidated financial statements were approved for issue by the Board of Directors (Board) on 29 February 2012.

2. Principal Accounting Policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs), which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong, requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board Listing Rules).

(b) Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities measured at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The areas involving higher degree of judgement, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

<u>Adoption of new/revised HKFRSs</u>

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

<u>New/revised HKFRSs issued in 2011 but not yet effective</u>

The Group has not applied the following new/revised HKFRSs which were issued in 2011 and pertinent to its operations but not yet effective:

Amendments to HKAS 1 (Revised)	Presentation of Financial Statements[1, *]
HKAS 19 (2011)	Employee Benefits[2, *]
HKAS 27 (2011)	Separate Financial Statements[2, *]
Amendments to HKAS 32	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 10	Consolidated Financial Statements[2, *]
HKFRS 12	Disclosure of Interests in Other Entities[2, *]
HKFRS 13	Fair Value Measurement[2, *]

[1] Effective for accounting periods beginning on or after 1 July 2012
[2] Effective for accounting periods beginning on or after 1 January 2013
[3] Effective for accounting periods beginning on or after 1 January 2014

[*] The Group is planning to adopt these HKFRSs from 1 January 2012 onwards. The adoption of the amended HKAS 1 (Revised), HKAS 19 (2011), HKAS 27 (2011) and HKFRS 10 will not have any impact to the Group as the changes do not affect the Group and the adoption of HKFRS 12 and HKFRS 13 will only affect certain disclosures in the Group's financial statements.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

New/revised HKFRSs issued in 2011 but not yet effective (continued)

The adoption of the amendments to HKAS 32 is not expected to have a material impact to the Group but the amendments to HKFRS 7 may affect certain disclosures in the Group's financial statements.

(c) Consolidation

The consolidated financial statements include the financial statements of HKEx and all of its subsidiaries made up to 31 December.

Subsidiaries are entities over which HKEx, directly or indirectly, has the power to govern the financial and operating policies generally accompanying a holding of more than one half of the voting rights or issued share capital.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date that control ceases. All material intra-group transactions, unrealised gains and losses and balances have been eliminated on consolidation.

In HKEx's statement of financial position, investments in subsidiaries are stated at cost less provision for any impairment, if necessary. The results of subsidiaries are accounted for by HKEx on the basis of dividends received and receivable.

(d) Controlled special purpose entity

HKEx controls a special purpose entity, The HKEx Employees' Share Award Scheme (HKEx Employee Share Trust), which is set up solely for the purpose of purchasing, administering and holding HKEx shares for an employees' share award scheme (Share Award Scheme). As HKEx has the power to govern the financial and operating policies of the HKEx Employee Share Trust and it can derive benefits from the services of employees who have been awarded the share awards under the Share Award Scheme (Awarded Shares) through their continued employment with the Group, the assets and liabilities of HKEx Employee Share Trust are included in HKEx's statement of financial position and the HKEx shares held by the HKEx Employee Share Trust are presented as a deduction in equity as Shares held for Share Award Scheme.

(e) Revenue and other income recognition

Turnover consists of revenues from principal activities and is the same as Revenue in the consolidated statement of comprehensive income. Revenue and other income are recognised in the consolidated statement of comprehensive income on the following basis:

(i) Trading fees and trading tariff are recognised on a trade date basis.

(ii) Initial listing fees for initial public offering (IPO) are recognised upon the listing of an applicant, cancellation of the application or six months after submission of the application, whichever is earlier. Initial listing fees for warrants, callable bull/bear contracts (CBBCs) and other securities are recognised upon the listing of the securities. Income from annual listing fees is recognised on a straight-line basis over the period covered by the respective fees received in advance.

(iii) Fees for clearing and settlement of trades between Participants in eligible securities transacted on The Stock Exchange of Hong Kong Limited (Stock Exchange) are recognised in full on T+1, ie, on the day following the trade day, upon acceptance of the trades. Fees for other settlement transactions are recognised upon completion of the settlement.

2. Principal Accounting Policies (continued)

(e) Revenue and other income recognition (continued)

(iv) Custody fees for securities held in the Central Clearing and Settlement System (CCASS) depository are calculated and accrued on a monthly basis. Income on registration and transfer fees on nominee services are calculated and accrued on the book close dates of the relevant stocks during the financial year.

(v) Market data fees and other fees are recognised when the related services are rendered.

(vi) Interest income on investments represents gross interest income from bank deposits and securities and is recognised on a time apportionment basis using the effective interest method.

Interest income on impaired loans is recognised using the original effective interest rate.

(vii) Cash dividends held by HKSCC Nominees Limited (HKSN) which have remained unclaimed for a period of more than seven years are forfeited and recognised as other income.

(f) Net investment income

Net investment income comprises interest income (net of interest rebates to Participants), net fair value gains/losses on financial assets and financial liabilities and dividend income, which is presented on the face of the consolidated statement of comprehensive income.

(g) Interest expenses and interest rebates to Participants

Interest expenses and interest rebates to Participants are recognised on a time apportionment basis, taking into account the principal outstanding and the applicable interest rates using the effective interest method. All interest expenses and interest rebates to Participants are charged to profit or loss in the year in which they are incurred.

(h) Employee benefit costs

(i) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount the Group expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

(ii) Equity compensation benefits

For share options granted under the Post-Listing Share Option Scheme (Post-Listing Scheme) and Awarded Shares granted under the Share Award Scheme, the estimated fair value of the options and Awarded Shares (for shares awarded from forfeited or unallocated shares held by the Share Award Scheme) granted and the cost of Awarded Shares (for shares purchased from the market) are recognised as employee share-based compensation expense and credited to an employee share-based compensation reserve under equity over the vesting periods (note 36(b)(i) and note 36(c)(i)).

At the end of each reporting period, the Group revises its estimates of the number of options and Awarded Shares that are expected to ultimately vest. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to employee share-based compensation expense in the current year, with a corresponding adjustment to the employee share-based compensation reserve.

2. Principal Accounting Policies (continued)

(h) Employee benefit costs (continued)

(iii) Retirement benefit costs

Contributions to the defined contribution provident fund regulated under the Occupational Retirement Schemes Ordinance (ORSO) and operated by the Group and the AIA-JF Premium MPF Scheme are expensed as incurred. Forfeited contributions of the provident fund for employees who leave before the contributions are fully vested are not used to offset existing contributions but are credited to a reserve account of that provident fund, and are available for distribution to the provident fund members at the discretion of the trustees. Assets of the provident fund and the AIA-JF Premium MPF Scheme are held separately from those of the Group and are independently administered.

(i) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals under such operating leases net of any incentives received from the leasing company are charged to profit or loss on a straight-line basis over the lease term.

(j) Finance leases

Leases where substantially all the rewards and risks of ownership are transferred to the Group are accounted for as finance leases. Government land leases in Hong Kong are classified as finance leases as the present value of the minimum lease payments (ie, transaction price) of the land amounted to substantially all of the fair value of the land as if it were freehold. Finance leases are capitalised at the commencement of the leases at the lower of the fair values of the leased assets and the present values of the minimum lease payments.

(k) Fixed assets

Tangible fixed assets (including leasehold land classified as finance lease) are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Tangible fixed assets are depreciated when they are available for use. They are depreciated at rates sufficient to write off their costs net of expected residual values over their estimated useful lives on a straight-line basis. The residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The useful lives of major categories of fixed assets are as follows:

Leasehold land classified as finance lease	Over the remaining lives of the leases
Leasehold buildings	25 years
Leasehold improvements	Over the remaining lives of the leases but not exceeding 5 years
Computer trading and clearing systems	
- hardware and software	5 years
Other computer hardware and software	3 years
Furniture, equipment and motor vehicles	3 to 5 years
Data centre facilities and equipment	3 to 20 years

2. Principal Accounting Policies (continued)

(k) Fixed assets (continued)

Expenditures incurred in the construction of leasehold buildings and other directly attributable costs are capitalised when it is probable that future economic benefits associated with the expenditures will flow to the Group and the costs can be measured reliably. Other costs such as relocation costs and administration and other overhead costs are charged to profit or loss during the year in which they are incurred.

Qualifying software system development expenditures and related directly attributable costs are capitalised and recognised as a fixed asset as the software forms an integral part of the hardware on which it operates.

Subsequent costs and qualifying development expenditures incurred after the completion of a system are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with that item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs and other subsequent expenditures are charged to profit or loss during the year in which they are incurred.

(l) Lease premium for land

Leasehold land premiums are up-front payments to acquire medium-term interests in leasehold land classified as operating leases. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis. The amortisation is capitalised as part of leasehold buildings under fixed assets during the construction period of the building.

(m) Impairment of non-financial assets

Assets are reviewed for impairment whenever there is any indication that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (ie, the higher of an asset's fair value less costs to sell and value in use). Such impairment losses are recognised in profit or loss. Impairment loss is reversed if the circumstances and events leading to the impairment cease to exist.

In assessing the carrying value of its investments in subsidiaries in the company's statement of financial position and any adjustments, the directors consider the investee's net assets as at the date of the statement of financial position and the carrying value of the subsidiaries as at that date.

(n) Margin deposits from Clearing Participants on derivatives contracts

The Group receives margin deposits from the Clearing Participants of The SEHK Options Clearing House Limited (SEOCH) and HKFE Clearing Corporation Limited (HKCC) for covering their open positions in derivatives contracts (Margin Funds).

The obligation to refund the margin deposits is disclosed as Margin deposits from Clearing Participants on derivatives contracts under current liabilities. Non-cash collateral (ie, securities and bank guarantees) received from Clearing Participants is not recognised on the consolidated statement of financial position.

2. Principal Accounting Policies (continued)

(o) Participants' contributions to Clearing House Funds

The Group receives contributions to Clearing House Funds from Clearing Participants of Hong Kong Securities Clearing Company Limited (HKSCC), SEOCH and HKCC.

Participants' contributions to Clearing House Funds are included under current liabilities. Non-cash collateral received from Clearing Participants (ie, contributions receivable from Clearing Participants fully secured by bank guarantees) is not recognised on the consolidated statement of financial position.

(p) Cash collateral from HKSCC Clearing Participants

Cash collateral is received from HKSCC Clearing Participants for their open positions. As these funds are refundable to the Participants when they settle their positions, the collateral received is reflected as liabilities to the Participants and disclosed as Cash collateral from HKSCC Clearing Participants under current liabilities. Non-cash collateral (ie, bank guarantees) received from Participants is not recognised on the consolidated statement of financial position.

(q) Derivative financial instruments

Derivatives, which may include forward foreign exchange, futures and options contracts, are initially recognised at fair value on trade-date and subsequently remeasured at their fair values. Changes in fair value, based on quoted market prices in active markets or recent market transactions, are recognised in profit or loss. All derivatives are classified as financial assets measured at fair value through profit or loss when their fair values are positive and as financial liabilities at fair value through profit or loss when their fair values are negative.

(r) Financial assets

(i) Classification

Financial assets of the Group are maintained for the Corporate Funds, Clearing House Funds, Margin Funds and cash collateral received from Participants (note 19).

Investments and other financial assets of the Group are classified under the following categories:

<u>Financial assets measured at amortised cost</u>

Investments are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows for managing liquidity and generating income on the investments, but not for the purpose of realising fair value gains; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, with interest being the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and are unleveraged.

The nature of any derivatives embedded in the financial assets is considered in determining whether the cash flows are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

Bank deposits, trade and accounts receivable and other deposits are also classified under this category.

2. Principal Accounting Policies (continued)

(r) Financial assets (continued)

(i) Classification (continued)

Financial assets measured at fair value through profit or loss

Investments and other financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost.

Securities or bank deposits with embedded derivatives whose cash flows are not solely payments of principal and interest on the principal amount outstanding or the interest rate does not reflect only consideration for the time value of money and credit risk are classified in their entirety as measured at fair value through profit or loss

The Group will reclassify all affected investments when and only when its business model for managing these assets changes.

Financial assets of Clearing House Funds, Margin Funds and cash collateral are classified as current assets as they will be liquidated whenever liquid funds are required.

Financial assets of Corporate Funds, which include those held for trading purpose, are classified as current assets unless they are non-trading assets that are expected to mature after twelve months at the end of the reporting period and, in which case, they are included in non-current assets. For equities and mutual funds, which have no maturity date, they are included in current assets as they are held for trading.

(ii) Recognition and initial measurement

Purchases and sales of financial assets are recognised on trade-date. Assets classified as financial assets measured at fair value through profit or loss are initially recognised at fair value with transaction costs recognised as expenses in profit or loss. Financial assets measured at amortised cost are initially recognised at fair value plus transaction costs.

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all the risks and rewards of ownership of the assets.

(iv) Gains or losses on subsequent measurement, interest income and dividend income

Financial assets measured at fair value through profit or loss

- Financial assets under this category are investments carried at fair value. Gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.
- Interest income is recognised in profit or loss using the effective interest method and included in net fair value gains/(losses) and interest income from these financial assets.
- Dividend income is recognised when the right to receive a dividend is established and included under "others" in net investment income.

Financial assets measured at amortised cost

- Financial assets under this category are carried at amortised cost using the effective interest method less provision for impairment.
- Interest income is recognised in profit or loss using the effective interest method and disclosed as interest income.

2. Principal Accounting Policies (continued)

(r) Financial assets (continued)

(v) Fair value measurement principles

Fair values of quoted investments are based on bid prices. For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

(vi) Impairment of financial assets measured at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more loss events that have occurred after the initial recognition of the financial assets and have an impact on their estimated future cash flows that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the debtor or obligor;
- fees receivable that have been outstanding for over 180 days;
- it is becoming probable that the debtor or obligor will enter into bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics relevant to the estimation of future cash flows. These financial assets are collectively assessed based on historical loss experience on each type of assets and management judgement of the current economic and credit environment.

If there is objective evidence that an impairment loss has been incurred, the loss is measured as the difference between the assets' carrying amounts and the present values of estimated future cash flows discounted at the financial assets' original effective interest rates. The carrying amounts of the assets are reduced through the use of a doubtful debt allowance account and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the doubtful debt allowance account. The amount of reversal is recognised in profit or loss.

2. Principal Accounting Policies (continued)

(s) Financial liabilities

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading.

Liabilities under this category are initially recognised at fair value on trade-date and subsequently remeasured at their fair values. Changes in fair value of the liabilities are recognised in profit or loss.

(ii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified entity or person fails to make payment when due in accordance with the original or modified terms of an undertaking.

Financial guarantee contracts are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the best estimate of the amount required to settle the guarantee and the amount initially recognised less, where appropriate, cumulative amortisation over the life of the guarantee on a straight-line basis.

Financial guarantee contracts issued by HKEx to guarantee borrowings of subsidiaries are eliminated on consolidation.

(iii) Other financial liabilities

Financial liabilities, other than financial liabilities at fair value through profit or loss and financial guarantee contracts, are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

(t) Recognition of receivables and payables from/to HKSCC Clearing Participants on Stock Exchange trades settled under the Continuous Net Settlement (CNS) basis

Upon acceptance of Stock Exchange trades for settlement in CCASS under the CNS basis, HKSCC interposes itself between the HKSCC Clearing Participants as the settlement counterparty to the trades through novation.

The CNS money obligations due by/to HKSCC Clearing Participants on the Stock Exchange trades are recognised as receivables and payables when they are confirmed and accepted on T+1.

(u) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the income tax losses can be utilised. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine deferred tax assets and liabilities. Movements in deferred tax provision are recognised in profit or loss.

(v) Deferred revenue

Deferred revenue comprises listing fees received in advance, and payments received in advance for services in relation to the sales of market data and telecommunication line rentals for trading facilities located at brokers' offices.

2. Principal Accounting Policies (continued)

(w) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable or when the amount of obligation becomes reliably measurable, it will then be recognised as a provision.

(x) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured in HKD, which is the Group's presentation currency and HKEx's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into HKD using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Translation differences on non-monetary financial assets that are classified as financial assets measured at fair value through profit or loss are reported as part of the fair value gain or loss.

(y) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and other short-term highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value (mainly time deposits), with original maturities of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash and cash equivalents available for the disposition of the Group and exclude cash and cash equivalents held for specific purposes such as those held for the purpose of the Margin Funds, Clearing House Funds and cash collateral received from HKSCC Clearing Participants.

(z) Shares held for Share Award Scheme

Where HKEx shares are acquired by the Share Award Scheme from the market or by electing scrip in lieu of cash dividends, the total consideration of shares acquired from the market (including any directly attributable incremental costs) or under the scrip dividend scheme is presented as Shares held for Share Award Scheme and deducted from total equity.

2. Principal Accounting Policies (continued)

(z) Shares held for Share Award Scheme (continued)

Upon vesting, the related costs of the vested Awarded Shares purchased from the market and shares acquired from reinvesting dividends received on the Awarded Shares or under the scrip dividend scheme (dividend shares) are credited to Shares held for Share Award Scheme, with a corresponding decrease in employee share-based compensation reserve for Awarded Shares, and decrease in retained earnings for dividend shares.

For vesting of forfeited or unallocated shares regranted, the related costs of the forfeited or unallocated shares regranted are credited to Shares held for Share Award Scheme, and the related fair value of the shares regranted are debited to employee share-based compensation reserve. The difference between the cost and the fair value of the shares regranted is credited to share premium if the fair value is higher than the cost or debited against retained earnings if the fair value is less than the cost.

(aa) Operating Segments

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-maker (note 4). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive. Information relating to segment assets and liabilities is not disclosed as such information is not regularly reported to the chief operating decision-maker.

(ab) Dividends

Dividends disclosed in note 17 to the consolidated financial statements represent interim dividend paid and final dividend proposed for the year (based on the issued share capital less the number of shares held for the Share Award Scheme at the end of the reporting period).

Dividends declared are recognised as liabilities in the financial statements when the dividends are approved by the shareholders.

3. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future when the consolidated financial statements are prepared. The resulting accounting estimates may differ from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the estimated level of future taxable profits of the subsidiaries concerned.

At 31 December 2011, the Group had unrecognised tax losses carried forward amounting to $449 million (31 December 2010: $318 million). These losses relate to subsidiaries that have a history of tax losses and the Group has not accounted for the relevant deferred tax assets. They will not expire and may be able to offset against taxable income in the future. If the Group were to recognise all unrecognised deferred tax assets, the Group's profit would increase by $74 million (2010: $52 million).

3. Critical Accounting Estimates and Judgements (continued)

(b) Impairment of debt instruments measured at amortised cost

The Group has a significant holding of debt instruments as investments that are measured at amortised cost. The Group recognises an impairment loss when there is objective evidence that a debt instrument is impaired (eg, significant financial difficulties of the issuer, probability that the issuer will enter into bankruptcy or financial reorganisation, and default or delinquency in interest or principal payments).

At 31 December 2011, the debt instruments that were measured at amortised cost held by the Group amounted to $706 million (31 December 2010: $950 million). If the amount of such debt instruments was impaired by one per cent, the Group's profit would decrease by $7 million (2010: $10 million).

(c) Valuation of investments measured at fair value through profit or loss

The Group has a significant amount of investments that are measured at fair value through profit or loss. The valuations are either provided by banks or the custodian of the investments, a reputable independent third party custodian bank.

At 31 December 2011, the financial assets that are measured at fair value through profit or loss held by the Group excluding those fair values obtained using quoted prices in active market (ie, those classified as Level 1 defined in HKFRS 7) amounted to $10,931 million (31 December 2010: $10,797 million). If the fair value of such financial assets decreased by one per cent, the Group's profit would decrease by $109 million (2010: $108 million).

4. 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 four reportable segments which are managed separately as each business offers different products and services and requires different information technology 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 derivative warrants (DWs). Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market (GEM). The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market. Stock Exchange listing fees and costs of the Listing Function are further explained in note 6.

The **Derivatives Market** business refers to the derivatives products traded on Hong Kong Futures Exchange Limited (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 three clearing houses, namely HKSCC, SEOCH 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.

4. Operating Segments (continued)

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 HKSN	**-**	**-**	**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

4. Operating Segments (continued)

(a) The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2.

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.

5. Trading Fees and Trading Tariff

	2011 $m	2010 $m
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	**2,010**	2,030
Derivatives contracts traded on the Derivatives Market	**926**	813
	2,936	2,843

6. Stock Exchange Listing Fees

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

	2011				2010			
	Equity		CBBCs,		Equity		CBBCs,	
	Main Board	GEM	DWs & others	Total	Main Board	GEM	DWs & others	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Stock Exchange Listing Fees								
Annual listing fees	**418**	**24**	**2**	**444**	374	24	2	400
Initial and subsequent issue listing fees	**112**	**8**	**380**	**500**	96	7	436	539
Other listing fees	**4**	**1**	**-**	**5**	5	1	-	6
Total	**534**	**33**	**382**	**949**	475	32	438	945
Costs of Listing Function								
Direct costs	**256**	**57**	**18**	**331**	236	51	18	305
Indirect costs	**58**	**10**	**15**	**83**	44	8	13	65
Total costs	**314**	**67**	**33**	**414**	280	59	31	370
Contribution to Cash Market Segment Profit before Taxation	**220**	**(34)**	**349**	**535**	195	(27)	407	575

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

The direct costs listed above are regulatory in nature, which comprise costs of the Listing Function on vetting IPOs, enforcing the 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, and disseminating information relating to listed companies. Indirect costs comprise costs of support services and other central overheads attributable to the Listing Function.

7. 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

8. 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

9. 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 HKSN which had remained unclaimed for a period of more than seven 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.

10. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	2011 $m	2010 $m
Salaries and other short-term employee benefits	**899**	793
Employee share-based compensation benefits (note 36)	**61**	36
Retirement benefit costs (note (a)):		
- ORSO Plan	**69**	62
- MPF Scheme	**1**	1
	1,030	892

10. Staff Costs and Related Expenses (continued)

(a) Retirement Benefit Costs

The Group has sponsored a defined contribution provident fund scheme (ORSO Plan) which is registered under ORSO and a Mandatory Provident Fund scheme (MPF Scheme). The Group contributes 12.5 per cent of the employee's basic salary to the ORSO Plan if an employee contributes 5 per cent. If the employee chooses not to contribute, the Group will contribute 10 per cent of the employee's salary to the ORSO Plan. Contributions to the MPF Scheme are in accordance with the statutory limits prescribed by the MPF Ordinance (ie, 5 per cent of the employee's relevant income subject to a maximum of $1,000 per month).

11. Information Technology and Computer Maintenance Expenses

	2011 $m	2010 $m
Costs of services and goods:		
- consumed by the Group	**156**	143
- directly consumed by Participants	**146**	122
	302	265

12. 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

13. Profit before Taxation

	2011 $m	2010 $m
Profit before taxation is stated after (charging)/crediting:		
Auditor's remuneration		
- audit fees	**(4)**	(3)
- non-audit fees	**(1)**	-
Operating lease rentals		
- land and buildings	**(174)**	(168)
- computer systems and equipment	**(7)**	(6)
Exchange gains on financial assets and liabilities (excluding financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss)	**2**	1

14. Directors' Emoluments

All Directors, including two Executive Directors (the Chief Executive and former Chief Executive), received emoluments during the years ended 31 December 2011 and 31 December 2010. The aggregate emoluments paid and payable to the Directors during the two years were as follows:

	2011 $'000	2010 $'000
Executive Directors:		
Salaries and other short-term employee benefits	**7,667**	11,877
Performance bonus	**7,524**	8,054
Retirement benefit costs	**941**	903
	16,132	20,834
Employee share-based compensation benefits (note (a))	**6,942**	2,754
	23,074	23,588
Non-executive Directors:		
Fees	**6,219**	5,318
	29,293	28,906

(a) Employee share-based compensation benefits represent fair value of Awarded Shares issued under the Share Award Scheme amortised to profit or loss during the year.

(b) The emoluments, including employee share-based compensation benefits, of the Directors were within the following bands:

	2011 Number of Directors	2010 Number of Directors
$1 – $500,000	**9**	9
$500,001 – $1,000,000	**4**	3
$5,000,001 – $5,500,000	**-**	1
$18,000,001 – $18,500,000	**-**	1
$23,000,001 – $23,500,000	**1**	-
	14	14

14. Directors' Emoluments (continued)

(c) The emoluments of all Directors, including the Chief Executive who is an ex-officio member, for the years ended 31 December 2011 and 2010 are set out below:

	2011							
Name of Director	Fees $'000	Salary $'000	Other benefits (note (i)) $'000	Performance bonus $'000	Retirement benefit costs (note (ii)) $'000	Sub-total $'000	Employee share-based compensation benefits $'000	Total $'000
Ronald J Arculli	**753**	**-**	**-**	**-**	**-**	**753**	**-**	**753**
Charles X Li (note (iii))	**-**	**7,524**	**143**	**7,524**	**941**	**16,132**	**6,942**	**23,074**
Laura M Cha	**451**	**-**	**-**	**-**	**-**	**451**	**-**	**451**
Ignatius T C Chan	**456**	**-**	**-**	**-**	**-**	**456**	**-**	**456**
Moses M C Cheng	**451**	**-**	**-**	**-**	**-**	**451**	**-**	**451**
Marvin K T Cheung (note (iv))	**108**	**-**	**-**	**-**	**-**	**108**	**-**	**108**
John B Harrison (note (v))	**431**	**-**	**-**	**-**	**-**	**431**	**-**	**431**
Stephen C C Hui	**454**	**-**	**-**	**-**	**-**	**454**	**-**	**454**
Bill C P Kwok	**551**	**-**	**-**	**-**	**-**	**551**	**-**	**551**
Vincent K H Lee	**567**	**-**	**-**	**-**	**-**	**567**	**-**	**567**
Michael T H Lee	**451**	**-**	**-**	**-**	**-**	**451**	**-**	**451**
John E Strickland	**476**	**-**	**-**	**-**	**-**	**476**	**-**	**476**
John M M Williamson	**619**	**-**	**-**	**-**	**-**	**619**	**-**	**619**
Oscar S H Wong	**451**	**-**	**-**	**-**	**-**	**451**	**-**	**451**
Total	**6,219**	**7,524**	**143**	**7,524**	**941**	**22,351**	**6,942**	**29,293**

	2010							
Name of Director	Fees $'000	Salary $'000	Other benefits (note (i)) $'000	Performance bonus $'000	Retirement benefit costs (note (ii)) $'000	Sub-total $'000	Employee share-based compensation benefits $'000	Total $'000
Ronald J Arculli	618	-	-	-	-	618	-	618
Charles X Li (note (iii))	-	6,910	116	8,054	864	15,944	2,546	18,490
Paul M Y Chow (note (vi))	-	314	4,537	-	39	4,890	208	5,098
Laura M Cha	393	-	-	-	-	393	-	393
Ignatius T C Chan	397	-	-	-	-	397	-	397
Moses M C Cheng	405	-	-	-	-	405	-	405
Marvin K T Cheung (note (iv))	397	-	-	-	-	397	-	397
Stephen C C Hui	400	-	-	-	-	400	-	400
Bill C P Kwok	460	-	-	-	-	460	-	460
Vincent K H Lee	528	-	-	-	-	528	-	528
Michael T H Lee	397	-	-	-	-	397	-	397
John E Strickland	400	-	-	-	-	400	-	400
John M M Williamson	523	-	-	-	-	523	-	523
Oscar S H Wong	400	-	-	-	-	400	-	400
Total	5,318	7,224	4,653	8,054	903	26,152	2,754	28,906

Notes:

(i) Other benefits included leave pay, insurance premium and club membership.

(ii) Employees who retire before normal retirement age are eligible for 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of seven years of service.

(iii) Appointment effective 16 January 2010

(iv) Retired on 20 April 2011

(v) Appointment effective 20 April 2011

(vi) Retired on 16 January 2010. The emoluments for 2010 included accumulated annual leave entitlement paid in January 2010.

15. Five Top-paid Employees

One (2010: one) of the five top-paid employees was a Director whose emoluments are disclosed in note 14. Details of the emoluments of the other four (2010: four) top-paid employees were as follows:

	2011 **$'000**	2010 $'000
Salaries and other short-term employee benefits	**18,463**	17,620
Performance bonus	**11,840**	12,462
Retirement benefit costs	**2,181**	2,165
	32,484	32,247
Employee share-based compensation benefits (note (a))	**11,180**	5,099
	43,664	37,346

(a) Employee share-based compensation benefits represent fair value of share options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme amortised to profit or loss during the year.

(b) The emoluments of these four (2010: four) employees, including share-based compensation benefits, were within the following bands:

	2011 **Number of employees**	2010 Number of employees
$6,000,001 – $6,500,000	**-**	1
$8,000,001 – $8,500,000	**1**	-
$8,500,001 – $9,000,000	**-**	1
$10,000,001 – $10,500,000	**1**	-
$10,500,001 – $11,000,000	**-**	1
$11,000,001 – $11,500,000	**-**	1
$12,500,001 – $13,000,000	**2**	-
	4	4

The above employees included senior executives who were also Directors of the subsidiaries during the years. No Directors of the subsidiaries waived any emoluments.

16. Taxation

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

	2011 **$m**	2010 $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 (note 33(a))	**17**	1
	939	917

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of 16.5 per cent (2010: 16.5 per cent) as follows:

	2011 **$m**	2010 $m
Profit before taxation	**6,032**	5,954
Calculated at a taxation rate of 16.5 per cent (2010: 16.5 per cent)	**995**	982
Income not subject to taxation	**(83)**	(72)
Expenses not deductible for taxation purposes	**5**	4
Change in deferred tax arising from unrecognised tax losses and other deferred tax adjustments	**22**	5
Overprovision of Hong Kong Profits Tax in respect of prior years	**-**	(2)
Taxation charge	**939**	917

17. Dividends

	2011 $m	2010 $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 the Securities and Futures Commission (SFC) of the listing of and permission to deal in the new shares to be issued.

18. 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

19. Financial Assets

As part of its day to day operations, the Group receives margin deposits from Clearing Participants on derivatives contracts (note 27), cash collateral from HKSCC Clearing Participants (note 28) and Participants' contributions to Clearing House Funds (note 31). 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 Clearing Participants 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 Clearing Participants 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 Clearing Participants 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 Clearing Participants fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Clearing Participants arising from depositing defective securities into 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 (note 23).

The Margin Funds, cash collateral, Clearing House Funds and Corporate Funds are invested into cash and cash equivalents (note 20), financial assets measured at fair value through profit or loss (note 21) and financial assets measured at amortised cost (note 22).

20. Cash and Cash Equivalents

	Group		HKEx	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m	**At 31 Dec 2011 $m**	At 31 Dec 2010 $m
Cash and cash equivalents:				
- Clearing House Funds (note 31)	**835**	2,155	**-**	-
- Margin Funds (note 27)	**12,719**	12,418	**-**	-
- Cash collateral (note 28)	**2,327**	2,843	**-**	-
(note (a))	**15,881**	17,416	**-**	-
- Corporate Funds (note 23)	**2,340**	1,945	**607**	45
	18,221	19,361	**607**	45

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

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

	Group			
	At 31 Dec 2011			
	Clearing House Funds (note 31) $m	Margin Funds (note 27) $m	Corporate Funds (note 23) $m	Total $m
Mandatorily measured at fair value				
Equity securities:				
- listed in Hong Kong	-	-	102	102
- listed outside Hong Kong	-	-	284	284
	-	-	386	386
Debt securities:				
- listed in Hong Kong	-	-	217	217
- listed outside Hong Kong	125	283	1,914	2,322
- unlisted	159	5,982	2,251	8,392
	284	6,265	4,382	10,931
Derivative financial instruments:				
- forward foreign exchange contracts (note 47(b))	-	-	32	32
	284	6,265	4,800	11,349
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	284	6,265	4,620	11,169
More than twelve months	-	-	180	180
	284	6,265	4,800	11,349

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

	Group			
	At 31 Dec 2010			
	Clearing House Funds (note 31) $m	Margin Funds (note 27) $m	Corporate Funds (note 23) $m	Total $m
Mandatorily measured at fair value				
Equity securities:				
- listed in Hong Kong	-	-	85	85
- listed outside Hong Kong	-	-	180	180
	-	-	265	265
Debt securities:				
- listed in Hong Kong	-	-	107	107
- listed outside Hong Kong	130	287	2,100	2,517
- unlisted	229	5,667	2,277	8,173
	359	5,954	4,484	10,797
Mutual funds:				
- listed outside Hong Kong	-	-	115	115
Derivative financial instruments:				
- forward foreign exchange contracts (note 47(b))	-	-	13	13
	359	5,954	4,877	11,190
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	359	5,954	3,636	9,949
More than twelve months	-	-	1,241	1,241
	359	5,954	4,877	11,190

(a) Included financial assets maturing after twelve months of $Nil (31 December 2010: $359 million) and $1,867 million (31 December 2010: $5,137 million) attributable to the Clearing House Funds and Margin Funds respectively that could readily be liquidated to meet liquidity requirements of the respective Funds (note 47(b)).

22. Financial Assets Measured at Amortised Cost

(a) Group

	At 31 Dec 2011				
	Clearing House Funds (note 31) $m	**Margin Funds (note 27) $m**	**Cash collateral (note 28) $m**	**Corporate Funds (note 23) $m**	**Total $m**
Debt securities:					
- listed outside Hong Kong (note (i))	-	-	-	**245**	**245**
- unlisted	-	-	-	**461**	**461**
	-	-	-	**706**	**706**
Time deposits with original maturities over three months	**367**	**12,368**	**906**	**1,855**	**15,496**
Other financial assets	-	-	-	**49**	**49**
	367	**12,368**	**906**	**2,610**	**16,251**
The expected recovery dates of the financial assets are analysed as follows:					
Within twelve months (note (ii))	**367**	**12,368**	**906**	**2,207**	**15,848**
More than twelve months	-	-	-	**403**	**403**
	367	**12,368**	**906**	**2,610**	**16,251**

	At 31 Dec 2010				
	Clearing House Funds (note 31) $m	Margin Funds (note 27) $m	Cash collateral (note 28) $m	Corporate Funds (note 23) $m	Total $m
Debt securities:					
- listed outside Hong Kong (note (i))	-	-	-	201	201
- unlisted	-	-	-	749	749
	-	-	-	950	950
Time deposits with original maturities over three months	130	4,323	751	1,602	6,806
Other financial assets	-	-	-	48	48
	130	4,323	751	2,600	7,804
The expected recovery dates of the financial assets are analysed as follows:					
Within twelve months (note (ii))	130	4,323	751	1,817	7,021
More than twelve months	-	-	-	783	783
	130	4,323	751	2,600	7,804

(i) The total market value of the listed debt securities at 31 December 2011 was $246 million (31 December 2010: $203 million).

(ii) Included time deposits maturing after twelve months of $Nil (31 December 2010: $2 million) attributable to the Clearing House Funds that could readily be liquidated to meet liquidity requirements of the Fund (note 47(b)).

22. Financial Assets Measured at Amortised Cost (continued)

(b) HKEx

	Corporate Funds	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m
Unlisted debt securities	**14**	91
Time deposits with original maturities over three months	**1,472**	7
Other financial assets	**1**	1
	1,487	99

23. Corporate Funds

	Group		HKEx	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m	**At 31 Dec 2011 $m**	At 31 Dec 2010 $m
The Corporate Funds were invested in the following instruments:				
Cash and cash equivalents (note 20)	**2,340**	1,945	**607**	45
Financial assets measured at fair value through profit or loss (note 21)	**4,800**	4,877	**-**	-
Financial assets measured at amortised cost (note 22)	**2,610**	2,600	**1,487**	99
	9,750	9,422	**2,094**	144

24. Accounts Receivable, Prepayments and Deposits

	Group		HKEx	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m	**At 31 Dec 2011 $m**	At 31 Dec 2010 $m
Receivable from Exchange and Clearing Participants:				
- Continuous Net Settlement money obligations	**6,482**	8,283	**-**	-
- transaction levy, stamp duty and fees receivable	**342**	514	**-**	-
- others	**164**	194	**-**	-
Other receivables, prepayments and deposits	**405**	373	**26**	18
Less : Provision for impairment losses of receivables (note (b))	**(160)**	(158)	**-**	-
	7,233	9,206	**26**	18

24. Accounts Receivable, Prepayments and Deposits (continued)

(a) The carrying amounts of short-term accounts receivable and deposits approximated their fair values.

(b) The movements in provision for impairment losses of receivables were as follows:

	Group	
	2011 **$m**	2010 $m
At 1 Jan	**158**	164
Provision for/(reversal of provision for) impairment losses of receivables under other operating expenses	**2**	(4)
Receivables written off during the year as uncollectible	**-**	(2)
At 31 Dec	**160**	158

(c) Continuous Net Settlement money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 60 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

25. Fixed Assets

(a) Group

	Leasehold land in Hong Kong under long term finance lease $m	Leasehold buildings $m	Computer trading and clearing systems $m	Other computer hardware and software $m	Data centre facilities and equipment $m	Leasehold improvements, furniture, equipment and motor vehicles $m	Total $m
Cost:							
At 1 Jan 2010	70	16	1,261	219	-	285	1,851
Additions	-	21	47	16	-	15	99
Disposals	-	-	(14)	(8)	-	(4)	(26)
At 31 Dec 2010	70	37	1,294	227	-	296	1,924
At 1 Jan 2011	**70**	**37**	**1,294**	**227**	**-**	**296**	**1,924**
Additions	**-**	**334**	**129**	**65**	**185**	**30**	**743**
Disposals	**-**	**-**	**(13)**	**(9)**	**-**	**(2)**	**(24)**
At 31 Dec 2011	**70**	**371**	**1,410**	**283**	**185**	**324**	**2,643**
Accumulated depreciation:							
At 1 Jan 2010	9	11	1,104	198	-	226	1,548
Depreciation	1	1	56	12	-	37	107
Disposals	-	-	(14)	(8)	-	(4)	(26)
At 31 Dec 2010	10	12	1,146	202	-	259	1,629
At 1 Jan 2011	**10**	**12**	**1,146**	**202**	**-**	**259**	**1,629**
Depreciation	**1**	**1**	**53**	**10**	**-**	**25**	**90**
Disposals	**-**	**-**	**(13)**	**(9)**	**-**	**(2)**	**(24)**
At 31 Dec 2011	**11**	**13**	**1,186**	**203**	**-**	**282**	**1,695**
Net book value:							
At 31 Dec 2011	**59**	**358**	**224**	**80**	**185**	**42**	**948**
At 31 Dec 2010	60	25	148	25	-	37	295
At 1 Jan 2010	61	5	157	21	-	59	303
Cost of fixed assets in the course of construction (including systems under development):							
At 31 Dec 2011	**-**	**355**	**144**	**63**	**185**	**12**	**759**
At 31 Dec 2010	-	21	19	10	-	3	53

25. Fixed Assets (continued)

(b) HKEx

	Other computer hardware and software $m	Leasehold improvements, furniture, equipment and motor vehicles $m	Total $m
Cost:			
At 1 Jan 2010	60	41	101
Additions	8	7	15
Disposals	(3)	(2)	(5)
At 31 Dec 2010	65	46	111
At 1 Jan 2011	**65**	**46**	**111**
Additions	**19**	**21**	**40**
Disposals	**(2)**	**(2)**	**(4)**
At 31 Dec 2011	**82**	**65**	**147**
Accumulated depreciation:			
At 1 Jan 2010	49	24	73
Depreciation	5	9	14
Disposals	(3)	(2)	(5)
At 31 Dec 2010	51	31	82
At 1 Jan 2011	**51**	**31**	**82**
Depreciation	**5**	**9**	**14**
Disposals	**(2)**	**(2)**	**(4)**
At 31 Dec 2011	**54**	**38**	**92**
Net book value:			
At 31 Dec 2011	**28**	**27**	**55**
At 31 Dec 2010	14	15	29
At 1 Jan 2010	11	17	28
Cost of fixed assets in the course of construction (including systems under development):			
At 31 Dec 2011	**20**	**3**	**23**
At 31 Dec 2010	4	-	4

26. Lease Premium for Land

	Group	
	2011 **$m**	2010 $m
Net book value at 1 Jan	**25**	-
Additions	**-**	26
Amortisation capitalised	**-**	(1)
Net book value at 31 Dec	**25**	25

(a) During the year ended 31 December 2010, the Group acquired a non-Hong Kong Government medium-term lease in Tseung Kwan O, Hong Kong for the construction of a new data centre for a consideration of $26 million.

27. Margin Deposits from Clearing Participants on Derivatives Contracts

	Group	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m
Margin deposits from Clearing Participants comprised (notes 19 and (a)):		
SEOCH Clearing Participants' margin deposits	**5,302**	3,528
HKCC Clearing Participants' margin deposits	**26,057**	19,174
	31,359	22,702
The margin deposits were invested in the following instruments for managing the obligations of the Margin Funds:		
Cash and cash equivalents (note 20)	**12,719**	12,418
Financial assets measured at fair value through profit or loss (note 21)	**6,265**	5,954
Financial assets measured at amortised cost (note 22(a))	**12,368**	4,323
Margin receivable from Clearing Participants	**7**	7
	31,359	22,702

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

28. Cash Collateral from HKSCC Clearing Participants

	Group	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m
Cash collateral from HKSCC Clearing Participants (notes 19 and (a))	**3,233**	3,594
The cash collateral was invested in the following instruments:		
Cash and cash equivalents (note 20)	**2,327**	2,843
Financial assets measured at amortised cost (note 22(a))	**906**	751
	3,233	3,594

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

29. Accounts Payable, Accruals and Other Liabilities

	Group		HKEx	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m	**At 31 Dec 2011 $m**	At 31 Dec 2010 $m
Payable to Exchange and Clearing Participants:				
- Continuous Net Settlement money obligations	**6,482**	8,283	**-**	-
- others	**1,027**	808	**-**	-
Transaction levy payable to the SFC	**66**	95	**-**	-
Unclaimed dividends (note (b))	**208**	313	**118**	124
Stamp duty payable to the Collector of Stamp Revenue	**146**	214	**-**	-
Other payables, accruals and deposits received	**527**	233	**126**	77
	8,456	9,946	**244**	201

(a) The carrying amounts of accounts payable and other liabilities approximated their fair values.

(b) Unclaimed dividends for the Group represent dividends declared by listed companies which were held by HKSN but not yet claimed by shareholders of the companies concerned, and dividends declared by HKEx but not yet claimed by its shareholders. During the year, cash dividends held by HKSN which had remained unclaimed for a period of more than seven years amounting to $108 million (2010: $Nil) were forfeited and recognised as income (note 9) and dividends declared by HKEx which were unclaimed over a period of six years from the date of payment amounting to $6 million (2010: $16 million) were forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association (note 39).

(c) Continuous Net Settlement money obligations payable mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

30. Other Financial Liabilities

	Group		HKEx	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m	**At 31 Dec 2011 $m**	At 31 Dec 2010 $m
Financial liabilities of Clearing House Funds (note 31)	**29**	25	**-**	-
Financial liabilities of Corporate Funds:				
Financial liabilities at fair value through profit or loss (note (a))	**11**	13	**-**	-
Financial guarantee contracts (note (b))	**20**	20	**11**	11
	31	33	**11**	11
	60	58	**11**	11

(a) Financial liabilities at fair value through profit or loss

	Group	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m
Held for trading		
Derivative financial instruments:		
- forward foreign exchange contracts (note 47(b))	**11**	13

(b) Financial guarantee contracts

(i) Group

The amount represented the carrying value of a financial guarantee provided by the Group to the Collector of Stamp Revenue, details of which are disclosed in note 42(a)(ii).

(ii) HKEx

The amount represented the carrying value of an undertaking provided by HKEx in favour of HKSCC amounting to $50 million (note 42(b)(i)). The amount was eliminated on consolidation.

31. Clearing House Funds

	Group	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m
The Clearing House Funds comprised (note 19):		
Clearing Participants' contributions (note (a))	**880**	2,039
Designated reserves (notes (b) and 37)	**577**	580
	1,457	2,619
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Cash and cash equivalents (note 20)	**835**	2,155
Financial assets measured at fair value through profit or loss (note 21)	**284**	359
Financial assets measured at amortised cost (note 22(a))	**367**	130
	1,486	2,644
Less: Other financial liabilities of Clearing House Funds (note 30)	**(29)**	(25)
	1,457	2,619
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	**226**	224
SEOCH Reserve Fund	**578**	967
HKCC Reserve Fund	**653**	1,428
	1,457	2,619

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

(b) Designated reserves comprise contributions from the clearing houses and accumulated net investment income net of expenses of the Clearing House Funds appropriated from retained earnings.

32. Provisions

(a) Group

	Reinstatement costs $m	Employee benefit costs $m	Total $m
At 1 Jan 2011	**29**	**28**	**57**
Provision for the year	**1**	**49**	**50**
Amount used during the year	**-**	**(42)**	**(42)**
Amount paid during the year	**(1)**	**(2)**	**(3)**
At 31 Dec 2011	**29**	**33**	**62**

(b) HKEx

	Reinstatement costs $m	Employee benefit costs $m	Total $m
At 1 Jan 2011	**1**	**28**	**29**
Provision for the year	**-**	**49**	**49**
Amount used during the year	**-**	**(42)**	**(42)**
Amount paid during the year	**-**	**(2)**	**(2)**
At 31 Dec 2011	**1**	**33**	**34**

(i) The provision for reinstatement costs represents the estimated costs used to restore the leased office premises to their original state upon the expiry of the leases. The leases are expected to expire within four years.

(ii) The provision for employee benefit costs represents unused annual leave that has been accumulated at the end of the reporting period. It is expected to be fully utilised in the coming twelve months.

33. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5 per cent (2010: 16.5 per cent).

(a) The movements on the deferred tax liabilities/(assets) account were as follows:

	Group		HKEx	
	2011 $m	2010 $m	**2011 $m**	2010 $m
At 1 Jan	**15**	14	**(2)**	(4)
Charged to profit or loss (note 16(a))	**17**	1	**1**	2
At 31 Dec (note (d))	**32**	15	**(1)**	(2)

(b) Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of $449 million at 31 December 2011 (31 December 2010: $318 million) that may be carried forward for offsetting against future taxable income indefinitely.

(c) The movements on the deferred tax liabilities/(assets) account were as follows:

	Group							
	Accelerated tax depreciation		Tax losses		Employee benefits		Total	
	2011 $m	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m
At 1 Jan	**24**	23	**(4)**	(3)	**(5)**	(6)	**15**	14
Charged/(credited) to profit or loss	**25**	1	**(8)**	(1)	**-**	1	**17**	1
At 31 Dec	**49**	24	**(12)**	(4)	**(5)**	(5)	**32**	15

33. Deferred Taxation (continued)

(c) (continued)

	HKEx					
	Accelerated tax depreciation		Employee benefits		Total	
	2011 $m	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m
At 1 Jan	**3**	2	**(5)**	(6)	**(2)**	(4)
Charged to profit or loss	**1**	1	**-**	1	**1**	2
At 31 Dec	**4**	3	**(5)**	(5)	**(1)**	(2)

(d) Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to tax levied by the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the statements of financial position:

	Group		HKEx	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m	**At 31 Dec 2011 $m**	At 31 Dec 2010 $m
Net deferred tax assets	**(1)**	(3)	**(1)**	(2)
Net deferred tax liabilities	**33**	18	**-**	-
	32	15	**(1)**	(2)

The deferred tax assets and liabilities are expected to be recovered or settled after more than twelve months.

34. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity

(a) Investments in subsidiaries

	HKEx	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m
Investments in unlisted shares, at cost	**4,146**	4,146
Adjustment to carrying value (note (i))	**(2,303)**	-
	1,843	4,146
Financial guarantee granted to a subsidiary (note 30(b)(ii))	**11**	11
	1,854	4,157

(i) During the year, the directors of HKEx's subsidiaries resolved that the subsidiaries would pay substantially all of their annual profits to HKEx prior to the date of their statement of financial position. The subsidiaries had in aggregate retained earnings amounting to $2,303 million prior to the merger in 2000 and the directors therefore consider that, following the implementation of the new dividend policy by HKEx's subsidiaries, HKEx's investments in its subsidiaries should be reduced by an amount of $2,303 million.

34. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity (continued)

(b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries are repayable on demand. The amounts due from/(to) subsidiaries are interest-free during 2011 and 2010.

(c) Particulars of subsidiaries

HKEx had direct or indirect interests in the following subsidiaries at 31 December 2011, all of which are wholly-owned private companies incorporated and operating in Hong Kong. Details of these companies were as follows:

Company	Issued and fully paid up share capital	Principal activities	Interest held
Direct subsidiaries:			
The Stock Exchange of Hong Kong Limited	"A" shares $929	Operates the single Stock Exchange in Hong Kong	100%
Hong Kong Futures Exchange Limited	Ordinary $19,600,000 Standard $850,000	Operates a futures and options exchange	100%
Hong Kong Securities Clearing Company Limited	Ordinary $2	Operates a clearing house for securities traded on the Stock Exchange in Hong Kong and the central securities depository and provides custody and nominee services for eligible securities listed in Hong Kong	100%
HKEx Property Limited	Ordinary $2	Property holding	100%
HKEx (China) Limited	$2	Promotes HKEx products and services	100%
Indirect subsidiaries:			
The SEHK Options Clearing House Limited	Ordinary $1,000,000	Operates a clearing house for options contracts traded on the Stock Exchange in Hong Kong	100%
HKEx Information Services Limited	$100	Sales of market data	100%
The Stock Exchange Club Limited	$8	Property holding	100%
The Stock Exchange Nominee Limited	$2	Dormant	100%
HKFE Clearing Corporation Limited	Ordinary $1,000,000	Operates a clearing house for derivatives contracts traded on the Futures Exchange	100%
HKSCC Nominees Limited	$20	Acts as common nominee in respect of securities held in the CCASS depository	100%
HK Conversion Agency Services Limited	$2	Conversion agency services	100%

34. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity (continued)

(d) Controlled special purpose entity

HKEx controls a special purpose entity which operates in Hong Kong, particulars of which are as follows:

Special purpose entity	Principal activities
The HKEx Employees' Share Award Scheme (HKEx Employee Share Trust)	Purchases, administers and holds HKEx shares for the Share Award Scheme for the benefit of eligible HKEx employees (note 36(c))

As the HKEx Employee Share Trust is set up solely for the purpose of purchasing, administering and holding HKEx shares for the Share Award Scheme (note 36(c)), HKEx has the power to govern the financial and operating policies of the HKEx Employee Share Trust and it can derive benefits from the services of the employees who have been awarded the Awarded Shares through their continued employment with the Group. The assets and liabilities of HKEx Employee Share Trust are included in HKEx's statement of financial position and the HKEx shares held by the HKEx Employee Share Trust are presented as a deduction in equity as Shares held for Share Award Scheme.

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

	HKEx	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m
Authorised:		
2,000,000,000 shares of $1 each	**2,000**	2,000

Issued and fully paid:

	Group and HKEx				
	Number of shares of $1 each ’000	**Share capital** $m	**Share premium** $m	**Shares held for Share Award Scheme** $m	**Total** $m
At 1 Jan 2010	1,075,515	1,076	376	(52)	1,400
Shares issued upon exercise of employee share options (note (a))	1,902	2	32	-	34
Transfer from employee share-based compensation reserve upon exercise of employee share options (note 36)	-	-	8	-	8
Shares purchased for Share Award Scheme (note (c))	(1,298)	-	-	(188)	(188)
Vesting of shares of Share Award Scheme (note (d))	317	-	-	21	21
At 31 Dec 2010	1,076,436	1,078	416	(219)	1,275
At 1 Jan 2011	**1,076,436**	**1,078**	**416**	**(219)**	**1,275**
Shares issued upon exercise of employee share options (note (a))	**470**	**-**	**8**	**-**	**8**
Shares issued in lieu of cash dividends (note (b))	**1,298**	**2**	**213**	**(7)**	**208**
Transfer from employee share-based compensation reserve upon exercise of employee share options (note 36)	**-**	**-**	**2**	**-**	**2**
Shares purchased for Share Award Scheme (note (c))	**(628)**	**-**	**-**	**(80)**	**(80)**
Vesting of shares of Share Award Scheme (note (d))	**94**	**-**	**-**	**10**	**10**
At 31 Dec 2011	**1,077,670**	**1,080**	**639**	**(296)**	**1,423**

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

(a) During the year, employee share options granted under the share option schemes were exercised to subscribe for 469,900 shares (2010: 1,902,000 shares) in HKEx at a consideration of $8 million (2010: $34 million), of which less than $1 million (2010: $2 million) was credited to share capital and $8 million (2010: $32 million) was credited to the share premium account.

(b) During the year, the following shares were issued to shareholders who elected to receive HKEx shares in lieu of cash dividends pursuant to the scrip dividend scheme:

	Number of shares	Scrip price $	Share capital $m	Share premium $m	Shares held for Share Award Scheme $m	Total $m
Issued as 2010 final scrip dividends:						
- total	586,917	181.14	1	106	-	107
- to Share Award Scheme	(21,148)	181.14	-	-	(4)	(4)
Issued as 2011 interim scrip dividends:						
- total	757,477	142.06	1	107	-	108
- to Share Award Scheme	(25,747)	142.06	-	-	(3)	(3)
	1,297,499		2	213	(7)	208

(c) During the year, the Share Award Scheme (note 36(c)) acquired 627,700 HKEx shares (2010: 1,297,400 shares) through purchases on the open market. The total amount paid to acquire the shares during the year was $80 million (2010: $188 million), and were related to purchases of Awarded Shares (2010: $184 million were related to purchases of Awarded Shares and $4 million were related to purchases of shares arising from re-investing dividends received on Awarded Shares).

(d) During the year, the Share Award Scheme transferred 94,421 HKEx shares (2010: 317,172 shares) to the awardees upon vesting of certain Awarded Shares and the shares arising from related dividends reinvested. The total cost of the vested shares was $10 million (2010: $21 million).

36. Employee Share-based Compensation Reserve

	Group and HKEx	
	2011 **$m**	2010 $m
At 1 Jan	**56**	43
Employee share-based compensation benefits (notes 10 and (a))	**61**	36
Transfer to share premium upon exercise of employee share options (note 35)	**(2)**	(8)
Vesting of shares of Share Award Scheme	**(9)**	(15)
At 31 Dec	**106**	56

(a) The Group operates two share option schemes and a share award scheme as part of the benefits to its employees.

(b) Share options

(i) Under the terms of the Pre-Listing Share Option Scheme (Pre-Listing Scheme) and the Post-Listing Scheme, share options were granted to employees in June 2000 and during the period from May 2003 to January 2005 respectively. The share options would vest progressively from the second to the fifth year after the grant provided that the relevant employee remained employed by the Group. Forfeited share options would be cancelled. Share options of the Pre-Listing Scheme are exercisable up to 30 May 2010 and share options for the Post-Listing Scheme are exercisable up to 10 years after the grant date.

The estimated fair value of share options granted is determined at the date of the grant and is charged as an expense over the projected vesting period being the period for which the services from the employees are rendered with a corresponding credit to employee share-based compensation reserve.

On exercising the share options, the consideration received is credited to share capital in respect of the nominal value of the shares issued with the balance credited to share premium. The original estimated fair value of the relevant share options is then transferred from employee share-based compensation reserve to share premium.

When vested share options are not exercised on expiry, the original estimated fair value of such share options is transferred from employee share-based compensation reserve to retained earnings.

36. Employee Share-based Compensation Reserve (continued)

(b) Share options (continued)

(ii) Movements in the number of shares issuable under options granted and their related weighted average exercise prices were as follows:

	2011		2010	
	Average exercise price per share $	**Number of shares issuable under options granted ’000**	Average exercise price per share $	Number of shares issuable under options granted ’000
Pre-Listing Scheme				
Outstanding at 1 Jan	-	-	6.88	114
Exercised	-	-	6.88	(114)
Outstanding at 31 Dec	-	-	-	-
Post-Listing Scheme				
Outstanding at 1 Jan	**18.28**	**1,455**	18.43	3,243
Exercised	**18.29**	**(470)**	18.54	(1,788)
Outstanding at 31 Dec	**18.28**	**985**	18.28	1,455
Total	**18.28**	**985**	18.28	1,455

At 31 December 2011, all outstanding options (31 December 2010: all) were vested and exercisable at a weighted average exercise price of $18.28 (31 December 2010: $18.28 per share).

Options exercised in 2011 resulted in 469,900 shares (2010: 1,902,000 shares) being issued at a weighted price of $18.29 per share (2010: $17.85 per share). The weighted average closing share price on the dates on which the options were exercised was $161.06 (2010: $132.16) per share.

(iii) Share options outstanding at 31 December had the following remaining contractual lives and exercise prices:

	At 31 Dec 2011		At 31 Dec 2010	
	Remaining contractual life	**Number of shares issuable under options granted ’000**	Remaining contractual life	Number of shares issuable under options granted ’000
Exercise price				
$16.96	**2.24 years**	**382**	3.24 years	470
$15.91	**2.37 years**	**25**	3.37 years	100
$19.25	**3.07 years**	**578**	4.07 years	885
	2.73 years	**985**	3.75 years	1,455

36. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares

(i) From September 2005, a Share Award Scheme (the Scheme) has been in effect. The terms of the Scheme provide for shares in HKEx to be awarded to employees of the Group (including the Executive Director) as part of their compensation package. Such shares would be vested progressively over the vesting period after the awards are granted, provided that the relevant awardee remained employed by the Group or retired on reaching normal retirement age. In April 2010, the Board resolved to amend the Scheme and change the vesting period of the Awarded Shares granted on or after 13 May 2010 from 5 years to 3 years, and the shares would be vested in two equal tranches from the second to the third year after the shares are granted, as opposed to four equal tranches from the second to fifth year prior to the change. Before vesting, the Awarded Shares are held in a trust set up by the Scheme.

For awardees who cease employment with the Group before vesting, the unvested shares are forfeited. The forfeited shares are held by the trustee of the Scheme who may award such shares to the awardees taking into consideration recommendations of the Board.

Following the Board's decision to award shares to eligible employees, the Awarded Shares are either purchased from the market or are awarded by regranting the forfeited or unallocated shares held by the Scheme.

The cost of the Awarded Shares (for shares purchased from the market) or the fair value of the Awarded Shares at the date of the grant (for shares awarded by regranting forfeited or unallocated shares held by the Scheme) is charged to staff costs and related expenses over the projected vesting period being the period for which the services from the employees are rendered with a corresponding credit to employee share-based compensation reserve.

Further shares are derived from dividends payable on the Awarded Shares held in the Scheme from reinvesting the dividends or under the scrip dividend scheme (dividend shares), and the amount is debited to Shares held for Share Award Scheme. The dividend shares are allocated to the awardees on a pro rata basis and have the same vesting periods as the related Awarded Shares.

Upon vesting and transfer to the awardees, the related costs of the vested Awarded Shares purchased from the market and the dividend shares are credited to Shares held for Share Award Scheme, with a corresponding decrease in employee share-based compensation reserve for Awarded Shares, and decrease in retained earnings for dividend shares.

For vesting of forfeited or unallocated shares regranted, the related costs of the forfeited or unallocated shares regranted are credited to Shares held for Share Award Scheme, and the related fair value of the shares regranted are debited to employee share-based compensation reserve. The difference between the cost and the fair value of the shares regranted is credited to share premium if the fair value is higher than the cost or debited against retained earnings if the fair value is less than the cost.

36. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

Details of the Awarded Shares awarded during 2010 and 2011 are set out below:

Date of approval by Board	Date of award	Awarded Sum $'000	Number of shares purchased	Number of Awarded Shares awarded	Average fair value per share $	Vesting period
23 Apr 2010	10 Jun 2010	88,516	720,100	720,054 [1]	123.29	13 May 2012 – 13 May 2013
23 Apr 2010	9 Jul 2010	840	6,900	6,900	121.88	10 Jun 2012 – 10 Jun 2013
23 Apr 2010	9 Jul 2010	2,520	21,000	21,000	120.32	2 Jul 2012 – 2 Jul 2013
14 Dec 2010	31 Dec 2010	91,303	518,100	518,039 [1]	176.75	14 Dec 2012 – 14 Dec 2013
14 Dec 2010	30 Mar 2011	570	3,300	3,300	169.92	13 Jan 2013 – 13 Jan 2014
14 Dec 2010	30 Mar 2011	2,310	13,600	13,600	169.92	1 Feb 2013 – 1 Feb 2014
14 Dec 2010	8 Apr 2011	263	1,400	1,400	179.55	1 Apr 2013 – 1 Apr 2014
14 Dec 2010	9 Jun 2011	570	3,300	3,300	171.59	26 Apr 2013 – 26 Apr 2014
14 Dec 2010	8 Jul 2011	1,560	9,200	9,200	168.87	8 Jul 2013 – 8 Jul 2014
14 Dec 2010	7 Sept 2011	405	2,900	2,900	137.12	20 Jul 2013 – 20 Jul 2014
14 Dec 2010	11 Oct 2011	1,620	11,800	11,800	137.22	19 Sept 2013 – 19 Sept 2014
14 Dec 2010	11 Oct 2011	1,560	14,400	14,400	108.03	3 Oct 2013 – 3 Oct 2014
14 Dec 2011	30 Dec 2011	113,624	567,800	912,437 [1,2]	124.75	14 Dec 2013 – 14 Dec 2014

[1] 73,217, 40,856 and 70,495 shares were awarded to the Chief Executive of HKEx on 10 June 2010, 31 December 2010 and 30 December 2011 respectively.

[2] 344,706 shares were awarded by re-granting the forfeited or unallocated shares held by the Scheme.

Details of the Awarded Shares vested during 2010 and 2011 are as follows:

Date of award	Average fair value per share $	**2011** Number of Awarded Shares vested	**2011** Cost of related Awarded Shares $m	2010 Number of Awarded Shares vested	2010 Cost of related Awarded Shares $m
19 Dec 2005	31.20	-	-	181,875	6
15 Jan 2007	72.28	**40,220**	**3**	54,673 [3]	4
7 Jun 2007	81.33	-	-	1,750	< 1
17 Jul 2007	102.29	**1,375**	**< 1**	1,375	< 1
4 Feb 2008	163.72	**25,961**	**5**	30,755	5
7 Apr 2008	144.18	-	-	4,200 [4]	< 1
3 Feb 2009	81.96	**14,975**	**1**	-	-
		82,531	**9**	274,628	15

[3] 5,764 of the shares vested were for the former Chief Executive of HKEx

[4] The shares vested were for the former Chief Executive of HKEx

During the year, 46,895 HKEx shares were issued to the Scheme in lieu of cash dividends at a total consideration of $7 million (2010: 31,300 shares were purchased by the Scheme through reinvesting dividends received at a total cost of $4 million), of which 38,052 shares (2010: 26,392 shares) were subsequently allocated to awardees.

36. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

During the year, 11,890 dividend shares (2010: 42,544 shares, including 951 shares for the former Chief Executive of HKEx) at a cost of $1 million (2010: $6 million) were vested and transferred to the employees at nil consideration.

(ii) Movements in the number of Awarded Shares awarded and dividend shares were as follows:

	2011 Number of Awarded Shares and dividend shares	2010 Number of Awarded Shares and dividend shares
Outstanding at 1 Jan	**1,416,002**	574,408
Awarded[1]	**972,337**	1,265,993
Forfeited	**(115,998)**	(123,086)
Vested	**(82,531)**	(274,628)
Dividend shares:		
- allocated to awardees	**38,052**	26,392
- allocated to awardees but subsequently forfeited	**(4,256)**	(10,533)
- vested	**(11,890)**	(42,544)
Outstanding at 31 Dec	**2,211,716**	1,416,002

[1] Average fair value per share was $126.13 (2010: $145.11)

(iii) The remaining vesting periods of the Awarded Shares awarded and dividend shares outstanding at 31 December were as follows:

	At 31 Dec 2011		At 31 Dec 2010	
	Remaining vesting period	**Number of Awarded Shares and dividend shares outstanding**	Remaining vesting period	Number of Awarded Shares and dividend shares outstanding
Shares awarded in				
2007	**0.47 year**	**1,375**	0.47 year to 1.47 years	49,220
2008	**0.95 year**	**26,059**	0.95 year to 1.95 years	59,817
2009	**0.00 year to 2.00 years**	**44,925**	0.00 year to 3.00 years	59,900
2010	**0.37 year to 1.95 years**	**1,116,294**	1.37 years to 2.95 years	1,218,245
2011	**1.04 years to 2.95 years**	**972,337**	-	-
Dividend shares	**0.00 year to 2.55 years**	**50,726**	0.00 year to 3.00 years	28,820
		2,211,716		1,416,002

(iv) At 31 December 2011, 24,451 forfeited or unallocated shares (31 December 2010: 239,991 shares) were held by the Scheme and would be regranted to eligible employees in future.

37. Designated Reserves

Clearing House Funds reserves (note 31(b))

	Group			
	HKSCC Guarantee Fund reserve $m	**SEOCH Reserve Fund reserve** $m	**HKCC Reserve Fund reserve** $m	**Total** $m
At 1 Jan 2010	122	109	332	563
Surplus of net investment income net of expenses of Clearing House Funds transferred from retained earnings	3	2	7	12
Reversal of provision for closing-out losses caused by a defaulting Clearing Participant transferred from retained earnings	-	-	5	5
Transfer from retained earnings (note 39)	3	2	12	17
At 31 Dec 2010	125	111	344	580
At 1 Jan 2011	**125**	**111**	**344**	**580**
Deficit of net investment income net of expenses of Clearing House Funds transferred to retained earnings (note 39)	**(2)**	**(1)**	**-**	**(3)**
At 31 Dec 2011	**123**	**110**	**344**	**577**

38. Merger Reserve

	HKEx	
	2011 **$m**	2010 $m
At 1 Jan	**2,997**	2,997
Transfer to retained earnings (note 39)	**(2,303)**	-
At 31 Dec	**694**	2,997

The Group has taken advantage of the merger relief available under section 48C of the Hong Kong Companies Ordinance and treated the premium created by the issuance of shares on 6 March 2000, the date HKEx became the holding company of the Stock Exchange and the Futures Exchange and their subsidiaries, as a merger reserve.

As a result of the adjustment to the carrying value of the cost of investments of the subsidiaries in 2011 (note 34(a)(i)), $2,303 million of the merger reserve became realised and hence distributable in accordance with Accounting Bulletin 4: Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance and was transferred to retained earnings during the year.

39. Retained Earnings (Including Proposed Dividend)

	Group		HKEx	
	2011	2010	**2011**	2010
	$m	$m	**$m**	$m
At 1 Jan	**6,766**	6,021	**1,416**	1,967
Profit attributable to shareholders (note (a))	**5,093**	5,037	**7,671**	3,724
Transfer from/(to) Clearing House Funds reserves (note 37)	**3**	(17)	**-**	-
Transfer from merger reserve (note 38)	**-**	-	**2,303**	-
Dividends:				
2010/2009 final dividend	**(2,487)**	(2,251)	**(2,487)**	(2,251)
2011/2010 interim dividend	**(2,327)**	(2,034)	**(2,327)**	(2,034)
Unclaimed HKEx dividends forfeited (note 29(b))	**6**	16	**6**	16
Vesting of shares of Share Award Scheme	**(1)**	(6)	**(1)**	(6)
At 31 Dec	**7,053**	6,766	**6,581**	1,416
Representing:				
Retained earnings	**4,801**	4,280	**4,329**	(1,070)
Proposed dividend	**2,252**	2,486	**2,252**	2,486
At 31 Dec	**7,053**	6,766	**6,581**	1,416

(a) Profit attributable to shareholders included a profit of $7,671 million (2010: $3,724 million), which included $9,920 million (2010: $3,688 million) of dividends from subsidiaries and a reduction in carrying value of investments in subsidiaries of $2,303 million (2010: $Nil) (note 34(a)(i)), and has been dealt with in the financial statements of HKEx, the holding company of the Group.

40. Notes to the Consolidated Statement of Cash Flows

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

	2011 **$m**	2010 $m
Profit before taxation	**6,032**	5,954
Adjustments for:		
Net interest income	**(276)**	(133)
Dividend income	**(10)**	(5)
Net fair value gains including interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	**(102)**	(337)
Losses on disposal of financial assets measured at amortised cost of Corporate Funds	**-**	4
Forfeiture of unclaimed cash dividends held by HKSN	**(108)**	-
Depreciation	**90**	107
Employee share-based compensation benefits	**61**	36
Gain on disposal of fixed assets	**-**	(1)
Provision for/(reversal of provision for) impairment losses of receivables	**2**	(4)
Changes in provisions	**5**	(5)
Net increase in Margin Fund financial assets	**(8,740)**	(2,447)
Net increase in Margin Fund financial liabilities	**8,657**	2,459
Net decrease/(increase) in Clearing House Fund financial assets	**1,151**	(901)
Net (decrease)/increase in Clearing House Fund financial liabilities	**(1,155)**	1,045
Net decrease/(increase) in financial assets of cash collateral	**361**	(162)
Net (decrease)/increase in cash collateral received from HKSCC Clearing Participants	**(361)**	162
Net increase in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	**(104)**	(455)
Decrease in accounts receivable, prepayments and deposits	**1,972**	2,133
Decrease in other current liabilities	**(1,613)**	(1,833)
Net cash inflow from operations	**5,862**	5,617
Dividends received	**9**	5
Interest received from bank deposits	**261**	115
Interest received from financial assets measured at fair value through profit or loss	**123**	110
Interest paid	**(2)**	(4)
Hong Kong Profits Tax paid	**(980)**	(857)
Net cash inflow from operating activities	**5,273**	4,986

41. Commitments

(a) Commitments in respect of capital expenditures:

	Group		HKEx	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m	**At 31 Dec 2011 $m**	At 31 Dec 2010 $m
Contracted but not provided for	**729**	149	**1**	-
Authorised but not contracted for	**876**	1,926	**109**	22
	1,605	2,075	**110**	22

The commitments in respect of capital expenditures of the Group were mainly related to the new data centre at Tseung Kwan O with hosting services capability, the development of the next generation market data system and the over-the-counter derivatives clearing system.

(b) Commitments for total future minimum lease payments under non-cancellable operating leases

	Group		HKEx	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m	**At 31 Dec 2011 $m**	At 31 Dec 2010 $m
Land and buildings				
- within one year	**117**	160	**4**	2
- in the second to fifth years	**209**	303	**3**	1
	326	463	**7**	3
Computer systems, software and equipment				
- within one year	**7**	6	**4**	4
	333	469	**11**	7

At 31 December 2011 and 31 December 2010, in respect of computer systems, software and equipment, the Group did not have any purchase options.

(c) Commitments in respect of financial contributions to Financial Reporting Council

The Financial Reporting Council (FRC) is an independent statutory body established to receive and investigate complaints concerning irregularities of auditors and reporting accountants of listed companies and non-compliances in the financial reports of listed companies. Since the establishment of the FRC in 2006, the Group has been providing funding for the FRC's operations.

Under a memorandum of understanding signed in December 2009, the Group has agreed to make recurrent contributions to the FRC from 2010 to 2014. The first three contributions during 2010 to 2012 were $4 million per annum. The contributions for 2013 and 2014 would be $5 million per annum.

42. Contingent Liabilities

At 31 December 2011, the Group and HKEx's material contingent liabilities were as follows:

(a) Group

(i) 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.

(ii) 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 (note 30(b)(i)). 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).

(b) HKEx

(i) HKEx had given an undertaking in favour of HKSCC to contribute up to $50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs of winding up (note 30(b)(ii)).

(ii) HKEx had issued two guarantees to two banks in respect of banking facilities granted to three wholly-owned subsidiaries amounting to $4,000 million. At 31 December 2011 and 31 December 2010, the banking facilities had not been drawn down.

43. Future Operating Lease Receipts

At 31 December, the future aggregate minimum lease receipts under non-cancellable operating leases of the Group were as follows:

	Group	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m
Land and buildings		
- within one year	**-**	1
Trading booths and related facilities		
- within one year	**11**	13
- in the second to fifth years	**21**	-
Total	**32**	14

44. Connected Transactions and Material Related Party Transactions

(a) Connected transactions and material related party transactions

Certain Directors of HKEx may be directors and/or shareholders of (i) Stock Exchange Participants and Futures Exchange Participants (Exchange Participants) and Clearing Participants of HKSCC, HKCC and SEOCH (Clearing Participants); (ii) companies listed on the Stock Exchange; and (iii) Exchange Participants for buying shares on behalf of HKSCC. Securities and derivatives contracts traded by, and fees levied on, these Exchange Participants and Clearing Participants, fees levied on these listed companies and fees paid to these Exchange Participants for buying shares on behalf of HKSCC are all undertaken in the ordinary course of business of the Group on the standard terms and conditions applicable to all other Exchange Participants, Clearing Participants, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

44. Connected Transactions and Material Related Party Transactions (continued)

(b) Material related party transactions

In addition to the above, the Group or HKEx entered into the following material related party transactions which are not regarded as connected transactions as defined under the Main Board Listing Rules:

(i) Transactions with subsidiaries

	HKEx	
	2011 $m	2010 $m
Dividend income	**9,920**	3,688
Management fees and equipment rental fees charged	**588**	481
Expenses recharged	**1,023**	932

(ii) Key management personnel compensation

	Group		HKEx	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Salaries and other short-term employee benefits	**84**	87	**70**	72
Employee share-based compensation benefits	**26**	10	**21**	8
Retirement benefit costs	**6**	6	**5**	5
	116	103	**96**	85

(iii) Balances with related parties

	HKEx	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m
Amounts due from subsidiaries (note 34(b))	**5,123**	3,684
Amounts due to subsidiaries (note 34(b))	**(39)**	(2,030)
Financial guarantee granted to a subsidiary (maximum amount guaranteed) (note 42(b)(i))	**50**	50

(iv) Post-retirement benefit plans

The Group has sponsored an ORSO Plan and a MPF Scheme as its post-retirement benefit plans (note 10(a)).

The retirement benefit costs charged to the consolidated statement of comprehensive income represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees. The contribution payable to the MPF Scheme at 31 December 2011 was less than $1 million (31 December 2010: less than $1 million) and no contribution to the ORSO Plan was outstanding at 31 December 2011 and 31 December 2010.

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

45. Banking Facilities with Assets Pledged

The Group did not have any assets pledged at 31 December 2011 and 31 December 2010.

46. Capital Management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth; and
- To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the expected capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group adopts a dividend policy of providing shareholders with regular dividends with a normal target payout ratio of 90 per cent of the Group's profit of the year, while retaining 10 per cent of the profit as capital of the Group for future use. During the year ended 31 December 2011, the Group increased the amount of shareholders' funds set aside for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties by $900 million to $4,000 million (31 December 2010: $3,100 million).

As in prior years, the Group monitors capital by reviewing the level of capital that is at the disposal of the Group (adjusted capital). Adjusted capital comprises all components of shareholders' equity other than designated reserves. The adjusted capital of the Group at 31 December 2011 was $8,582 million (31 December 2010: $8,097 million).

47. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, equity price risk and interest rate risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

(a) Market risk management

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity prices and interest rates. The Group is exposed to market risk primarily through its investments held.

Financial assets of the Group are maintained for the Corporate Funds, Clearing House Funds, Margin Funds and cash collateral received from Participants.

The Group's investment policy is to prudently invest all funds managed by the Group in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

Investment and fund management is governed by the HKEx Investment Policy, Restrictions and Guidelines, which is approved by the Board and reviewed regularly and at least once every three years. Investment restrictions and guidelines form an integral part of risk control. Fund-specific restrictions and guidelines are set according to the investment objectives of each fund. Investments are diversified to minimise risks and no investments are made for speculative purposes. In addition, specific limits are set for each fund to control risks (eg, permissible asset type, asset allocation, liquidity, credit requirement, counterparty concentration, maturity, foreign exchange exposures and interest rate risks) of the investments.

47. Financial Risk Management (continued)

(a) Market risk management (continued)

An Investment Advisory Committee, comprised of Non-executive Directors of HKEx and an external member from the financial community, advises the Board on portfolio management and monitors the risk and performance of HKEx's investments. A Treasury team in the Finance Department is dedicated to the day-to-day management and investment of the funds. External fund managers have also been appointed to manage part of the Corporate Funds since July 2001. The external fund managers are stable and financially strong financial institutions and each has a worldwide aggregate fund size of a minimum of US$10 billion under management.

(i) Foreign exchange risk management

Foreign exchange risk is the risk that the value of an asset, liability or highly probable forecast transaction denominated in foreign currency will fluctuate because of changes in foreign exchange rates. When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency bank deposits have been used to economically hedge the currency exposure of the Group's non-HKD investments and liabilities to mitigate risks arising from fluctuations in exchange rates.

Under the Group's investment policy, the investment in non-HKD instruments is subject to the following restrictions:

- up to 20 per cent of the externally-managed Corporate Funds may be invested in non-HKD and non-USD investments without economic hedging;
- For internally-managed Corporate Funds, Clearing House Funds, Margin Funds and cash collateral, unhedged investments in currencies other than HKD or USD must fully match the respective liabilities or forecast payments for the funds. Unhedged investments in USD may not exceed 20 per cent of the respective funds. Holdings in RMB are permitted if the currencies have been received in connection with the trading, clearing, settlement or services in respect of the Group's RMB products.

Details of the Group's and HKEx's financial assets and financial liabilities denominated in foreign currencies and the net open foreign currency positions (ie, gross positions less forward foreign exchange contracts and other offsetting exposures (economic hedges)) at 31 December in HKD equivalents were as follows:

47. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

		Group		
		At 31 Dec 2011		
	Foreign currency	Gross open position $m	Economic hedges $m	Net open position $m
Financial assets/(financial liabilities)				
Cash and cash equivalents[1]	AUD	**7**	**-**	**7**
	CHF	**3**	**-**	**3**
	EUR	**1**	**-**	**1**
	GBP	**1**	**-**	**1**
	JPY	**129**	**(101)**	**28**
	RMB	**10**	**-**	**10**
	USD	**1,375**	**(557)**	**818**
Financial assets measured at fair value through profit or loss[1,2]	AUD	**291**	**(261)**	**30**
	CAD	**69**	**(3)**	**66**
	CHF	**9**	**(2)**	**7**
	EUR	**311**	**(289)**	**22**
	GBP	**147**	**(115)**	**32**
	JPY	**25**	**(23)**	**2**
	NZD	**24**	**-**	**24**
	RMB	**140**	**-**	**140**
	SEK	**2**	**-**	**2**
	SGD	**53**	**-**	**53**
	USD	**2,327**	**(1,459)**	**868**
Financial assets measured at amortised cost	RMB	**1**	**-**	**1**
	USD	**45**	**-**	**45**
Accounts receivable and deposits	CAD	**1**	**-**	**1**
	GBP	**1**	**-**	**1**
	RMB	**6**	**-**	**6**
	USD	**2**	**-**	**2**
Margin deposits from Clearing Participants on derivatives contracts[1]	JPY	**(101)**	**101**	**-**
	USD	**(1,125)**	**1,125**	**-**
Accounts payable, accruals and other liabilities	RMB	**(10)**	**-**	**(10)**
	USD	**(44)**	**-**	**(44)**
Total net open positions for the Group	AUD			**37**
	CAD			**67**
	CHF			**10**
	EUR			**23**
	GBP			**34**
	JPY			**30**
	NZD			**24**
	RMB			**147**
	SEK			**2**
	SGD			**53**
	USD			**1,689**
				2,116

1 Foreign currency margin deposits received by the Group are economically hedged by investments in the same currencies.

2 Forward foreign exchange contracts have been used as economic hedges for the currency exposures of the Group’s investments by external fund managers.

47. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

		Group		
		At 31 Dec 2010		
	Foreign currency	Gross open position $m	Economic hedges $m	Net open position $m
Financial assets/(financial liabilities)				
Cash and cash equivalents[1]	AUD	5	-	5
	EUR	2	-	2
	GBP	4	-	4
	JPY	102	(96)	6
	RMB	22	-	22
	SGD	1	-	1
	USD	997	(969)	28
Financial assets measured at fair value through profit or loss[2]	AUD	250	(215)	35
	CAD	58	-	58
	CHF	14	-	14
	EUR	475	(379)	96
	GBP	95	(74)	21
	JPY	41	(12)	29
	NZD	15	-	15
	RMB	24	-	24
	SGD	46	-	46
	USD	2,503	(480)	2,023
Margin deposits from Clearing Participants on derivatives contracts[1]	JPY	(96)	96	-
	USD	(969)	969	-
Accounts payable, accruals and other liabilities	RMB	(3)	-	(3)
	USD	(25)	-	(25)
Total net open positions for the Group	AUD			40
	CAD			58
	CHF			14
	EUR			98
	GBP			25
	JPY			35
	NZD			15
	RMB			43
	SGD			47
	USD			2,026
				2,401

1 Foreign currency margin deposits received by the Group are economically hedged by investments in the same currencies.

2 Forward foreign exchange contracts have been used as economic hedges for the currency exposures of the Group's investments by external fund managers.

47. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

		HKEx	
		Gross and net open position	
	Foreign currency	**At 31 Dec 2011 $m**	At 31 Dec 2010 $m
Financial assets/(financial liabilities)			
Cash and cash equivalents	RMB	**4**	1
Financial assets measured at amortised cost	RMB	**1**	1
Accounts receivable and deposits	RMB	**1**	-
Accounts payable and other liabilities	RMB	**(4)**	(3)
	USD	**(25)**	(18)
Total net open positions for HKEx	RMB	**2**	1
	USD	**25**	18
		27	19

(ii) Equity and commodity price risk management

The Group is exposed to equity price risk as mutual funds, equities, equity index futures and options contracts may be held as part of the externally-managed Corporate Fund's investments. Equity price risk is capped by an asset allocation limit. The Group sets prudent investment limits and restrictions to control investment in equity securities. The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's investment policy.

(iii) Interest rate risk management

There are two types of interest rate risk:

- Fair value interest rate risk - the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and
- Cash flow interest rate risk - the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to both fair value and cash flow interest rate risks as the Group has significant assets and liabilities which are interest-bearing. The Group manages its interest rate risks by setting limits on the residual maturity of the investments and on the fixed and floating rate mismatches of its assets and liabilities.

The contractual interest rates of the financial instruments held by the Group and HKEx (excluding bank deposits held at savings and current accounts and zero coupon bonds purchased at discounts) at 31 December 2011 ranged from 0.01 per cent to 11.25 per cent (31 December 2010: 0.01 per cent to 8.75 per cent) and 1.00 per cent to 2.19 per cent (31 December 2010: 0.03 per cent to 2.19 per cent) respectively.

(iv) Risk management techniques

Value-at-Risk (VaR) based on historical simulation and portfolio stress testing are used to identify, measure, monitor and control foreign exchange risk, equity price risk and interest rate risks of the Group's investments. 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 (one year is used by the Group). VaR is monitored on a weekly basis and the Board sets a limit on total VaR for the Group, as well as individual limit for each fund under management (Clearing House Funds, Margin Funds, cash collateral and Corporate Funds).

47. Financial Risk Management (continued)

(a) Market risk management (continued)

(iv) Risk management techniques (continued)

VaR is a statistical measure of risks and has limitations associated with the assumptions employed. Historical simulation assumes that actual observed historical changes in market indices, such as interest rates, foreign exchange rates and equity prices, reflect possible future changes. This implies that the approach is vulnerable to sudden changes in market behaviour. The use of a 10-day holding period assumes that the positions can be unwound in 10 trading days and the holding period may be insufficient at times of severe illiquidity. Also, VaR does not necessarily reflect all aspects of risks that affect the price of financial instruments and may underestimate real market risk exposure. In addition, VaR does not factor in the possibility of catastrophic risk but the use of stress testing for abnormal market conditions can mitigate this limitation.

The VaR for each risk factor and the total VaR of the investments and related economic hedges of the Group and HKEx at 31 December were as follows:

	Group		**HKEx**	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m	**At 31 Dec 2011 $m**	At 31 Dec 2010 $m
Foreign exchange risk	**8**	8	**< 1**	-
Equity price risk	**22**	21	**-**	-
Interest rate risk	**16**	22	**< 1**	< 1
Total VaR	**26**	31	**< 1**	< 1

VaR for each risk factor is the independently derived largest potential loss due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

(b) Liquidity risk management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset, and it results from amount and maturity mismatches of assets and liabilities.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met.

47. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

Surplus cash of the Group is invested by the Treasury team, and the investments of the Group are kept sufficiently liquid to meet the operating needs and possible liquidity requirements of the Clearing House Funds, Margin Funds and cash collateral. The Group also sets a limit on the minimum level of cash or bank deposits held for the Corporate Funds, and the minimum level of investments to be held that would mature the same day for the Clearing House Funds, Margin Funds and cash collateral.

The table below analyses the Group's and HKEx's financial assets into the relevant maturity buckets based on the following criteria:

- the expected amounts, subject to costs to liquidate that are expected to be immaterial, that could be realised from the investments, bank deposits and cash and cash equivalents within one month to meet cash outflows on financial liabilities if required are allocated to the up to 1 month bucket; and
- other financial assets are allocated based on their contractual maturity dates.

	Group				
	At 31 Dec 2011				
	Up to 1 month[1] $m	**>1 month to 3 months $m**	**>3 months to 1 year $m**	**>1 year to 5 years $m**	**Total $m**
Cash and cash equivalents	**18,221**	**-**	**-**	**-**	**18,221**
Financial assets measured at fair value through profit or loss	**11,349**	**-**	**-**	**-**	**11,349**
Financial assets measured at amortised cost	**16,203**	**5**	**-**	**43**	**16,251**
Accounts receivable and deposits[2]	**7,150**	**35**	**3**	**-**	**7,188**
	52,923	**40**	**3**	**43**	**53,009**

	Group				
	At 31 Dec 2010				
	Up to 1 month[1] $m	>1 month to 3 months $m	>3 months to 1 year $m	>1 year to 5 years $m	Total $m
Cash and cash equivalents	19,361	-	-	-	19,361
Financial assets measured at fair value through profit or loss	11,190	-	-	-	11,190
Financial assets measured at amortised cost	7,756	-	17	31	7,804
Accounts receivable and deposits[2]	9,140	48	-	-	9,188
	47,447	48	17	31	47,543

[1] Amounts included $2,401 million (31 December 2010: $7,474 million) of financial assets with contractual maturity over one year. They could readily be liquidated whenever liquid funds are required.

[2] Amounts excluded prepayments of $45 million (31 December 2010: $18 million).

47. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	HKEx				
	At 31 Dec 2011				
	Up to 1 month[3]	>1 month to 3 months	>3 months to 1 year	>1 year to 5 years	Total
	$m	$m	$m	$m	$m
Cash and cash equivalents	**607**	**-**	**-**	**-**	**607**
Financial assets measured at amortised cost	**1,486**	**-**	**-**	**1**	**1,487**
Amounts due from subsidiaries	**5,123**	**-**	**-**	**-**	**5,123**
	7,216	**-**	**-**	**1**	**7,217**

	HKEx				
	At 31 Dec 2010				
	Up to 1 month[3]	>1 month to 3 months	>3 months to 1 year	>1 year to 5 years	Total
	$m	$m	$m	$m	$m
Cash and cash equivalents	45	-	-	-	45
Financial assets measured at amortised cost	98	-	-	1	99
Accounts receivable and deposits[4]	1	-	-	-	1
Amounts due from subsidiaries	3,684	-	-	-	3,684
	3,828	-	-	1	3,829

[3] Amounts included $6 million (31 December 2010: $14 million) of financial assets with contractual maturity over one year. They could readily be liquidated whenever liquid funds are required.

[4] Amounts excluded prepayments of $17 million.

In addition, banking facilities have 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 included $4,000 million of committed banking facilities that provide for same day borrowing in HKD and/or RMB (31 December 2010: $4,000 million) and $9,000 million (31 December 2010: $9,000 million) of repurchase facilities.

The table below analyses the Group's and HKEx's non-derivative financial liabilities at 31 December into relevant maturity buckets based on their contractual maturity dates. Derivative financial liabilities are included in the analysis where their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

47. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	Group			
	At 31 Dec 2011			
	Up to 1 month $m	**>1 month to 3 months $m**	**>3 months to 1 year $m**	**Total $m**
Margin deposits from Clearing Participants on derivatives contracts	**31,359**	**-**	**-**	**31,359**
Cash collateral from HKSCC Clearing Participants	**3,233**	**-**	**-**	**3,233**
Accounts payable, accruals and other liabilities	**8,343**	**2**	**111**	**8,456**
Other financial liabilities:				
Other financial liabilities of Clearing House Funds	**26**	**3**	**-**	**29**
Other financial liabilities of Corporate Funds:				
Financial guarantee contract (maximum amount guaranteed) (note 42(a)(ii))	**100**	**-**	**-**	**100**
Participants' contributions to Clearing House Funds	**394**	**440**	**46**	**880**
Total	**43,455**	**445**	**157**	**44,057**

	Group			
	At 31 Dec 2010			
	Up to 1 month $m	>1 month to 3 months $m	>3 months to 1 year $m	Total $m
Margin deposits from Clearing Participants on derivatives contracts	22,702	-	-	22,702
Cash collateral from HKSCC Clearing Participants	3,594	-	-	3,594
Accounts payable, accruals and other liabilities	9,836	4	106	9,946
Other financial liabilities:				
Other financial liabilities of Clearing House Funds	25	-	-	25
Other financial liabilities of Corporate Funds:				
Financial guarantee contract (maximum amount guaranteed) (note 42(a)(ii))	97	-	-	97
Participants' contributions to Clearing House Funds	1,575	418	46	2,039
Total	37,829	422	152	38,403

47. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	HKEx			
	At 31 Dec 2011			
	Up to 1 month $m	**>1 month to 3 months $m**	**>3 months to 1 year $m**	**Total $m**
Accounts payable, accruals and other liabilities	**237**	**2**	**5**	**244**
Amounts due to subsidiaries	**39**	**-**	**-**	**39**
Other financial liabilities:				
Other financial liabilities of Corporate Funds:				
Financial guarantee contract (maximum amount guaranteed) (note 42(b)(i))	**50**	**-**	**-**	**50**
Total	**326**	**2**	**5**	**333**

	HKEx			
	At 31 Dec 2010			
	Up to 1 month $m	>1 month to 3 months $m	>3 months to 1 year $m	Total $m
Accounts payable, accruals and other liabilities	194	3	4	201
Amounts due to subsidiaries	2,030	-	-	2,030
Other financial liabilities:				
Other financial liabilities of Corporate Funds:				
Financial guarantee contract (maximum amount guaranteed) (note 42(b)(i))	50	-	-	50
Total	2,274	3	4	2,281

At 31 December 2011, the maximum gross nominal value of outstanding forward foreign exchange contracts held by the Group was $5,180 million (31 December 2010: $3,749 million). The table below analyses the Group's outstanding forward foreign exchange contracts at 31 December (which include all contracts regardless of whether they had gains or losses at the year end) that would be settled on a gross basis into relevant maturity buckets based on their contractual maturity dates. The amounts disclosed in the table are contractual undiscounted cash flows, which are different from the carrying amounts (ie, fair values) in the consolidated statement of financial position.

	Group					
	At 31 Dec 2011			At 31 Dec 2010		
	Up to 1 month $m	**>1 month to 3 months $m**	**Total $m**	Up to 1 month $m	>1 month to 3 months $m	Total $m
Forward foreign exchange contracts						
- outflows	**3,614**	**1,545**	**5,159**	2,373	1,376	3,749
- inflows	**3,624**	**1,556**	**5,180**	2,371	1,378	3,749

47. Financial Risk Management (continued)

(c) Credit risk management

(i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's investments and accounts receivables. Impairment provisions are made for losses that have been incurred at the end of the reporting period. The Group limits its exposure to credit risk by rigorously selecting the counterparties (ie, deposit-takers, bond issuers and debtors) and by diversification. At 31 December 2011, the investment in debt securities for Margin Funds, Clearing House Funds and Corporate Funds held were of investment grade and had a weighted average credit rating of Aa3 (31 December 2010: Aa2). 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. All investments are subject to a maximum concentration limit approved by the Board and there was no significant concentration risk to a single counterparty (except certain Hong Kong note-issuing banks). The Group mitigates its exposure to risks relating to accounts receivable from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

(ii) Clearing and settlement-related risk management

In the normal course of business, the clearing houses of the Group, HKSCC, SEOCH and HKCC, act as the counterparties to eligible trades concluded on the Stock Exchange and the Futures Exchange through the novation of the obligations of the buyers and sellers. HKSCC is also responsible for the good title to the securities deposited and accepted in the CCASS depository. As a result, the Group has considerable market risk and credit risk since the Participants' ability to honour their obligations in respect of their trades and securities deposited may be adversely impacted by economic conditions affecting the Cash and Derivatives Markets. If the Participants default on their obligations on settlement or there are defects in the title of securities deposited and accepted in the CCASS depository, the Group could be exposed to potential risks not otherwise accounted for in these financial statements.

The Group mitigates its exposure to risks described above by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants, monitoring compliance with risk management measures such as position limits established by the Group and requiring Clearing Participants to deposit margins and cash collateral and contribute to the Clearing House Funds set up by HKSCC, SEOCH and HKCC. Under the CCASS Rules, HKSCC has collected additional cash collateral from its Clearing Participants to increase the level of protection not just for HKSCC but also for the HKSCC Guarantee Fund from the risk of material loss in the event of a sizeable default. HKSCC also retains recourse against those Participants whose securities are deposited and accepted in the CCASS depository.

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. At 31 December 2011, bank guarantees of $1,643 million (31 December 2010: $1,832 million) were accepted for such purpose.

47. Financial Risk Management (continued)

(c) Credit risk management (continued)

(iii) Exposure to credit risk

At 31 December, the maximum exposure to credit risk of the financial assets of the Group and HKEx were equal to their carrying amounts. The maximum exposure to credit risk of the financial guarantee contracts held by the Group and HKEx were as follows:

	Group			
	At 31 Dec 2011		At 31 Dec 2010	
	Carrying amount in consolidated statement of financial position $m	**Maximum exposure to credit risk $m**	Carrying amount in consolidated statement of financial position $m	Maximum exposure to credit risk $m
Financial guarantee contract				
Undertaking to indemnify the Collector of Stamp Revenue (note 42(a)(ii))	**(20)**	**100**	(20)	97

	HKEx			
	At 31 Dec 2011		At 31 Dec 2010	
	Carrying amount in statement of financial position $m	**Maximum exposure to credit risk $m**	Carrying amount in statement of financial position $m	Maximum exposure to credit risk $m
Financial guarantee contract				
Financial guarantee granted to HKSCC (note 42(b)(i))	**(11)**	**50**	(11)	50

(iv) Collateral held for mitigating credit risk

Certain debtors were required to place cash deposits and bank guarantees as collateral with the Group to mitigate the Group's exposure to credit risk. The financial effect of the collateral, which is capped by the amount receivable from each debtor, was as follows:

	Group			
	At 31 Dec 2011		At 31 Dec 2010	
	Carrying amount in consolidated statement of financial position $m	**Collateral held for mitigating credit risk $m**	Carrying amount in consolidated statement of financial position $m	Collateral held for mitigating credit risk $m
Accounts receivable and deposits	**7,188**	**2,011**	9,188	2,482

No collateral was held by HKEx to mitigate its exposure to credit risk.

47. Financial Risk Management (continued)

(c) Credit risk management (continued)

(v) Financial assets that were past due but not impaired

At 31 December, the age analysis of the financial assets (which mainly relate to receivables from Participants and listed companies) of the Group that were past due but not determined to be impaired according to the period past due was as follows:

	Group	
	At 31 Dec 2011 $m	At 31 Dec 2010 $m
Up to six months	**351**	324

No financial assets of HKEx were past due at 31 December 2011 and 31 December 2010.

(vi) Financial assets that were impaired at the end of the reporting period

At 31 December 2011, receivables of the Group amounting to $160 million (31 December 2010: $158 million) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days at the end of the reporting period or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired are disclosed in note 2(r)(vi).

No financial assets of HKEx were impaired at 31 December 2011 and 31 December 2010.

(vii) Outstanding balances from debtors which were not recognised as income

As soon as a receivable becomes impaired, the Group may continue to allow the debtors concerned to participate in its markets but no further accounts receivable will be recognised in the consolidated statement of financial position as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when cash is received. At 31 December 2011, the amount of doubtful deferred revenue amounted to $79 million (31 December 2010: $62 million).

At 31 December 2011 and 31 December 2010, HKEx did not have any doubtful deferred revenue.

(d) Fair values of financial assets and financial liabilities

(i) Financial assets and financial liabilities carried at fair value

The following tables present the carrying value of financial assets and financial liabilities measured at fair value at 31 December according to the levels of the fair value hierarchy defined in HKFRS 7: Financial Instruments: Disclosures, with the fair value of each financial asset and financial liability categorised based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

47. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities (continued)

(i) Financial assets and financial liabilities carried at fair value (continued)

	Group		
	At 31 Dec 2011		
	Level 1 $m	**Level 2 $m**	**Total $m**
Assets			
Financial assets measured at fair value through profit or loss:			
- equity securities	**386**	**-**	**386**
- debt securities	**-**	**10,931**	**10,931**
- forward foreign exchange contracts	**32**	**-**	**32**
	418	**10,931**	**11,349**
Liabilities			
Other financial liabilities of Corporate Funds:			
Financial liabilities at fair value through profit or loss:			
- forward foreign exchange contracts	**11**	**-**	**11**
	11	**-**	**11**

	Group		
	At 31 Dec 2010		
	Level 1 $m	Level 2 $m	Total $m
Assets			
Financial assets measured at fair value through profit or loss:			
- equity securities	265	-	265
- debt securities	-	10,797	10,797
- mutual funds	115	-	115
- forward foreign exchange contracts	13	-	13
	393	10,797	11,190
Liabilities			
Other financial liabilities of Corporate Funds:			
Financial liabilities at fair value through profit or loss:			
- forward foreign exchange contracts	13	-	13
	13	-	13

During 2011 and 2010, no financial assets or financial liabilities were classified under Level 3 and there were no transfers of instruments between Level 1 and Level 2.

47. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities (continued)

(ii) Fair values of financial assets and financial liabilities not reported at fair values

Summarised in the following table are the carrying amounts and fair values of financial assets and financial liabilities not presented in the Group's and HKEx's statements of financial position at their fair values. The carrying amounts of short-term receivables (eg, accounts receivable, deposits and cash and cash equivalents) and short-term payables (eg, accounts payable and other liabilities) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

	Group			
	At 31 Dec 2011		At 31 Dec 2010	
	Carrying amount in consolidated statement of financial position $m	**Fair value $m**	Carrying amount in consolidated statement of financial position $m	Fair value $m
Financial assets				
Financial assets measured at amortised cost:				
- debt securities[1]	**706**	**710**	950	958
- other financial assets maturing over one year[2]	**49**	**48**	213	212
Financial liabilities				
Financial guarantee contract[3]	**20**	**86**	20	42

	HKEx			
	At 31 Dec 2011		At 31 Dec 2010	
	Carrying amount in statement of financial position $m	**Fair value $m**	Carrying amount in statement of financial position $m	Fair value $m
Financial assets				
Financial assets measured at amortised cost:				
- debt securities[1]	**14**	**14**	91	91
- other financial assets maturing over one year[2]	**1**	**1**	1	1
Financial liabilities				
Financial guarantee contract[3]	**11**	**43**	11	22

1 The fair values are provided by the custodian of the investments, a reputable independent third party custodian bank, or by the banks from whom the investments were purchased.

2 The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets/liabilities, adjusted by an estimated credit spread. Assets/liabilities without a contractual maturity date are assumed to mature exactly one year after the end of the reporting period. The discount rates used ranged from 0.83 per cent to 1.13 per cent at 31 December 2011 (31 December 2010: 0.65 per cent to 1.01 per cent).

3 The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate was 1.46 per cent at 31 December 2011 (31 December 2010: 2.85 per cent).