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

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

## **2010 Corporate Governance Report**

# 2010 CORPORATE GOVERNANCE REPORT

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(Financial figures in this report are expressed in Hong Kong dollar)

## Corporate Governance Practices

HKEx is committed to maintaining the highest levels of business integrity and Shareholders' long-term interests through a set of corporate governance principles and practices which have been established upon the four cornerstones of accountability, transparency, fairness and integrity. Since its listing in 2000, HKEx has spared no effort in improving its practices to ensure that they remain relevant in a quickly-evolving business environment while furthering its steadfast commitment to the highest governance standards.

As an exchange controller governed by the SFO, HKEx shall act in the interest of the public with particular regard to the interest of the investing public; and ensure that the interest of the public prevails where it conflicts with the interest of HKEx. We have the primary duty of ensuring an orderly, informed and fair securities and futures market and of ensuring risks are managed prudently. Our corporate governance structure is specifically designed to enable HKEx to discharge this statutory duty while pursuing its business objectives, which helps reinforce Hong Kong's position as an international financial centre.

As a listed company on the Stock Exchange (which is HKEx's wholly-owned subsidiary), HKEx is regulated by the SFC in order to prevent any potential conflicts of interest in compliance with the Main Board Listing Rules, thereby ensuring a level playing field with other listed issuers. Moreover, the regulatory function of the Stock Exchange assumed by HKEx's Listing Division is separate and independent of HKEx's income-generating business operations. The regulatory function is supervised by Listing Committee and GEM Listing Committee, which is totally independent of the Board, in order to maintain impartiality.

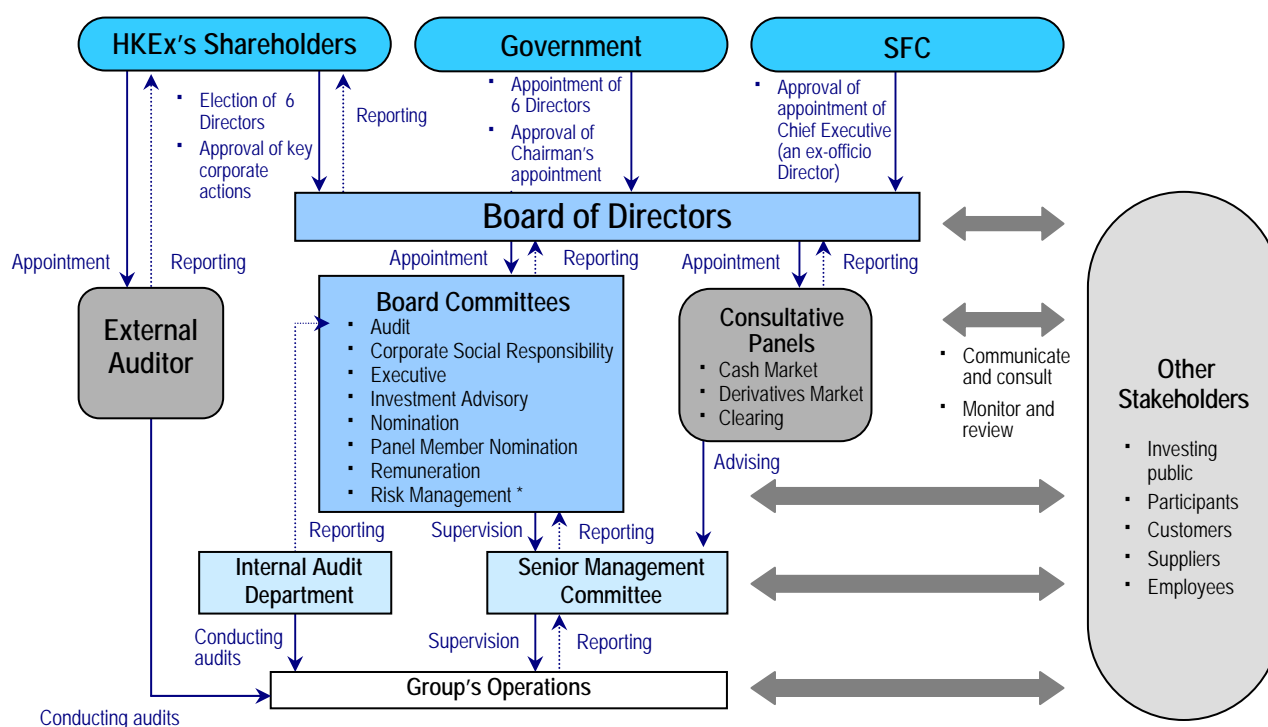
The principles in the CG Code of the Main Board Listing Rules have been adopted to shape our corporate governance structure, which has been established to provide guidance when handling relationships and dealings with various stakeholders in a comprehensive and constructive way. More information about our checks and balances as well as our governance principles and practices are available in the Corporate Governance section of the HKEx website.

## CG Code Compliance

The Government Appointed Directors and the Chief Executive, in his capacity as a Director, are not subject to election or re-election by Shareholders as their appointments are governed by Section 77 of the SFO and HKEx's Articles respectively. Save as disclosed in this paragraph, HKEx has complied with all the code provisions and, where appropriate, adopted the recommended best practices as set out in the CG Code (Appendix 14 to the Main Board Listing Rules) throughout the year ended 31 December 2010.

# 2010 CORPORATE GOVERNANCE REPORT

## Corporate Governance Structure



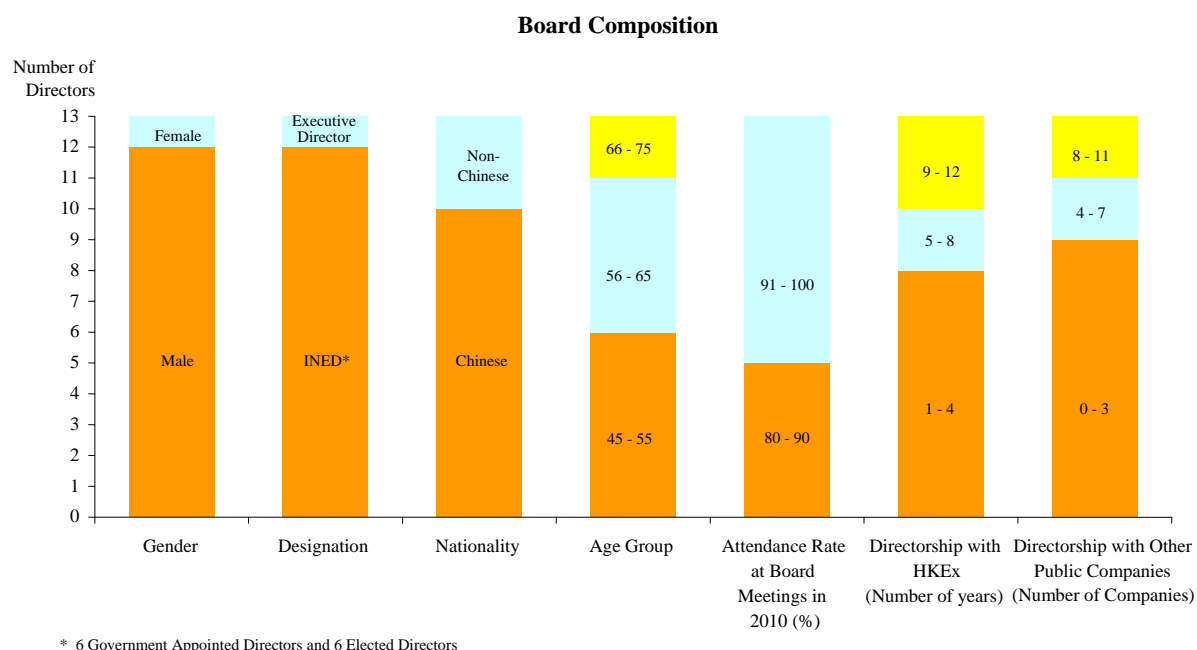
\* A statutory committee which consists of no more than 2 members appointed by HKEx and 3 to 5 members appointed by the Financial Secretary pursuant to Section 65 of the SFO.

## The Board

### Board Composition

The Board structure is governed by Article 90 of HKEx's Articles and Section 77 of the SFO under which the Financial Secretary may appoint any person as a Government Appointed Director; however the number of such shall not exceed the number of Elected Directors, excluding the Chief Executive. Currently, the Board is comprised of 13 members who are either professionals or financial experts. The list of Directors, their biographies and their respective terms of office will be set out in the Board of Directors and Senior Management of the 2010 Annual Report, and are available on the HKEx website.

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## Chairman and Chief Executive

The roles of the Chairman and the Chief Executive are separate and assumed by Mr Ronald Arculli (re-appointed by the Board on 23 April 2010 and approved by the HKSAR Acting Chief Executive on 27 April 2010) and Mr Charles Li (who succeeded Mr Paul Chow effective 16 January 2010) respectively. Their respective responsibilities are set out in the Corporate Governance section of the HKEx website. HKEx's Articles provides that the Chairman shall be a non-executive Director. The Chairman's primary responsibilities include deciding on the meeting schedule and agenda, formulating Board policy, ensuring Board effectiveness, promoting the Company and upholding the Company's corporate governance. The Chief Executive has delegated authority from, and is responsible to, the Board for managing the Group's business, including the implementation of the strategies and initiatives adopted by the Board.

## Independence of Non-executive Directors

Since its listing, HKEx has been steering by a Board comprised of INEDs by great majority. The Chief Executive is the only executive Director on the Board.

Every non-executive Director has submitted a written confirmation to the SFC stating his/her independence upon his/her appointment with reference to the criteria affecting independence, as set out in the Main Board Listing Rules. Each INED is required to inform the Company as soon as practicable if there is any change that may affect his or her independence. Moreover, each has to declare his or her past or present financial interest or other interest in the Company's or its subsidiaries' business, or his or her connection with any of the Company's connected persons (as defined in the Main Board Listing Rules), if any. Details are disclosed under the Continuing Connected Transactions and Related Party Transactions sections of this report. All Directors do not have any financial, business, family or other material/relevant relationships with each other. In particular, there are none between the Chairman and the Chief Executive.

# 2010 CORPORATE GOVERNANCE REPORT

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## Appointment and Election of Directors

The appointment, re-election and removal of Directors are governed by the SFO and HKEx's Articles. While each Government Appointed Director is normally appointed for a term of approximately 2 years, the service term of every Elected Director is not more than approximately 3 years. Retiring Directors are eligible for re-appointment or re-election. The staggered structure enables the Board to change its composition in an orderly manner over time while maintaining leadership, stability and continuity, and allows for regular evaluation of the mix of skills and experience, as required.

On 22 April 2010, the Financial Secretary re-appointed Mr Ronald Arculli, Mrs Laura Cha and Dr Moses Cheng each for a term of approximately 2 years from the close of the 2010 AGM until the conclusion of the AGM to be held in 2012. Messrs John Strickland and Oscar Wong were re-elected by Shareholders at the 2010 AGM each for a term of approximately 3 years from 22 April 2010 until the conclusion of the AGM to be held in 2013.

The service terms of 2 Elected Directors, namely Dr Bill Kwok and Mr Vincent Lee, and 3 Government Appointed Directors, namely Dr Marvin Cheung and Messrs Stephen Hui and Michael Lee, will expire at the conclusion of the 2011 AGM. Pursuant to Article 93(5) of HKEx's Articles, they are all eligible for re-appointment. Candidates standing for election at general meetings are recommended by either Shareholders or the Board. HKEx will make an announcement on the appointment of Directors, including Government Appointed Directors, as soon as the results are known.

## The Nomination Committee (NC)

The NC is comprised of 5 members who are all INEDs. Its major responsibilities are to formulate and implement the policy for nominating candidates for election by Shareholders, and to assess the independence of non-executive Directors based on the criteria such as reputation for integrity, accomplishment and experience in the financial services sector, professional and educational background, and potential time commitments. Its member list will be set out in the Board and Committees of the 2010 Annual Report, which together with the terms of reference are available on the HKEx website.

During 2010, the NC met once, and members' attendance record is shown on page 9 of this report. The NC nominated Messrs John Strickland and Oscar Wong for the Board's recommendation to stand for election by Shareholders at the 2010 AGM, and reviewed and confirmed the independence of the 12 INEDs for the year ended 31 December 2009.

## Confirmation of INEDs' Independence

On 2 March 2011, the NC held a meeting to assess the annual confirmation of independence received from each of the INEDs. The factors as set out in Rule 3.13 of the Main Board Listing Rules are taken into account when assessing the independence of a non-executive Director. As a good corporate governance practice, every NC member abstained from assessing his or her own independence. After taking into account that 6 Directors are Government-appointed and 3 of them are Executive Councillors while the Hong Kong Government is a Minority Controller of the Company, and Dr Bill Kwok and Messrs Vincent Lee and John Strickland have served on the Board for more than 9 years, the NC affirmed that all INEDs remained independent.

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## **Nomination of Candidates as Elected Directors**

On 2 March 2011, the NC also, in accordance with the Nomination Policy, nominated Dr Bill Kwok and Mr Vincent Lee to stand for election by Shareholders at the 2011 AGM. On the same day, the said nominations were accepted by the Board with Dr Kwok and Mr Lee each abstaining from voting on the proposition of himself for election by Shareholders. Dr Kwok and Mr Lee do not have any service contracts with any member of the Group that are not determinable by the Group within 1 year without compensation (other than statutory compensation); their particulars will be set out in the circular to Shareholders to be sent together with the 2010 Annual Report.

## **Board Process and Effectiveness**

### **Role and Responsibilities**

The Board plays a central supporting and supervisory role in the Company's corporate governance structure, provides leadership and guidance to the Group's activities and oversees the work of the management and its execution of the Company's business strategies. Its terms of reference are set out in the Corporate Governance section of the HKEx website.

### **Induction and Development**

Every Board member receives a Director's Handbook upon joining the Group, which lays down the Guidelines on Conduct for Board and Committee members and other key governance issues, including but not limited to Board procedures and all applicable laws, rules and regulations that they are required to observe during their service on the Board. The Director's Handbook is updated regularly and the latest version, dated June 2010, is available on the HKEx website.

A formal and tailored induction programme is arranged for each new Director, which includes a briefing on the Group's structure, businesses and governance practices by Senior Management. To seek continuous improvement, Directors are encouraged to attend relevant training sessions, particularly on corporate ethics and integrity matters, risk management, and relevant new laws and regulations, from time to time.

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## Key features of Board process

- The meeting schedule for the following year is normally given to all Directors within the last quarter of the current year. Board members may then hold extensive discussions of agenda items and other topics of interest. HKEx's senior executives are invited to join Board meetings to enhance the Board's understanding of any business proposals. In 2010, a total of 11 Board meetings were held with an average duration of about 2 hours. The overall attendance rate in 2010 was 94 per cent (2009: 88 per cent). The attendance record of each Director is set out in the Board Committees section of this report. In addition, 2 offsite Board meetings of 1.5 days and 1 full day respectively were held with senior executives in early 2010 to consider HKEx's Strategic Plan 2010-2012.
  - The agenda and accompanying papers are normally sent to Directors/Committee members 4 days before the meeting date. Members can request relevant information through the Chief Executive or Company Secretary at any time. Members shall preserve the privacy of confidential information given or presented to, and the deliberations of, the Board/Committees.
  - At each of its meetings, the Board receives a written report from the Chief Executive on the Company's major events, projects and initiatives, key matters of each division/department, and corporate activities.
  - Other than Board meetings, the Chairman had meetings with individual Directors without management to discuss the performance of the management and matters affecting the Group in an informal but constructive manner.
  - Sufficient resources are provided including for seeking independent professional advice to enable Directors to discharge their duties and responsibilities.
  - Directors are required to declare their direct/indirect interests, if any, in any business proposals to be considered by the Board and to abstain from the relevant meetings, as appropriate. In 2010, there was 1 occasion where a Director withdrew from a meeting due to potential conflict of interest.
  - In each financial reporting period, the Company seeks confirmation from Directors with respect to any related party transactions under Hong Kong Accounting Standard 24 and connected transactions under the Main Board Listing Rules. The relevant information will be disclosed in note 42 to the consolidated accounts of the 2010 Annual Report.
  - Directors' and officers' liability insurance has been arranged. In 2010, no claims under the insurance policy were made.
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## Key non-routine matters considered and/or resolved by the Board in 2010

- The Group's Strategic Plan
  - Development of the next generation data centre
  - Recruitment of the new Chief Financial Officer
  - Revised organisation structure
  - Scrip dividend alternative
  - Donation to support relief efforts in areas affected by the earthquake in Qinghai
  - Capacity and technology upgrade for Derivatives Market Systems, AMS/3 and securities market data system (MDS/3.8)
  - Appointment of the Chairman
  - Investment in structured products
  - The Group's CSR development roadmap
  - Internal Audit Report on Treasury Operations
  - Performance evaluation of the Board, its Committees and the Directors
  - Report on capital adequacy and liquidity review
  - Consultation on changes to trading hours
  - Community investment policy and budget
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# 2010 CORPORATE GOVERNANCE REPORT

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## Performance Evaluation

In 2010, the Board, for the first time, carried out a formal and rigorous evaluation of its performance as well as that of the Committees and individual Directors by an external independent consultant to ensure objectivity and impartiality.

The evaluation was carried out by circulation of a questionnaire to each Board member. It was devised with specific references to the objectives of the Board and respective Committees, and included interviews with each Director, certain senior executives and representatives of the Financial Services and the Treasury Bureau, the Hong Kong Monetary Authority and the SFC. The consultant also attended a Board meeting and an Audit Committee (AC) meeting to observe the Board's and Committee's proceedings.

The evaluation report was presented to the Board, which collectively discussed the results and the action plan for improvement. The evaluation concluded that the Board, including its Committees and members, functions well, and there are no major areas of concern. It also concluded that the Board is of good overall quality, with good people, processes and internal dynamics. The Board will conduct a structured evaluation of the Board performance internally on an annual basis and plans to continue reviewing its performance and that of its Committees with external facilitation once every three years.

## Delegation by the Board

### Board Committees

A total of 8 Board Committees have been formed, each of which is delegated with specific roles and responsibilities by the Board. Their terms of reference are available on the HKEx website. The AC, NC, Panel Member Nomination Committee (PMNC) and Remuneration Committee (RC) are comprised solely of INEDs. All the Board Committees follow the same principles and procedures as those of the Board and are provided with sufficient resources to discharge their duties. The Board receives the minutes of meetings and/or reports from the chairman of each of the committees on a regular basis, including their decisions and recommendations. The member lists of the Board Committees will be set out in the Board and Committees of the 2010 Annual Report and are available on the HKEx website.



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The attendance records of the Board and Committees are set out below.

Attendance record of Directors and Committee Members in 2010										
	2010 AGM	Board	Audit Committee	Corporate Social Responsibility Committee	Executive Committee	Investment Advisory Committee	Nomination Committee	Panel Member Nomination Committee	Remuneration Committee	Risk Management Committee
<b>Number of Meetings</b>	<b>1</b>	<b>11</b>	<b>6</b>	<b>2</b>	<b>14</b>	<b>6</b>	<b>1</b>	<b>1</b>	<b>5</b>	<b>12</b>
<b>Independent Non-executive Chairman</b>										
Ronald J Arculli	1/1	11/11			14/14		1/1		5/5	12/12
<b>INEDs</b>										
Laura M Cha	0/1	9/11						1/1	4/5	
Ignatius T C Chan	1/1	11/11	6/6				1/1			
Moses M C Cheng <sup>1</sup>	0/1	9/11	1/2				1/1		5/5	
Marvin K T Cheung	0/1	9/11	6/6							5/12
Stephen C C Hui	1/1	11/11				6/6				
Bill C P Kwok <sup>2</sup>	1/1	11/11	4/4		14/14			1/1		11/12
Vincent K H Lee	1/1	11/11	6/6		14/14			1/1	5/5	
Michael T H Lee	1/1	11/11				5/6		1/1		
John E Strickland	1/1	10/11				6/6	1/1			
John M M Williamson	1/1	10/11	6/6		13/14				4/5	
Oscar S H Wong	1/1	10/11				6/6	1/1	1/1		
<b>Executive Director</b>										
Paul M Y Chow <sup>3</sup>										
Charles X Li <sup>3</sup>	1/1	11/11		2/2	14/14					
<b>Market Professionals</b>										
Chan Ka-lok										12/12
Fong Hup										9/12
Benjamin P C Hung <sup>4</sup>										
Edmond Y P Lau										11/12
David Y T Lui						3/6				
Keith K K Lui										12/12
Mark S McCombe <sup>5</sup>										6/6
Peter T S Wong <sup>6</sup>										4/6
<b>Executives</b>										
David T F Chan <sup>7</sup>										
Eddie L S Chow <sup>8</sup>				2/2						
Peter J Curley <sup>9</sup>				1/2						
Roger K K Lee <sup>10</sup>										
Joseph K S Mau				2/2						
Alfred K K Wong <sup>11</sup>				2/2						
Brenda T M Yen				2/2						
<b>Average Attendance Rate</b>	<b>77%</b>	<b>94%</b>	<b>97%</b>	<b>92%</b>	<b>99%</b>	<b>87%</b>	<b>100%</b>	<b>100%</b>	<b>92%</b>	<b>85%</b>

Notes:

- 1 Dr Cheng retired from the AC on 23 April 2010.
- 2 Dr Kwok was appointed as a member of the AC on 23 April 2010.
- 3 Mr Li succeeded Mr Chow as the executive Director, the Chairman of the CSR Committee and a member of the Executive Committee on 16 January 2010.
- 4 Mr Hung retired from the Risk Management Committee on 20 January 2010.
- 5 Mr McCombe was appointed as a member of the Risk Management Committee on 28 July 2010.
- 6 Mr Wong was appointed as a member of, and retired from, the Risk Management Committee on 20 January 2010 and 28 July 2010, respectively.
- 7 Mr Chan was appointed as a member of the CSR Committee on 16 November 2010.
- 8 Mr Chow retired from the CSR Committee on 1 June 2010.
- 9 Mr Curley retired from the CSR Committee on 1 August 2010.
- 10 Mr Lee was appointed as a member of the CSR Committee on 1 September 2010.
- 11 Mr Wong retired from the CSR Committee on 1 September 2010.

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## Consultative Panels

In addition to the Board Committees, there are 3 Consultative Panels, namely the Cash Market Consultative Panel, Derivatives Market Consultative Panel and Clearing Consultative Panel under the Board. Their major responsibility is to provide market expertise and advice to the Board on international market trends, the demand of intermediaries, issuers, investors and other market participants, technological challenges, and new product opportunities relating to the trading and clearing of securities and futures products.

The PMNC is mandated to identify and nominate candidates for appointment or re-appointment to the Consultative Panels for the Board's consideration and approval. The composition and respective terms of reference of the Consultative Panels are available on the HKEx website.

Meetings held in 2010	
Panel	Number of meetings
Cash Market Consultative Panel	1
Derivatives Market Consultative Panel	3
Clearing Consultative Panel	2

## Management Functions

While matters relating in particular to the Group's strategies, policies and business plan require the Board's direction and approval, the day-to-day business operations in accordance with the laid down strategies are delegated to the executive management under the Chief Executive's leadership and supervision.

During 2010, HKEx made a number of changes to its organisation structure to align it with its strategic direction as set forth in the Strategic Plan 2010-2012. The updated structure will be set out in the Organisation Chart of the 2010 Annual Report and is available on the HKEx website.

### Major changes to organisation structure

#### Establishment of the Market Development Division (MDD)

- The MDD, headed by Mr Romnesh Lamba, comprises the Issuer Marketing, Mainland Development, Platform Development & Strategy, and Research & Corporate Development departments focusing on capturing future China and international opportunities, broadening HKEx's issuer base, assessing new product development and enhancing the competitiveness of HKEx's market structure and market systems.
- Ms Yang Qiumei was appointed Deputy Head of MDD and Head of the Mainland Development. In February 2011, Mr Eric Landheer joined us as Head of Issuer Marketing.

#### Restructuring of the Secondary Market Operations

- The Cash Market and Derivatives Market departments were combined into the new Trading Division (headed by Mr Calvin Tai, the former Head of Derivatives Market) in order to achieve operational synergies and more effective implementation of key strategic initiatives in the Secondary Market.
- Mr Eric Yip, the former Head of Cash Market, was appointed Deputy Chief Operating Officer to focus on the implementation of certain strategic initiatives. Subsequent to year-end, Mr Yip tendered resignation and will leave HKEx by the end of March 2011.

#### Repositioning of the Information Technology Division (ITD)

- ITD was repositioned as a critical business partner to reflect the increasing importance of market systems and platforms to HKEx's sustainable growth.
- A dual-leadership arrangement was introduced in ITD with the appointment of Mr Bill Chow, the former Deputy Head of ITD, and Mr Roger Lee, the former Head of Listing Operations, as the co-Heads of ITD. Mr Chow, who also became the Chief Technology Officer, is in charge of technology development for the IT infrastructure, while Mr Lee is responsible for resources management, operations, administration and governance of ITD.

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All staff have defined roles and responsibilities and are subject to a Code of Conduct as set out in the Human Resources Manual, which imposes on them specific obligations regarding ethics and principles in accordance with which our business is conducted. The list of Senior Management and their biographies will be set out in the Board of Directors and Senior Management of the 2010 Annual Report.

## Remuneration of Directors and Senior Management

A formal and transparent procedure for fixing the remuneration packages of individual Directors and Senior Management is in place. Details of remuneration policies and other relevant information are set out in the 2010 Remuneration Committee Report.

## Directors' Securities Transactions and Interests in HKEx

### Compliance with Model Code

HKEx has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the Model Code throughout the year ended 31 December 2010.

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

As at 31 December 2010, the Directors' and the Chief Executive's interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code are set out below.

#### Long positions in shares and underlying shares of HKEx

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

Notes:

1 Based on 1,078,092,346 shares of HKEx in issue as at 31 December 2010

2 Being Mr Li's interests in 114,073 Awarded Shares and 1,050 shares further acquired by reinvesting the dividends received therefrom according to the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in the 2010 Remuneration Committee Report.

3 Mr Strickland was the beneficial owner of those shares.

Save for those disclosed above, as at 31 December 2010, none of the Directors or the Chief Executive had any interests or short positions in the shares, underlying shares or debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code.

Apart from the share options and the Awarded Shares as disclosed in the 2010 Remuneration Committee Report, none of the Directors or the Chief Executive (including their spouses and children under the age of 18), during the year ended 31 December 2010, held any interests in or was granted any right to subscribe for the securities of HKEx and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

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

### Minority Controllers

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

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

As at the date of this report, the SFC has granted approval to 6 entities to be Minority Controllers, on the basis that the shares are held by them in custody for their clients. According to the Participant Shareholding Report as at 31 December 2010, the 6 (2009: 6) approved Minority Controllers in aggregate held approximately 64 per cent (2009: 67 per cent) of HKEx's issued share capital.

As at 31 December 2010, other persons' interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange are set out below.

### Long positions in shares and underlying shares of HKEx

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

Notes:

1 Based on 1,078,092,346 shares of HKEx in issue as at 31 December 2010

2 Based on a disclosure of interest filing made by the Hong Kong Government on 10 September 2007 which it stated was voluntary

Save for those disclosed above, as at 31 December 2010, no other persons had any interests or short positions in the shares or underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange.

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## Senior Management

Senior Management are obliged to strictly follow the Company's restrictions on dealing in securities, futures contracts and derivatives, which are on terms no less stringent than the Model Code, as set out in the Human Resources Manual. As at 31 December 2010, Senior Management's interests in the shares and underlying shares of HKEx are set out below.

Name of employee	Number of shares held	Number of shares issuable under share options granted	Number of <sup>*</sup> Awarded Shares	Derivatives (number of underlying shares)
Gerald D Greiner	11,946	200,000	60,929	–
Mark F Dickens	–	–	97,913	–
Lawrence K M Fok	1,008,950	–	9,065	–
Kevin T King	–	–	6,188	–
Romnesh Lamba	–	–	49,825	–
Henry M W Law	19,409	65,000	27,370	–
Christine O M Wong	2,500	–	21,297	–
Samuel S F Wong	–	–	21,301	–

\* Including further shares acquired through reinvesting dividends received

## Continuing Connected Transactions

In June 2000, the SFC granted a waiver (Waiver) to HKEx from strict compliance with the Main Board Listing Rules with respect to certain continuing connected transactions as referred to in (A), (B) and (C) below. The Waiver has since then remained valid. During the year ended 31 December 2010 and subject to the Waiver, the Group had the following continuing connected transactions.

### Continuing connected transactions for the year ended 31 December 2010

A. Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with the use of (i) the facilities provided by the Group for the trading, clearing and/or settlement of securities and futures products and transactions; and (ii) all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:

- (a) Mr Ronald Arculli, the Chairman, was interested in the transactions entered into by Bokhary Securities Limited, an EP and a Clearing Participant, in which his sister and his brother-in law each have a 50 per cent interest.
- (b) Dr Bill Kwok, an INED, was interested in the transactions entered into by Wocom Securities Limited (WSL) and Wocom Limited, EPs and Clearing Participants, which are associates of Dr Kwok by virtue of the Main Board Listing Rules.
- (c) Mr Vincent Lee, an INED, was interested in the transactions entered into by Tung Tai Securities Company Limited and Tung Tai Futures Limited, EPs and Clearing Participants, which are associates of Mr Lee by virtue of the Main Board Listing Rules.

B. Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with (i) the listing of securities on the Stock Exchange; and (ii) all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:

- (a) Mrs Laura Cha, an INED, was interested in the transactions entered into by her associates, HKR International Limited and Hanison Construction Holdings Limited. Both companies are listed on the Stock Exchange.
- (b) Dr Bill Kwok, an INED, was interested in the transactions entered into by his associate, Wing On Company International Limited, which is listed on the Stock Exchange.

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C. Transactions between HKEx or its subsidiaries and the following connected person arising from or in connection with the HKSCC arrangement on behalf of CCASS Participants for (i) carrying out “buy-in” when a CCASS Participant failed to deliver securities on time for settlement under the Continuous Net Settlement System or the Isolated Trades System operated by CCASS; (ii) the purchase or sale of securities in connection with the liquidation of the positions of a CCASS Participant that has been declared by HKSCC to be in default; and (iii) the sale of entitlements of securities held through CCASS (collectively referred as Buy-in Transactions):

- (a) Dr Bill Kwok, an INED, was interested in the Buy-in Transactions entered into by WSL which is an associate of Dr Kwok by virtue of the Main Board Listing Rules. For the year ended 31 December 2010, the total consideration of such transactions, being the brokerage commission earned by WSL, amounted to \$121,423.
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The AC comprising 5 INEDs, under the authority delegated by the Board, reviewed the above continuing connected transactions (Transactions) pursuant to Rule 14A.37 of the Main Board Listing Rules. As a good corporate governance practice, Mr Vincent Lee and Dr Bill Kwok, the deputy chairman and a member of the AC respectively, abstained from reviewing the respective transactions in which they had an interest. The AC confirmed that:

- (i) the Transactions disclosed above were entered into in the ordinary and usual course of business of the Group and conducted on an arm’s length basis and on normal commercial terms or on terms no more favourable than terms available to independent third parties;
- (ii) in respect of the transactions as disclosed under (A) and (B) above, they were conducted in accordance with the rules and regulations of the relevant Group company governing such transactions and where the rules and regulations do not govern those transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;
- (iii) in respect of the Buy-in Transactions as disclosed under (C) above, they were conducted in accordance with the standard terms and conditions of HKSCC applicable generally to all buy-in brokers in such transactions acting for and on behalf of HKSCC and at the mutually agreed commission rate payable by HKSCC in respect of such Buy-in Transactions generally; and
- (iv) the Transactions disclosed above were conducted in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of Shareholders as a whole.

The Company’s external auditor was engaged to report on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The external auditor has issued their unqualified letter containing their findings and conclusions in respect of the Transactions in accordance with Rule 14A.38 of the Main Board Listing Rules. The Company has provided a copy of the said letter to the SFC and the Stock Exchange.

# 2010 CORPORATE GOVERNANCE REPORT

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## Related Party Transactions

During the year ended 31 December 2010, the Group also entered into certain transactions with parties regarded as “related parties” under the applicable accounting standards. Details of these transactions will be disclosed in note 42 to the consolidated accounts of the 2010 Annual Report.

## Accountability and Audit

### Financial Reporting

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group’s performance, position and prospects. It is also the Board’s responsibility to oversee the preparation of the annual accounts which give a true and fair view of the Group’s state of affairs, results and cash flows for the year. To discharge this responsibility, the Board regularly reviews the reports prepared by management on the Group’s financial and operational performance as well as the development of major initiatives, especially those under the annual operating plan. In preparing the accounts for the year ended 31 December 2010, the Board:

- (a) adopted all Hong Kong Financial Reporting Standards which conform to the International Financial Reporting Standards in all material respects;
- (b) selected suitable accounting policies and applied them consistently;
- (c) made prudent and reasonable judgements and estimates; and
- (d) ensured that the accounts were prepared on a going concern basis.

The Board recognises that high quality, transparent and timely financial reporting is important to secure stakeholders’ confidence in the Group, and reviews and approves the annual, interim, and quarterly results for publication within 3 months, 2 months and 45 days respectively after the end of the relevant periods.

### Internal Controls and Their Effectiveness

The Board has the overall responsibility to maintain sound and effective internal controls for the Group and to review their effectiveness to safeguard Shareholders’ investment and the Group’s assets. To this end, an internal control and risk management system has been established to provide reasonable, though not absolute, assurance against material misstatement or loss, and manage or mitigate rather than eliminate risks of failure to achieve business objectives.

### Internal Control Framework

The Group’s internal control and risk management system is an integral part of the Group’s management system, which is on a par with the COSO (Committee of Sponsoring Organisations of the Treadway Commission) framework. Details of the internal control procedures are available in the Corporate Governance section of the HKEx website. The key control measures are summarised below.



# 2010 CORPORATE GOVERNANCE REPORT

## HKEx's key control measures

### Control environment

- A clear organisation structure with defined responsibilities was established and further revised in 2010 to align with the Strategic Plan 2010-2012 as set out under the Management Functions section of this report.
- Different policies, procedures and guidelines have been adopted with defined authority for effective segregation of duties and controls. A new Community Investment Policy was added to the list in June 2010 to set out the community investment focus, approval procedures and the monitoring mechanism.

### Risk assessment

- System and procedures have been established to identify, assess and control risks that may affect the Cash and Derivatives Markets.
- An Enterprise Risk Management framework has been developed to ensure that risks are managed at acceptable levels.
- One of the key functions of the Senior Management Committee is to monitor and assess risks for individual business initiatives and to provide oversight of risk management across the Group.
- The Group's risk management functions are carried out by the Risk Management Division.

### Control activities

- The relevant divisions and departments carry out their respective business operating plans in the pursuit of the 3-year strategic plan in accordance with the adopted policies and procedures.
- The management and individual divisions/departments are responsible for the day-to-day management of operational risks and implementation of mitigation measures.
- All division/department Heads are required to confirm annually that appropriate internal control policies and procedures have been established and properly complied with.
- Information about the Group's management of its financial risks will be set out in note 45 to the consolidated accounts of the 2010 Annual Report.
- Information about the Groups' management of reputational risks arising from environmental, social or governance issues will be set out in the 2010 CSR Report which will be available on the HKEx website on or about 14 March 2011.

### Information and communication

- An effective accounting and information system is in place to ensure timely and accurate disclosure of financial information.
- Various controls are in place to uphold the reliability, availability, security and stability of the Group's IT application systems.
- An Escalation and Incident Reporting Policy has been adopted to facilitate swift action and timely communication with our stakeholders.
- Stringent regulations are imposed to prohibit inappropriate use of confidential or price-sensitive information. Guidelines on reporting and disseminating material information, maintaining confidentiality and dealing restrictions are in place for employees to follow.

### Monitoring

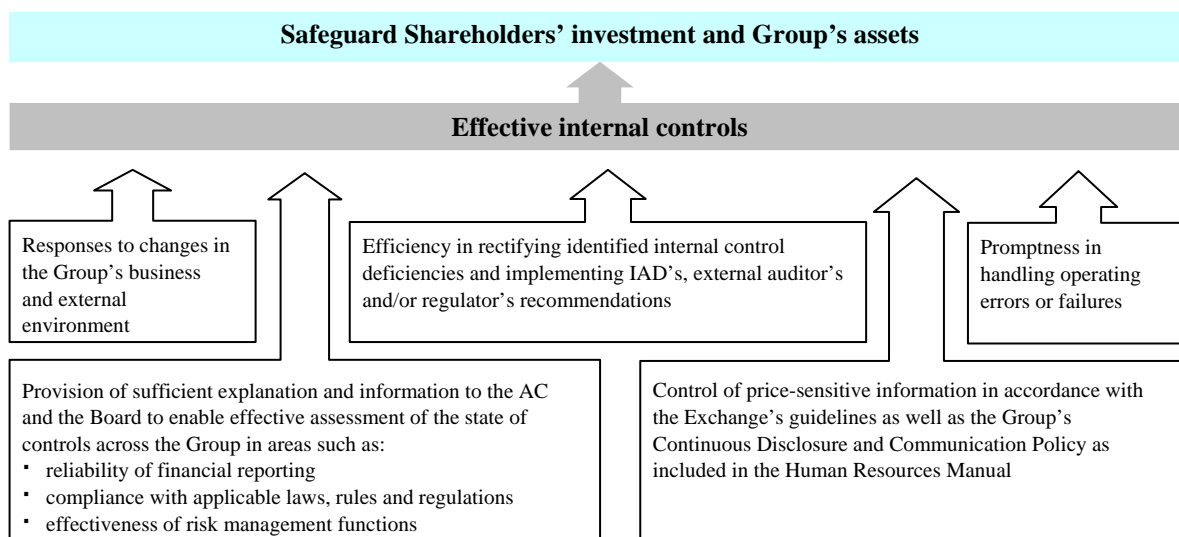
- The Internal Audit Department (IAD) conducts independent reviews of the risks associated with, and control over, principal operations and critical IT applications.
- A Whistle-blowing Policy has been adopted to facilitate internal reporting on any malpractice without fear of reprisal or victimisation.
- The Group's IT systems are subject to independent reviews to ensure their integrity, reliability, availability and stability. The review of HKATS, DCASS and PRS was completed in 2010 and re-affirmed that the core Derivatives Market systems are well managed and operated with a high standard of compliance with international best practices. A review of CCASS, completed in January 2011, confirmed that the controls are in line with the industry best practices.



# 2010 CORPORATE GOVERNANCE REPORT

## Annual Assessment of Internal Control System

The AC, on behalf of the Board, assesses the effectiveness of the internal control system in detecting fraud and other irregularities on a regular basis by reviewing IAD's work and findings. IAD conducted independent reviews of the adequacy and effectiveness of the Group's internal control and risk management system and regularly reported the review results to the Board through the AC. IAD also assessed the Group's internal controls using the COSO framework to confirm the effectiveness of the Group's internal control system in the following aspects:



More information on the IAD's role and its internal audit methodology and process are available in the Corporate Governance section of the HKEx website.

During 2010, no suspected cases of fraud, irregularities or infringement of laws, rules and regulations or material control failures were identified. At its meeting on 21 February 2011, the AC concluded that the Group's internal control system was adequate and effective, and that the Group had adopted the necessary control mechanisms to monitor and rectify non-compliance throughout 2010. The AC also reviewed and was satisfied with the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function. More information about the AC, including a summary of its work in 2010, will be set out in the Audit Committee Report of the 2010 Annual Report.

## Independence of External Auditor

The AC is mandated to monitor the independence of the external auditor to ensure true objectivity in the financial statements. Prior to the commencement of the audit of the Group's 2010 accounts, the AC received written confirmation from the external auditor on its independence and objectivity. The external auditor is refrained from engaging in non-audit services except for limited tax-related services or specific approved items. The AC reviews the external auditor's statutory audit scope and non-audit services and approves its fees.

External Auditor's services and fees paid		
	2010	2009
	\$	\$
Audit	3,379,000	3,369,500
Permissible Non-audit Services:		
▪ Taxation services	381,338	364,619
▪ Training	3,300	4,500
Total	3,763,638	3,738,619

## 2010 CORPORATE GOVERNANCE REPORT

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The Group has adopted a 5-year rotation policy regarding the engagement partner of the external auditor, hence a new partner in charge of the Group's audit was assigned by the external auditor in 2010. The Group has also adopted the policy of not hiring employees of an external auditor who are or have been involved in the Group's audit so as to ensure no impairment of the auditor's judgement and independence with respect to an audit. These policies have been consistently followed since their adoption.

More information about the external auditor's responsibilities will be set out in the Auditor's Report of the 2010 Annual Report.

### Shareholder Relations

#### Shareholder Communications

Open and candid communication between the Board and Shareholders is maintained. Regular and publicly available disclosures about important issues, including performance, fundamental business strategy, governance and the management of risk are made through various channels.

Communication channels
<ul style="list-style-type: none"><li>the HKEx website which was revamped in March 2010</li><li>financial statements (including quarterly, interim and annual reports), press conferences and webcasts of presentations on results, and notifications of financial results published in newspapers</li><li>meeting with Shareholders</li><li>regular circulars and letters to Shareholders</li><li>prompt news releases and announcements regarding major corporate actions and business initiatives</li><li>speeches delivered by Directors and key executives</li><li>quarterly newsletter <i>Exchange</i> and status reports on new product and market development initiatives</li><li>continuous dialogue with investors, media and financial analysts by means of roadshows, conference calls, one-on-one meetings and industry conferences</li><li>market consultations and periodic surveys</li><li>hotlines and emails</li></ul>

Shareholders are encouraged to access corporate communications from the HKEx website to help preserve the environment. We believe that this is also the most efficient and convenient method of communication with Shareholders.

An Investor Services Team under the Corporate Communications Department has been designated to maintain purposeful dialogue and ongoing relationships with investors and analysts. We strive to provide quality information to Shareholders as well as our many stakeholders regarding the latest developments at HKEx whilst ensuring that relevant information is equally and simultaneously provided and accessible to all interested parties.

Periodic analysis of HKEx's shareholding profile is conducted to help better understand Shareholders' interests and needs. Details of the analysis and HKEx's public float capitalisation will be set out in the Shareholding Analysis and Information for Stakeholders of the 2010 Annual Report, respectively.

# 2010 CORPORATE GOVERNANCE REPORT

We always welcome Shareholders' views and input. Shareholders and other stakeholders may at any time address their concerns to the Company Secretary by mail or e-mail. The contact details will be set out in the Information for Stakeholders of the 2010 Annual Report.

More information about our stakeholder engagement programme is available in the CSR section of the HKEx website and will be set out in the 2010 CSR Report.

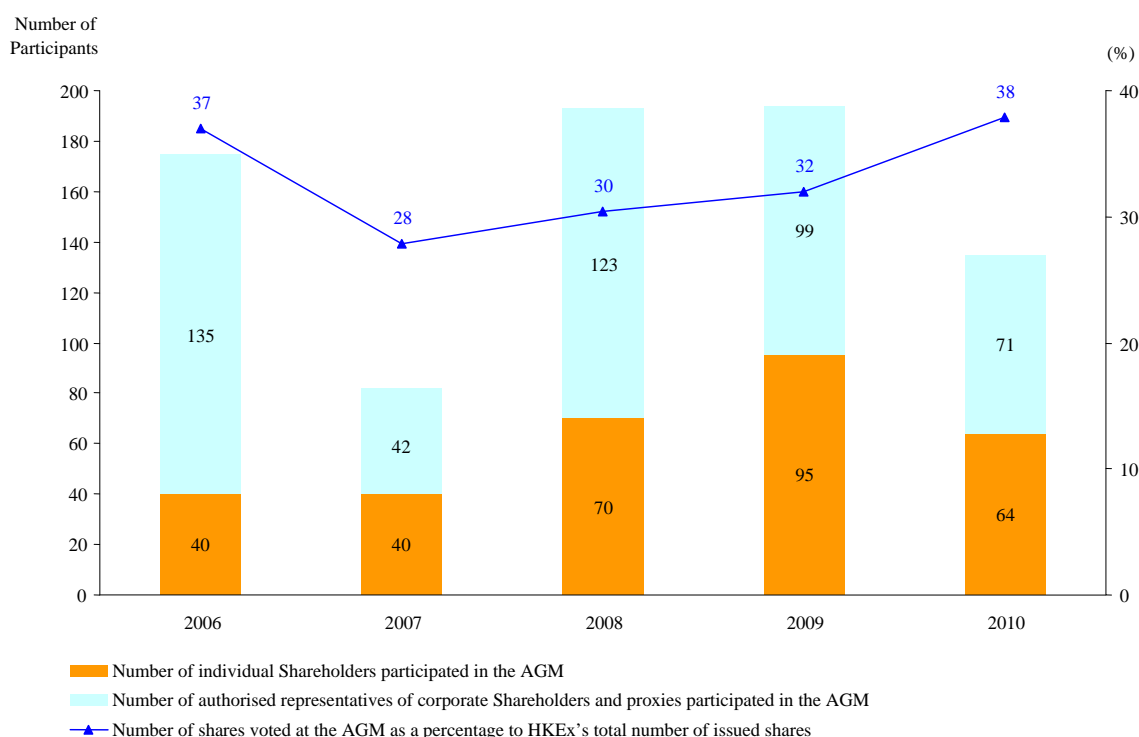
## Shareholder Rights

Poll voting has been used for decision-making at Shareholders' meetings since 2003 to ensure that each share is entitled to one vote. Details of the poll voting procedures are set out in the circular sent to Shareholders prior to each meeting and explained at the meeting. The poll voting procedures and the particulars of Shareholders' rights, including the way in which an extraordinary general meeting can be convened and the procedures for putting forward proposals at a Shareholders' meeting, are set out in the Corporate Governance section of the HKEx website.

## Annual General Meeting

The general meeting is the ideal venue for the interchange of ideas between the Board, the management and Shareholders. We therefore encourage Shareholders to attend the annual general meeting to discuss matters of business substance with the Board and management and to give us valuable advice on both operational and governance matters. At the AGM held on 22 April 2010 at 4:30 pm at the Exchange Auditorium in the Exchange Exhibition Hall of SEHK, there were a total of 135 individual Shareholders, authorised representatives of corporate Shareholders as well as proxies participated and the number of shares voted represented 38 per cent of the total number of HKEx's issued shares.

Participation in annual general meetings



## 2010 CORPORATE GOVERNANCE REPORT

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Moreover, the majority of Directors, including the Chairman (who was also the chairman of the RC and the NC) and the deputy chairman of the AC, together with key executives and the external auditor attended the 2010 AGM. HKEx continued with the procedure of proposing a separate resolution for each substantive issue, including the election of individual Directors. The poll voting results and the minutes of the meeting are available on the HKEx website. The matters resolved thereat are summarised below.

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### Matters resolved at the 2010 AGM

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- Received the audited accounts for the year ended 31 December 2009 together with the Reports of the Directors and the Auditor
  - Payment of the final dividend of \$2.09 per share for the year ended 31 December 2009
  - Election of Messrs John Strickland and Oscar Wong as Directors
  - Re-appointment of PricewaterhouseCoopers as Auditor of the Company and authorisation of the Board to fix the Auditor's remuneration
  - Approval to grant a general mandate to the Board for the share repurchase of an amount not exceeding 10 per cent of the aggregate nominal amount of the Company's issued share capital as at the date of 2010 AGM
  - Approval of the remuneration of \$500,000 and \$350,000 payable to the Chairman and each of the other non-executive Directors respectively for their service during the period between the conclusion of each AGM and the conclusion of the AGM to be held in the immediately following year until Shareholders determine otherwise
  - Approval of, in addition to the remuneration of \$50,000 per annum, an attendance fee of \$2,500 per meeting payable to the chairman and every member (excluding executive Director) of certain Board committees until Shareholders determine otherwise
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Note: The motion on amendments to HKEx's Articles (details of which are set out in the circular to Shareholders dated 18 March 2010) were declined by Shareholders.

For the 2011 AGM, apart from normal business, the Board has proposed to request general mandates to repurchase HKEx shares and to issue HKEx shares, to raise the remuneration of non-executive Directors and members of certain Board Committees, and to make certain amendments to HKEx's Articles for Shareholders' approval. Details will be set out in the circular to Shareholders to be sent together with the 2010 Annual Report.

The important Shareholders' dates in 2010 and the results announcement dates in 2011 are set out in the Financial Calendar under the Investor Relations section of the HKEx website.

### Corporate Governance Scores and Ratings

HKEx received the Corporate Governance Asia Recognition Award 2010 from *Corporate Governance Asia* and the highest ranking amongst large-cap companies in Asia for its corporate governance performance in CG Watch 2010 published by CLSA Asia-Pacific Markets and the Asian Corporate Governance Association. HKEx also won the Best Corporate Governance, Best in Investor Relations and Most Committed to a Strong Dividend Policy awards in Hong Kong in the Asia's Best Companies 2010 poll conducted by *FinanceAsia*. Other recognition of HKEx's corporate governance achievements are set out below.

# 2010 CORPORATE GOVERNANCE REPORT

## HKMA Best Annual Reports Awards of The Hong Kong Management Association

Year	
2010	Best Report
2009	Gold
2008	Gold
2007	Gold *
2006	Gold *

\* Also the Winner in Citation for Achievement in Corporate Governance Disclosure

Note: The Gold Award under the General Category

## Best Corporate Governance Disclosure Awards of Hong Kong Institute of Certified Public Accountants

Year	
2010	Platinum *
2009	Platinum *
2008	Gold *
2007	Gold *
2006	Platinum #

# Non-HSI Category

\* HSI Category

## Corporate Governance Rating of GovernanceMetrics International Inc

Year	Global Rating	Home Market
2010	8	10
2009	8	10
2008	7.5	10
2007	8	10
2006	7.5	10

■ Global Rating ■ Home Market

Note: The score is on a 10-point scale.

We are strongly committed to continuous improvement in our corporate governance standards and practices to ensure that they meet ongoing developments in the global arena and changing investor expectations. Your comments are invaluable to us and can be sent to us in writing or by email to [ssd@hkex.com.hk](mailto:ssd@hkex.com.hk).

## Changes after Closure of Financial Year

This report takes into account the changes that have occurred since the end of the 2010 to the date of approval of this report.

On behalf of the Board  
**MAU Kam Shing, Joseph**  
 Company Secretary

Hong Kong, 2 March 2011

# 2010 CORPORATE GOVERNANCE REPORT

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## Glossary

2010 Annual Report	HKEx's annual report for the year ended 31 December 2010 (which will be available on the HKEx website on or about 14 March 2011)
2010 AGM	Annual general meeting held on 22 April 2010
2011 AGM	Annual general meeting to be held on 20 April 2011
AGM	Annual general meeting of HKEx
AMS/3	The Automatic Order Matching and Execution System/Third Generation
Awarded Shares	Shares awarded under the Share Award Scheme
Board	Board of HKEx
CCASS	The Central Clearing and Settlement System
CG Code	Code on Corporate Governance Practices
CSR	Corporate Social Responsibility
DCASS	The Derivatives Clearing and Settlement System
Director(s)	Director(s) of HKEx
Elected Director(s)	Director(s) elected by the Shareholders at general meetings
EP(s) or Participant(s)	Exchange Participant(s)
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of the HKSAR
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKATS	The Hong Kong Futures Automated Trading System
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKEx's Articles	HKEx's Articles of Association
HKSAR	Hong Kong Special Administrative Region of the People's Republic of China
HKSCC	Hong Kong Securities Clearing Company Limited
Hong Kong Government or Government	HKSAR Government
HSI	Hang Seng Index
INED(s)	Independent Non-executive Director(s)
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
PRS	The Price Reporting System
Senior Management	Senior executives of HKEx as referred to in the 2010 Annual Report
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	Shareholders of HKEx
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006 and 13 May 2010

## Board of Directors

As at 2 March 2011, the Board comprises 12 INEDs, namely Mr Ronald Joseph ARCULLI (Chairman), Mrs CHA May-Lung, Laura, Mr CHAN Tze Ching, Ignatius, Dr CHENG Mo Chi, Moses, Dr CHEUNG Kin Tung, Marvin, Mr HUI Chiu Chung, Stephen, Dr KWOK Chi Piu, Bill, Mr LEE Kwan Ho, Vincent Marshall, Mr LEE Tze Hau, Michael, Mr John Estmond STRICKLAND, Mr John Mackay McCulloch WILLIAMSON and Mr WONG Sai Hung, Oscar, and one Executive Director, Mr LI Xiaojia, Charles, who is also the Chief Executive.